

Quarterly Report FY 2016 Q2

1 Performance Overview

Sales declined in the second quarter due to sluggish net sales in the Shopping Complex Business and other factors. Operating income also decreased, but a new record was set for net income attributable to parent.

■ Net sales decreased due to sluggish performance by urban stores at PARCO and despite the opening of Sendai PARCO2 in the Shopping Complex Business and an increase in construction orders for Space Engineering and Management Business PARCO Space Systems.

■ Operating income declined by 2.5% year on year due to a decrease in net sales and the impact of the temporary closure of Shibuya PARCO from August 8 for reconstructions, and other factors, and despite an increased profit contribution from PARCO Space Systems.

Net income increased 9.6% due to proceeds from sales of property, plant and equipment.

■ In our forecasts for the year ending February 28, 2017, sales and income have been revised downward from initial forecasts, but we are aiming to set new records for operating income and net income.

2 Comments from the President

Second quarter results show a decline in operating income due to a large slump in clothing tenant sales at PARCO stores affected by continuing changes in individual consumer preferences. However, a new record was set for net income attributable to parent.

PARCO Group is currently engaged in selection choice and focus, and considering a direction for business development with an eye to achieving future growth. As part of the strengthening of development centered on areas around core urban stores, Sendai PARCO2, which has a large ratio of restaurants and shops selling food products and sundry goods, opened in July and got off to a strong start. Sendai PARCO Main Building and Sendai PARCO2 together stock a wider range of items, expanding their customer base. In 2017, in addition to the opening of Kyoto ZERO GATE and a new store in Ueno scheduled to open in autumn, we will start work on our plan for the urban development of the area including Shibuya PARCO as a special urban renaissance district. This development plan was approved as an Urban Redevelopment Project by the Tokyo Metropolitan Government in August, and we are now accelerating specific plans for the creation of a new Shibuya PARCO, aiming to open in autumn 2019. In September we opened a second ZERO GATE in the area surrounding Hiroshima PARCO which is contributing to the Hiroshima area by further energizing commercial activity and increasing customer traffic. Following recent changes in the commercial environment and receipt of an offer to take over operation of the property as a shopping complex, a decision was made after careful consideration to close Otsu PARCO (scheduled for the end of August, 2017). Chiba PARCO is also scheduled to close in November this year.

For the second consecutive quarter we are planning a ¥2 dividend increase to give an annual dividend for FY2016 of ¥22. PARCO Group is pursuing an aggressive forward-looking strategy while further strengthening trend communication and shop selection, and developing the captivating stores that customers from all over the world have come to associate with us. We ask for the continued support of the PARCO Group's many stakeholders in our activities moving forward.

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Store-Opening Plans

2016	2017	2019	to be decided
Hiroshima ZERO GATE 2 (opened Sep.10, 2016)	Scheduled opening of Kyoto ZERO GATE (provisional name) New store in Ueno	Scheduled completion of Udagawa-cho 15 Development Project	Scheduled opening of Sannomiya ZERO GATE (provisional name)

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Financial Highlights

	Millions of yen				
	FY 2016	FY 2015	Change	Change	FY 2015
	2Q	2Q			
For the Period					
Net sales	¥134,029	¥ 136,721	¥ (2,691)	(2.0%)	¥ 276,358
Operating income	6,504	6,669	(164)	(2.5%)	12,772
Ordinary income	6,085	6,602	(516)	(7.8%)	12,673
Net income attributable to parent	3,751	3,422	(328)	9.6%	6,061
EBITDA	9,131	9,683	(552)	(5.7%)	19,010
Cash flows from operating activities	6,306	10,317	(4,011)	-	14,652
Cash flows from investing activities	(6,488)	(10,614)	4,126	-	(19,325)
Cash flows from financing activities	(780)	1,638	(2,419)	-	7,203
Cash and cash equivalents at end of period	5,767	5,674	92	-	6,840
At the Period End					
Total assets	241,959	-	5,643	-	236,315
Net assets	119,192	-	2,718	-	116,474
Per Share Data					
Net income	36.97	33.74	3.24	9.6%	59.75

Consolidated Results by Segment			
	Millions of yen		
	2Q	change	Change
Shopping Complex Business			
Sales	¥119,597	¥(2,811)	(2.4%)
Segment income	5,913	(237)	(3.9%)
Retail Business			
Sales	10,458	63	0.6%
Segment income	154	(164)	(51.5%)
Space Engineering and Management Business			
Sales	10,687	257	2.5%
Segment income	408	205	100.7%
Other Business			
Sales	3,295	(228)	(6.5%)
Segment income	54	37	228.7%
Total			
Sales	144,038	(2,789)	(1.9%)
Segment income	6,531	(158)	(2.4%)
Consolidated (after adjustment)			
Sales	136,523	(2,579)	(1.9%)
Segment income	6,504	(164)	(2.5%)

EBITDA in this table refers to operating income plus depreciation and amortization.

Figures for net sales by segment include operating revenue.

Segment income is adjusted to operating income in the quarterly consolidated statements of income.

PARCO's Entertainment Business earnings are included in Other Business.

Due to adjustments between business segment results, totals of business segment figures differ from consolidated figures.

	Millions of yen		
	2Q	change	Change
Selling, general and administrative expenses			
Personnel	¥ 5,155	¥ 46	0.9%
Lease/rental	4,483	(9)	(0.2%)
Advertising	1,562	119	8.3%
Agency services	2,692	(8)	(0.3%)
Depreciation	2,627	(387)	(12.9%)
Total SG&A	16,495	(41)	(0.3%)

	Millions of yen	
	2Q	change
Non-operating income and expenses		
Non-operating income	¥ 136	¥ (16)
Dividends received	2	(18)
Non-operating expenses		
Interest expenses	555	335
Share of loss of entities accounted for using equity method	185	(14)
	325	325

	Millions of yen	
	2Q	change
Extraordinary income and loss		
Extraordinary income	2,747	1,497
Gain on sales of non-current assets	2,747	2,747
Gain on sales of investment securities	0	(1,220)
Extraordinary loss	¥ 2,553	¥ 371
Loss on closing stores	1,689	(196)
Loss on sales of noncurrent assets	382	150
Loss on disposal of noncurrent assets	258	237
Impairment loss	168	126

Non-consolidated results

Millions of yen

	FY 2016	FY 2015	Change	Change	FY 2015
	2Q	2Q			
For the Period					
Net sales	¥ 119,880	¥ 123,232	¥ (3,351)	(2.7%)	¥ 249,366
Operating income	5,943	6,181	(238)	(3.9%)	11,731
Ordinary income	5,844	6,201	(357)	(5.8%)	11,727
Net income	2,836	3,463	(626)	(18.1%)	5,932
EBITDA	8,375	8,975	(600)	(6.7%)	17,520

Tenant Sales by Store	Millions of yen	
	2Q	Change
Urban store group		
Sapporo PARCO	¥ 5,831	(4.6%)
Sendai PARCO	7,344	15.6%
Ikebukuro PARCO	12,504	(8.2%)
Shibuya PARCO *1	6,984	(10.4%)
Shizuoka PARCO	5,062	(0.2%)
Nagoya PARCO	17,268	(1.6%)
Hiroshima PARCO	7,666	(3.5%)
Fukuoka PARCO	9,387	(3.2%)
8 store total	72,049	(2.9%)
Community store group		
Utsunomiya PARCO	1,833	(15.6%)
Urawa PARCO	8,505	(0.1%)
Shin-Tokorozawa PARCO	4,613	0.7%
Chiba PARCO	2,324	(15.6%)
Tsudanuma PARCO	4,063	(6.9%)
Hibarigaoka PARCO	3,579	(0.7%)
Kichijoji PARCO	3,468	(3.2%)
Chofu PARCO	8,457	1.1%
Matsumoto PARCO	3,503	0.7%
Otsu PARCO	1,792	(1.6%)
Kumamoto PARCO	2,664	5.2%
11 store total	44,805	(2.1%)
Total	116,855	(2.6%)
Existing store total	107,494	(3.4%)

Sales by item (Total of existing stores)	Change
Womenswear	(8.5%)
Menswear	(9.6%)
General clothing	(0.0%)
Clothing	(5.3%)
Shoes	(2.8%)
Bags	1.0%
Accessories	(0.5%)
Cosmetics	9.3%
Personal items	(1.4%)
Sundry goods	(2.1%)
Foods	(0.3%)
Restaurants	(6.8%)
Other (service, etc.)	(4.2%)

Paying customers, Average spend per customer	Change
Paying customers	(4.9%)
Average spend per customer	1.2%

	Millions of yen		
	2Q	Change	Share in sales
Credit card sales amount			
Credit card	¥ 57,048	(0.1%)	42.6%
PARCO Card	28,529	1.8%	21.3%

Renovation			
Number of sections	230		
Of which are new store sections	120		
Renovated area	Approx.	26,000m ²	
Zone sale YoY comparison	10.6%		

Purchases by foreign-issued credit cards in main stores				
	Shibuya PARCO*2	Sapporo PARCO	Ikebukuro PARCO	Fukuoka PARCO
YoY change in purchases	12.6%	64.6%	35.0%	31.5%
Share of net sales of each store accounted	11.7%	11.0%	2.7%	1.5%
YoY change in share of net sales of each store accounted	+ 1.9%	+ 4.6%	+ 0.9%	+ 0.4%

*1 *As of August 7, 2016, Shibuya PARCO have been closed temporarily.

*2 For the reasons set forth in *1, figures for shown Shibuya PARCO reflect the period until July.

Existing stores total does not include sales at Fukuoka PARCO Main Building extension (opened Mar.19, 2015), Nagoya PARCO midi (opened Mar. 27, 2015), Sendai PARCO 2 (opened Jul.1, 2016), and Shibuya PARCO (closed temporarily as of August 7, 2016).

YoY comparisons of sales by item, paying customers, average spend per customer, sales in renovated zones, share of sales by credit card, as well as purchases by foreign-issued credit cards are based on "integrated sales" of stores. "Integrated sales" indicates the overall sales performance of a store and includes tenant sales, sales at PARCO Theatre and other facilities, and sales of tenants under fixed rent contracts. Figures of renovation exclude Shibuya PARCO and Chiba PARCO.