

PARCO

Quarterly Report
FY 2014 Q3

Performance Overview

In the nine-month period ended November 30, 2014, the PARCO Group attained record-high earnings for the second consecutive period and achieved its operating income forecast. During the third quarter, we opened Nagoya ZERO GATE and the Fukuoka PARCO New Building, and sales were strong at the PARCO shopping complex and NEUVE A stores. Earnings from the three ZERO GATE stores launched during the previous fiscal year also contributed to our earnings for the quarter.

- **Following the opening of Nagoya ZERO GATE in October 2014, the Fukuoka PARCO New Building opened in November. Sales from the Fukuoka PARCO New Building and the number of store customers surpassed forecasts and indicated a good start.**
- **Tenant sales at PARCO stores (on a nonconsolidated basis) were 0.6% above those of the previous corresponding period, driven by urban stores such as Shibuya PARCO, which responded to high inbound demand.**
- **Higher earnings due to full-term operation of the ZERO GATE business, launched during the previous fiscal year, and increased sales at NEUVE A stores and the entertainment business contributed to the rise in earnings.**
- **Operating income rose 1.6% compared to the same period of the previous fiscal year to ¥8,834 million, and net income grew 5.2% to ¥5,045 million, with each result a record high. The progress of the medium-term management plan is on track, and the figures for both operating income and net income surpassed the forecast.**

Comments from the President

A notable feature of the PARCO Group's financial results for the nine months ended November 31, 2014 was healthy sales, where we are strong, while the impact of the consumption tax hike since the first quarter remained limited. We believe that this reflected our three business strategies: cultivation of major urban areas, expansion of core targets, and innovative use of ICT (information and communication technology). By firmly implementing these strategies, we will pursue continuous growth.

With respect to the first strategy (cultivation of major urban areas), following the opening of Nagoya ZERO GATE in October 2014 and the Fukuoka PARCO New Building in November, we plan to boost floor space at existing urban stores in Nagoya and Fukuoka in spring 2015. Through these initiatives, we are continuing to move forward with expansion of the space at existing urban stores.

The Fukuoka PARCO New Building is the model store that embodies the three business strategies just mentioned. In terms of our second strategy (expansion of core targets), we built up sales floors targeting adult women and attracted popular and influential tenants that are first in Japan or in the Kyushu region. We also used our original ICT to introduce measures to boost customer visits, and proposed new lifestyles or ways to enjoy daily life by cutting the ratio of clothing compared to conventional PARCO Shopping Complexes. Through these initiatives, we showed how a new type of commercial facility should look.

Going forward, we will maximize the strength of the store model at Fukuoka PARCO and the expertise at Shibuya PARCO, our flagship store, whose strong sales performance is supported by Japan Mode (Tokyo's mode-conscious styles that introduce the distinctive styles and brands of Japanese designers). We will also develop other urban stores.

With respect to our third business strategy (innovative use of ICT), we launched new online services in the first quarter, enabling customers to reserve online as well as to make pick-ups at physical PARCO stores using a new booking service through online stores. And in October 2014, through PARCO's official smartphone app, we added new functions, available 24 hours, to provide information on goods that is customized to each customer. Through these initiatives, we offer the enjoyment and convenience of a new type of shopping.

As described above, our medium-term management plan begun in 2014 is moving steadily ahead. Ever since my student days, I have taken a strong interest in our company because PARCO has continually promoted original cultures. Now, as the company's leader, my mission is to create new value. I will continue to enhance the "PARCO Way" and build up attractive stores that put smiles on the faces of customers from all over the world. Please stay tuned to PARCO's progress.

Kozo Makiyama

President and Representative Executive Officer

Store-Opening Plans and Major Initiatives

2015 (spring)

Scheduled increase in floor space at **Fukuoka PARCO**, and opening of **the adjacent Nagoya PARCO West Building**

2016 (spring)

Scheduled opening of **Sapporo ZERO GATE (provisional name)** in the spring

2016 (early summer)

Scheduled opening of **Sapporo ZERO GATE (provisional name)** in the spring and **the Sendai PARCO New Building (provisional name)** in early summer

2017 (autumn)

Planned opening of **a new store in Ueno**

Financial Highlights

Millions of yen

	FY 2014	FY 2013	FY 2013
	Q3	Q3	Q3

For the Period			
Net sales	¥ 197,300	¥ 194,069	¥264,384
Operating income	8,834	8,698	12,196
Operating margin	4.5	4.5	4.6
Net income	5,045	4,793	6,778
EBITDA	13,135	13,048	18,052
At the Period End			
Total assets	¥234,712	¥220,757	¥220,757
Net assets	112,023	107,080	108,823
Per Share Data			
Net income (yen)	¥ 49.73	¥ 47.25	¥ 66.81

Results by Segment

	Millions of yen		
	FY 2014	Q/Q change	Q/Q change
	Q3	¥	%
Shopping Complex Business			
Net sales	¥178,261	¥ 1,229	0.7%
Segment income	8,277	(107)	(1.3%)
Retail Business			
Net sales	14,008	994	7.6%
Segment income	226	72	47.4%
Space Engineering and Management Business			
Net sales	14,422	868	6.4%
Segment income	261	5	2.0%
Other Business			
Net sales	5,240	812	18.4%
Segment income	118	185	—
Consolidated			
Net sales	200,463	3,508	1.8%
Segment income	8,834	135	1.6%

Credit Card

	Millions of yen	
	FY 2014	Q3
Credit card sales	¥85,103	
PARCO Card sales	42,831	
Number of PARCO Card members (thousands)		1,736

Nonconsolidated Tenant Sales by Store

	Millions of yen	
	FY 2014	Change
	Q3	%
Urban store group		
Sapporo PARCO	¥ 8,563	3.6%
Sendai PARCO	9,557	(1.4%)
Ikebukuro PARCO	20,742	(0.8%)
Shibuya PARCO	10,878	8.6%
Shizuoka PARCO	7,256	(2.7%)
Nagoya PARCO	25,458	(0.9%)
Hiroshima PARCO	12,426	(0.3%)
Fukuoka PARCO	9,586	10.1%
8 store total	104,469	1.2%
Community store group		
Utsunomiya PARCO	¥ 3,295	(6.6%)
Urawa PARCO	13,000	4.0%
Shin-Tokorozawa PARCO	6,710	3.6%
Chiba PARCO	4,282	(10.8%)
Tsudanuma PARCO	6,608	(3.7%)
Hibarigaoka PARCO	5,604	(0.5%)
Kichijoji PARCO	5,416	(3.5%)
Chofu PARCO	12,546	(0.5%)
Matsumoto PARCO	5,478	0.7%
Otsu PARCO	3,255	(2.5%)
Kumamoto PARCO	3,781	0.2%
11 store total	¥69,981	(0.8%)
Fukuoka PARCO New Building	397	—
Total	¥174,848	0.6%

Operating Environment

During the nine-month period under review, amid a moderate economic recovery, the environment for domestic consumption benefited from a rise in visitors from overseas, especially those from Asia, which caused consumption to bottom out. However, personal consumption remained unstable due to a rise in demand ahead of the consumption tax hike and a subsequent decline, as well as to the impact of bad weather.

In these conditions, the PARCO Group moved forward in line with its medium-term business plan, which covers the three years from March 2014 to February 2017. The current fiscal year is the first year of the plan.

During the third quarter, we decided to open a new commercial facility in front of the west exit of Sendai Station and to open stores in the new building next to Nagoya PARCO, thus expanding our shopping complex in urban areas. In October we opened Nagoya ZERO GATE, our largest ZERO GATE store with multiple tenants, and in November we opened the Fukuoka PARCO New Building. Both of these new shopping complexes won a great deal of favorable attention. The Fukuoka PARCO New Building, a shopping complex taking “comfortable scene creation” as its theme, made a good start by reflecting a wealth of PARCO’s latest expertise in shopping complex development, such as a unique smartphone app developed by PARCO.

We plan to boost tenant floor space in the building adjacent to the Fukuoka PARCO Main Building in spring 2015, and we will work to enhance the appeal of the Fukuoka Tenjin district, Kyushu’s commercial center, by continuing to strengthen the synergy from the new building and our other building there.

At existing PARCO complexes, we carried out renovations tailored to the specific features of each complex, as well as proactive sales promotions centered on the PARCO Card.

As a result of these initiatives, for the nine months under review, the Group posted consolidated net sales of ¥197,300 million, up 1.7% from the previous corresponding period. Operating income increased 1.6%, to ¥8,834 million, and net income rose 5.2%, to ¥5,045 million.

Shopping Complex Business

In this segment, net sales rose 0.7%, to ¥178,261 million, while operating income fell 1.3%, to ¥8,277 million.

With respect to existing PARCO stores, to set our stores apart from competitors, we continued to focus on developing them as both Urban stores(Note 1) and Community stores(Note 2). We also actively renovated existing stores, mainly Urban stores, to expand our core target market, strengthen our promotion of lifestyles and respond to inbound demand.

During the nine months under review, we renovated about 41,000 square meters of tenant floor space, and sales from newly renovated zones jumped 21.8% compared to the same period of the previous fiscal year. The main store renovations are summarized below.

Shibuya PARCO

During the period, we actively introduced trend-setting stores that fuse fashion and culture and embrace the theme of global communications. We introduced trend fashion brands on the second floor of PART 1 and leading select shops on the third floor of PART 1. During our autumn renovation, we introduced a new shop carrying different types of leading Japanese fashions on the first floor of PART 1.

Ikebukuro PARCO

At P⁺PARCO, which is celebrating the 20th anniversary of its opening, during the period we implemented a renewal of approximately 30% of the tenant floor space as part of the autumn renovation, under the theme of urban entertainment. We introduced a number of shops that respond to new consumer demand from the “digital native” generation, for items such as an online distribution studio and an animation character goods shop.

Nagoya PARCO

In conjunction with the opening of Nagoya ZERO Gate in October 2014, we implemented a large-scale renewal mainly in the West Building and East Building to celebrate the 25th anniversary of the opening. As part of the autumn renovation, we expanded the first basement of the West Building, a multiple-tenant floor containing sundry goods, cosmetics and a café, by linking it to the first basement of the East Building. In addition, as the result of renovations at a total of 88 shops, including the introduction of new kinds of restaurants that sell organic foods and offer chefs’ selected dishes, Nagoya PARCO can now offer a range of lifestyles, not just fashion.

Note 1: Urban stores consist of Sapporo PARCO, Sendai PARCO, Ikebukuro PARCO, Shibuya PARCO, Shizuoka PARCO, Nagoya PARCO, Hiroshima PARCO, and Fukuoka PARCO.

Note 2: Community stores consist of Utsunomiya PARCO, Urawa PARCO, Shin-Tokorozawa PARCO, Chiba PARCO, Tsudanuma PARCO, Hibarigaoka PARCO, Kichijoji PARCO, Chofu PARCO, Matsumoto PARCO, Otsu PARCO, and Kumamoto PARCO.

With respect to sales strategies, in March 2014 we stepped up incentives for PARCO Card members to respond to demand ahead of the consumption tax hike. We succeeded in acquiring new members and boosting the number of Class S members (customers in good standing with a high degree of loyalty). As a result, total PARCO Card sales

amounts for the nine months under review increased 8.5% year on year. In addition, we began handling gift certificates that are commonly used in department stores all over Japan, and enhanced customer convenience.

Furthermore, as part of our efforts to respond to the rising number of tourists from overseas and boost our appeal to new customers, we introduced shops that were popular among foreign customers and pushed ahead with aggressive sales promotions mainly at some Urban stores, where we saw high inbound demand. At Sapporo PARCO, we reinforced our strategies to accommodate new customers by implementing a plan with commercial facilities in Bangkok, Thailand to send customers to each other. As in the previous fiscal year, we actively promoted original and innovative ICT(Note 3) initiatives. In May, in addition to launching PARCO tenant shop blogs, we began offering new online service operations, which enable customers to reserve online as well as make pick-ups at physical PARCO stores and mail-order online, and the number of stores offering this new service was expanded mainly at Urban stores. Furthermore, by using PARCO's official "POCKET PARCO" smartphone app that was released in October 2014, customers will be able to check for recommended items from PARCO's nationwide tenant staff, including influential fashion leaders, and it will be possible to reserve for pick-up or purchase some of these items. Through this app, we will introduce a service that displays tailored information on goods for each of our customers and that offers a more enjoyable and convenient shopping experience.

Note 3: ICT refers to information and communication technology, which includes technologies and services in fields related to data processing and information transmission.

Retail Business

Sales of NEUVE A CO., LTD., in this segment rose 7.6%, to ¥14,008 million, and operating income soared 47.4%, to ¥226 million. Both sales and operating income increased compared to the same period of the previous fiscal year, supported by a strong performance at new stores that opened in the new commercial facility in urban areas and by the steady growth of existing stores.

Space Engineering and Management Business

In this segment, sales by PARCO SPACE SYSTEMS CO., LTD., rose 6.4%, to ¥14,422 million, while operating income expanded 2.0%, to ¥261 million.

Despite a drop in orders from the existing large clients, both net sales and operating income grew from the same period of the previous fiscal year. This reflected our attraction of new clients for interior construction and electrical construction and the expansion of our building maintenance businesses at hotels, among other factors.

Other Business

In the Other Business segment, sales grew 18.4%, to ¥5,240 million, and operating income reached ¥118 million (compared to an operating loss of ¥67 million in the previous corresponding period).

In the entertainment business handled by PARCO CO., LTD., we offered topical works by authors and producers who are popular in Japan. Additionally, we saw record-setting audiences for stage plays due to the immense popularity of "SINGIN' IN THE RAIN," a musical performance invited from overseas. In addition, in November we sought to develop a new business by opening the music café and bar "Quattro Labo," a new affiliate of "Club Quattro." Our collaboration café featuring popular characters also enjoyed a good turnout, resulting in growth in both net sales and operating income compared to the same period of the previous fiscal year.

PARCO-CITY CO., LTD., boosted sales to outside customers in its Web-based consulting business. However, compared to the same period of the previous fiscal year, when we received large-scale orders, net sales and operating income declined.

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Financial Position

Balance Sheets

Total assets as of the end of the third quarter under review expanded ¥13,955 million from the end of the previous fiscal year, to ¥234,712 million, mainly due to increases in notes and operating accounts receivable, and property and equipment accompanied by new construction at the Fukuoka PARCO New Building. Liabilities decreased ¥10,755 million compared to the end of the previous fiscal year, to ¥122,689 million. This principally reflected a rise in notes and operating accounts payable. Total net assets increased ¥3,199 million to ¥112,023 million.

Cash Flows

Cash and cash equivalents the end of the third quarter totaled ¥5,429 million, up ¥1,899 million from the previous fiscal year-end.

Net cash provided by operating activities amounted to ¥11,544 million, after accounting for income before income taxes and minority interests and non-asset-related items, such as depreciation and extraordinary income/losses.

Net cash used in investing activities totaled ¥5,476 million. Outflows were allocated mainly to purchase property and equipment for construction of the Fukuoka PARCO New Building.

Net cash used in financing activities was ¥4,204 million, mainly reflecting repayment of interest-bearing debt and cash dividends paid.