

Quarterly Report FY 2016 Q3

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1 *Comments from the President*

Third quarter results show a 1.9% year on year decrease 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 decrease of just 0.4% for the period from September to November shows a trend towards recovery. This is particularly noticeable in PARCO's non-consolidated third quarter results which despite showing a 1.5% decrease, rebounded with a 4.5% increase for the September to November period. A new record was set for net income in the third quarter.

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. Sendai PARCO2 and Sendai PARCO Main Building together stock a wider range of items, expanding their customer base. Currently we are working on a new store in Ueno in collaboration with J. Front Retailing Co., Ltd., which is scheduled to open in 2017, and our plan for the new Shibuya PARCO, which we are aiming to open in 2019. However, following recent changes in the commercial environment and taking into consideration future return on investment, a decision was taken to close Otsu PARCO (scheduled for the end of August 2017) and Chiba PARCO was closed in November. In our Overseas Business, itadakimasu by PARCO, a newly developed Japanese restaurant zone in Singapore, opened in December. In our ZERO GATE business, in December we announced the opening of a ZERO GATE in Harajuku, one of Japan's most high-profile shopping areas. With Kyoto ZERO GATE also scheduled to open in 2017, the ZERO GATE Business is steadily growing and contributing to profits.

For the second consecutive year 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.

2 Performance Overview

Sales declined in the third 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 PARCO stores, the effects of the temporary closure of Shibuya PARCO from August for reconstruction, and other factors, and despite an increase in sales from the opening of Sendai PARCO2 in the Shopping Complex Business.

■ Operating income declined by 1.9% due to a decrease in net sales and other factors, and despite an increased profit contribution from PARCO Space Systems. However, net income increased by 15.9% due to compensation received in relation to Shibuya PARCO, proceeds from sales of property, plant and equipment, and other factors.

■ In our forecasts for the year ending February 28, 2017, we are aiming to set new records for operating income and net income.

3 Store-Opening Plans

2017	2019	to be decided
New store in Ueno Scheduled opening of Harajuku ZERO GATE (provisional name) Scheduled opening of Kyoto ZERO GATE (provisional name)	Scheduled opening of Urasoe West Coast Development Project * 1 (Okinawa) Scheduled completion of Udagawa-cho 15 Development Project (Shibuya)	Scheduled opening of Sannomiya ZERO GATE (provisional name) (Kobe)

*1 PARCO and SAN-A establish a joint corporation for the operation of a new shopping complex business in Okinawa prefecture.

* Following recent changes in the commercial environment and taking into consideration future return on investment, Otsu PARCO scheduled to close in 2017.

Consolidated Results

	Millions of yen				
	FY 2016	FY 2015	Change	Change	FY 2015
	3Q	3Q			
For the Period					
Net sales	¥ 199,599	¥ 204,230	¥ (4,630)	(2.3%)	¥ 276,358
Operating gross profit	33,897	34,488	590	(1.7%)	46,655
Operating income	9,119	9,295	(175)	(1.9%)	12,772
Ordinary income	9,232	9,175	56	0.6%	12,673
Net income attributable to parent	5,503	4,749	754	15.9%	6,061
EBITDA	13,111	13,901	(790)	(5.7%)	19,010
Cash flows from operating activities	12,188	9,834	2,353	-	14,652
Cash flows from investing activities	(10,448)	(12,411)	1,963	-	(19,325)
Cash flows from financing activities	(2,012)	1,402	(3,415)	-	7,203
Cash and cash equivalents at end of period	6,415	3,129	3,285	-	6,840
At the Period End					
Total assets	254,312	-	17,996	-	236,315
Net assets	119,853	-	3,378	-	116,474
Interest-bearing debt	54,888	-	370	-	54,518
Per Share Data					
Net income	54.25	46.81	7.43	15.9%	59.75

Consolidated Results by Segment	Millions of yen			
	3Q	change	Change	Change
Shopping Complex Business (PARCO, PARCO (Singapore))				
Sales	¥ 178,759	¥ (4,558)	(2.5%)	
Segment income	8,515	(98)	(1.1%)	
Retail Business (NEUVE A)				
Sales	15,281	112	0.7%	
Segment income	71	(187)	(72.3%)	
Space Engineering and Management (PARCO SPACE SYSTEMS)				
Sales	15,380	(245)	(1.6%)	
Segment income	548	108	24.8%	
Other Business (PARCO-CITY, PARCO's Entertainment Business)				
Sales	5,093	45	0.9%	
Segment income	27	14	111.0%	
Total				
Sales	214,514	(4,646)	(2.1%)	
Segment income	9,164	(162)	(1.7%)	
Consolidated (after adjustment)				
Sales	203,390	(4,397)	(2.1%)	
Segment income	9,119	(175)	(1.9%)	

Selling, general and administrative expenses	Millions of yen		
	3Q	change	Change
Personnel	¥ 7,758	¥ 109	1.4%
Lease/rental	6,772	102	1.5%
Advertising	2,876	123	4.5%
Agency services	3,966	(44)	(1.1%)
Depreciation	3,991	(614)	(13.3%)
Total SG&A	24,777	(414)	(1.6%)

Non-operating income and expenses	Millions of yen	
	3Q	change
Non-operating income	¥ 780	¥ 567
Interest earned	26	(4)
Compensation income*	487	487
*Compensation related to the Shibuya PARCO reconstruction plan		
Non-operating expenses	668	334
Interest expenses	273	(23)
Share of loss of entities accounted for using equity method	332	332

Extraordinary income and loss	Millions of yen		
	3Q	change	Main factors
Extraordinary income	¥ 2,803	¥ 1,552	
Gain on sales of non-current assets	2,748	2,747	Sale of land related to Shibuya PARCO
Gain on sales of investment securities	55	(1,165)	Sales of investment securities in the previous year
Extraordinary loss	3,028	400	
Loss on sales of noncurrent assets	258	237	Sale of land related to Shibuya PARCO
Loss on disposal of noncurrent assets	452	(225)	Renovation of PARCO stores
Impairment loss	168	126	Impairment related to NEUVE A stores
Loss on closing stores	1,701	(185)	Loss related to decision of closure of Otsu PARCO, closure of Chiba PARCO in previous year

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.

Non-consolidated Results

	Millions of yen				
	FY 2016	FY 2015	Change	Change	FY 2015
	3Q	3Q			
For the Period					
Net sales	¥ 179,289	¥ 184,213	¥ (4,924)	(2.7%)	¥ 249,366
Gross profit	22,427	23,373	(945)	(4.0%)	31,450
Operating revenue	3,781	3,557	223	6.3%	4,690
Operating gross profit	26,208	26,930	(722)	(2.7%)	36,140
Operating income	8,510	8,637	(127)	(1.5%)	11,731
Ordinary income	8,946	8,601	344	4.0%	11,727
Net income	4,508	4,683	(175)	(3.8%)	5,932
EBITDA	12,203	12,913	(709)	(5.5%)	17,520
At the Period End					
Total assets	250,151	-	16,701	-	233,450
Net assets	119,219	-	2,392	-	116,827
Interest-bearing debt	59,780	-	1,499	-	58,281

	Millions of yen		
	3Q	change	Change
Selling, general and administrative expenses			
Personnel	¥ 4,249	¥ (37)	(0.9%)
Lease/rental	5,320	59	1.1%
Advertising	2,719	135	5.3%
Agency services	4,431	(44)	(1.0%)
Depreciation	3,693	(582)	(13.6%)
Total SG&A	17,698	(594)	(3.3%)

	Millions of yen	
	3Q	change
Non-operating income and expenses		
Non-operating income	¥ 776	¥ 472
Interest earned	25	(5)
Compensation income *1	487	487
Non-operating expenses	340	0
Interest expenses	279	(24)

*1 Compensation related to the Shibuya PARCO reconstruction plan

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

*3 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).

	Millions of yen	
	3Q	Change
PARCO Tenant Sales by Store		
Urban store group		
Sapporo PARCO	¥ 8,671	(4.5%)
Sendai PARCO	12,004	24.7%
Ikebukuro PARCO	18,977	(6.9%)
Shibuya PARCO *2	7,332	(36.4%)
Shizuoka PARCO	7,475	(0.4%)
Nagoya PARCO	26,348	(1.3%)
Hiroshima PARCO	11,804	(3.1%)
Fukuoka PARCO	14,021	(2.8%)
8 store total	106,637	(4.3%)
Community store group		
Utsunomiya PARCO	2,693	(16.7%)
Urawa PARCO	12,883	2.6%
Shin-Tokorozawa PARCO	7,016	0.3%
Chiba PARCO	4,302	9.1%
Tsudanuma PARCO	6,120	(5.4%)
Hibarigaoka PARCO	5,325	(2.1%)
Kichijoji PARCO	5,130	(1.3%)
Chofu PARCO	12,561	0.1%
Matsumoto PARCO	5,215	0.1%
Otsu PARCO	2,677	(1.6%)
Kumamoto PARCO	4,044	7.0%
11 store total	67,970	(0.2%)
Total	174,608	(2.7%)
Existing store total *3	162,950	(2.3%)

	Millions of yen		Main factors
	3Q	change	
Extraordinary income and loss			
Extraordinary income	¥ 1,425	¥ 174	
Gain on sales of non-current assets	1,370	1,369	Sale of land related to Shibuya PARCO
Gain on sales of investment securities	55	(1,165)	Sales of investment securities in the previous year
Extraordinary loss	3,273	863	
Loss on sales of noncurrent assets	258	237	Sale of land related to Shibuya PARCO
Loss on disposal of noncurrent assets	493	(188)	Renovation of PARCO stores
Impairment loss	38	38	Impairment of Utsunomiya PARCO
Loss on valuation of investment securities	339	339	Loss on valuation of Apparel-Web, Inc.
Loss on closing stores	1,707	0	Loss related to decision of closure of Otsu PARCO, closure of Chiba PARCO in previous year

Review of PARCO Store Operations

Sales by item (Total of existing stores)	Change
Womenswear	(7.1%)
Menswear	(6.9%)
General clothing	0.7%
Clothing	(3.9%)
Shoes	(3.7%)
Bags	(2.7%)
Accessories	0.1%
Cosmetics	8.5%
Personal items	(0.9%)
Sundry goods	(0.4%)
Foods	(0.8%)
Restaurants	(4.9%)
Other (service, etc.)	(2.8%)

Paying customers, Average spend per customer	Change
Paying customers	(3.4%)
Average spend per customer	0.8%

Millions of yen			
	3Q	Change	Share in sales
Credit card sales amount			
Credit card	¥ 87,967	0.6%	43.9%
PARCO Card	45,253	1.8%	22.6%

Renovation	
Number of sections	411
Of which are new store sections	213
Renovated area	Approx. 48,000㎡
Zone sale YoY comparison	12.7%

Total Integrated Sales Results (Change)	Mar. *1	Apr.	May	Jun.	Jul. *2	Aug. *3
Total stores	(4.0)%	(2.6)%	(5.5)%	(2.7)%	3.6%	(8.2)%
Existing stores	(4.6)%	-	-	-	(0.4)%	(7.8)%
	Sep. *3	Oct. *3	Nov. *3			
Total stores	(7.9)%	(2.1)%	(0.8)%			
Existing stores	(4.7)%	1.3%	2.6%			

	Sapporo PARCO	Ikebukuro PARCO	Fukuoka PARCO	Total stores *4
Purchases by foreign-issued credit cards in main stores				
YoY change in purchases	55.5%	33.9%	32.5%	29.6%
Share of net sales of each store accounted	10.0%	2.9%	1.7%	1.6%
YoY change in share of net sales of each store accounted	+ 3.8%	+ 0.9%	+ 0.4%	+ 0.1%

Figures for review of PARCO store operations 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.

*1 Existing stores' excludes sales at Nagoya PARCO midi, and Fukuoka PARCO Main Building Extension.

*2 Existing stores' excludes sales at Sendai PARCO2.

*3 Existing stores' excludes sales at Sendai PARCO2 and Shibuya PARCO.

*4 The inbound sales totals for all stores do not include figures from Shibuya PARCO from August onwards (current quarter and previous quarter)

Major Companies of PARCO Group

For the Period	Millions of yen				
	PARCO	NEUVE A	PARCO SPACE SYSTEMS	PARCO-CITY	PARCO (Singapore)
Net sales	¥ 179,289	¥ 15,281	¥ 15,380	¥ 719	¥ 54
Operating income	8,510	71	548	73	(39)
Ordinary income	8,946	93	562	73	(38)
Net income	4,507	(56)	385	52	(38)
Ownership ratio by PARCO	-	100%	100%	100%	100%