

# Takashimaya Company, Limited

Takashimaya Reports Earnings for the Six Months Ended Aug. 31, 2014

## 1. Qualitative Information about Consolidated Operating Results

### (1) Summary of Operating Results

Total consolidated sales and other operating revenue for the Takashimaya Group rose 1.5% from the same period of the previous fiscal year, to 441,673 million yen. Consolidated operating income was up 9.5%, to 12,214 million yen, and consolidated ordinary income increased 5.3%, to 14,202 million yen. Consolidated net income climbed 25.8%, to 9,579 million yen.

In the first six months of the fiscal year ending February 2015 (March 1, 2014 – August 31, 2014), the Japanese economy saw growth in consumption as a result of a last-minute surge in demand ahead of the consumption tax hike, against a backdrop of modest economic recovery. However, given the cautious buying behavior since the consumption hike, the situation continues to require close observation. In this environment, the Takashimaya Group worked to enhance its sales capabilities, while at the same time implementing structural reforms and endeavoring to improve its results.

Operating performance by segment is discussed below.

### (2) Segment Information

Operating performance by segment is discussed below.

#### **Department Stores**

In the Department Stores segment, sales and other operating revenue increased 1.0% from the same period of the previous fiscal year, to 389,400 million yen. Operating income rose 12.1%, to 4,924 million yen.

The Group strove to take initiatives from a “machi-zukuri community development perspective” based on its “Customer-First Principle.” In Japan, amid the effects of consumers’ reactionary behavior following the consumption tax hike since April, the domestic department store business recorded higher revenues on the back of efforts to recover sales made mainly by the large stores: the Osaka Store, the Nihombashi Store, the Yokohama Store and the Shinjuku Store.

In terms of merchandise, the Group worked to expand the lineup of products targeting individual local communities through buyers who were newly assigned to stores. It also sought to strengthen its characteristics mainly by introducing new sections of merchandise specially chosen by store buyers, including the Salon Le Chic section that principally offers unique merchandise targeting wealthy individuals, and the Takashimaya Farm section that sells products meeting today’s needs.

As for attracting customers, sales promotional measures, such as an exhibition focusing on the career of 23-year old figure skater Mao Asada that was held in five major stores, resulted in positive contributions. The Group also strengthened measures for attracting foreign tourists, whose numbers are rising, worked to improve its meticulous service functions, and accelerated its initiatives to create new demand.

With respect to expenses, the Group reduced its rental expenses as a result of the acquisition of the Shinjuku Store and the Tachikawa Store retail real estate, and worked to streamline selling, general and administrative expenses through selection and concentration by taking the impact on sales into account in the aftermath of the consumption tax hike.

Overseas, revenues increased, partly due to the continued effects of the remodeling of all the floors of Takashimaya Singapore Ltd., as well as the impact of exchange rates due to the weakening yen. Earnings fell, however, chiefly reflecting provisions for the preparation of rising rental expenses.

### **Contract & Design**

The Contract & Design segment contributed 11,905 million yen in sales and other operating revenue, an increase of 31.5 % from the same period of the previous fiscal year, and operating income of 424 million yen, an increase of 9.0% compared with the same period of the previous fiscal year.

Revenues and earnings both increased, reflecting solid performance in existing business by Takashimaya Space Create Co., Ltd. and growth in orders received in the housing reform business as a result of the establishment of an operating structure in cooperation with department stores.

### **Real Estate**

The Real Estate segment's sales and other operating revenue increased 5.7% from the same period of the previous fiscal year, to 18,797 million yen. Operating income totaled 4,395 million yen, an increase of 8.2%.

Toshin Development Co., Ltd. posted higher revenues and earnings, attributable to the strong results of existing shopping centers and contributions from newly opened peripheral commercial facilities at the Tamagawa Takashimaya Shopping Center and the Nagareyama Otakanomori Shopping Center, as well as the effects of the introduction of new tenants at Hakata Riverain - eeny meeny miny mo.

Meanwhile, Toshin Development Singapore Pte. Ltd. posted increased revenues, reflecting greater rental income due to the strong results of specialty stores, as well as the impact of exchange rates due to the weakening yen. However, earnings fell, chiefly reflecting an increase in expenses in preparation for rising rental expenses.

### **Finance**

Sales and other operating revenue in the Finance segment rose 3.6% from the same period of the previous fiscal year, to 6,121 million yen, and operating income climbed 5.8%, to 2,065 million yen. Takashimaya Credit Co., Ltd. increased its revenues and earnings due to growth in card transactions driven by a last-minute surge in demand ahead of the consumption tax hike and higher annual fee income, offsetting a rise in expenses.

### **Other**

Sales and other operating revenue in the Other segment, including the Group's Cross Media Division, decreased 9.8% from the same period of the previous fiscal year, to 15,447 million yen. The segment posted operating income of 373 million yen, down 3.8% from the same period a year ago.

In the Cross Media Division, net media steadily expanded sales but catalogue media saw a contraction in revenues, given the streamlining of operations as a result of a reduction in expenses. The Food Delivery Division, which launched new initiatives, posted higher expenses. Consequently, the segment's earnings declined.

## **2. Qualitative Information about Consolidated Financial Status**

Consolidated assets at the end of the quarter under review (as of August 31, 2014) amounted to 949,950 million yen, up 47,811 million yen from the end of the previous fiscal year (February 28, 2014), mainly due to increases in leasehold rights and buildings and structures, offsetting a decline in cash and deposits and investment securities. Consolidated liabilities rose 48,579 million yen from the end of the previous fiscal year, to 585,806 million yen, primarily reflecting an increase in net defined benefit liability. Consolidated net assets were 364,144 million yen, down 767 million yen from the end of the previous fiscal year, mainly due to a decrease in retained earnings, as a result of a change in the Accounting Standard for Retirement Benefits.

Consolidated cash and cash equivalents at the end of the second quarter (August 31, 2014) totaled 75,398 million yen, down 69,709 million yen from the end of the previous fiscal year (February 28, 2014).

Net cash provided by operating activities came to 20,694 million yen, an increase of 1,637 million yen from the same period a year ago. The result mainly reflects an increase of 4,226 million yen in income before income taxes and minority interests.

Net cash used in investment activities totaled 106,880 million yen, an increase of 95,168 million yen from the same period of the previous fiscal year. The result is primarily due to a 104,173 million yen increase in purchase of property, plant and equipment and intangible assets.

Net cash provided by financing activities was 17,526 million yen, compared with an outflow of 381 million yen in the same period of the previous fiscal year. The result was mainly attributable to a 22,000 million yen increase in the proceeds from long-term loans payable and a 3,953 million yen increase in the repayment of long-term loans payable.

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	As of February 28, 2014	(million yen) As of August 31, 2014
<b>Consolidated quarterly balance sheets</b>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	106,451	76,640
Notes and accounts receivable-trade	106,671	118,181
Short-term investment securities	43,099	-
Merchandise and finished goods	38,490	36,848
Work in process	262	2,468
Raw materials and supplies	487	616
Other	37,098	33,277
Allowance for doubtful accounts	(439)	(423)
<b>Total current assets</b>	<b>332,121</b>	<b>267,608</b>
<b>Noncurrent assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures, net	157,381	173,218
Land	223,296	225,194
Other, net	13,759	14,184
<b>Total property, plant and equipment</b>	<b>394,436</b>	<b>412,597</b>
<b>Intangible assets</b>		
Land leasehold right	11,414	93,702
Goodwill	631	574
Other	16,670	15,840
<b>Total intangible assets</b>	<b>28,716</b>	<b>110,118</b>
<b>Investments and other assets</b>		
Investment securities	105,890	112,384
Guarantee deposits	34,420	34,531
Other	9,321	15,576
Allowance for doubtful accounts	(2,768)	(2,864)
<b>Total investments and other assets</b>	<b>146,864</b>	<b>159,626</b>
<b>Total noncurrent assets</b>	<b>570,017</b>	<b>682,342</b>
<b>Total assets</b>	<b>902,139</b>	<b>949,950</b>

Takashimaya Reports Earnings for the Six Months Ended Aug. 31, 2014

	As of February 28, 2014	As of August 31, 2014
(million yen)		
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	95,901	97,869
Short-term loans payable	17,301	42,298
Current portion of bonds	30,000	14,389
Income taxes payable	7,822	8,227
Advances received	78,125	79,059
Gift certificates	54,498	53,910
Provision for point card certificates	3,260	3,163
Other	48,690	52,095
Total current liabilities	335,599	351,013
Noncurrent liabilities		
Bonds payable	65,503	75,454
Long-term loans payable	54,724	49,521
Asset retirement obligations	1,514	1,519
Provision for retirement benefits	42,098	-
Net defined benefit liability	-	67,977
Provision for directors' retirement benefits	254	280
Provision for environmental measures	647	647
Other	36,884	39,392
Total noncurrent liabilities	201,627	234,793
Total liabilities	537,227	585,806
<b>Net assets</b>		
Shareholders' equity		
Capital stock	56,025	58,830
Capital surplus	45,085	47,891
Retained earnings	221,857	217,867
Treasury stock	(549)	(554)
Total shareholders' equity	322,418	324,034
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	16,815	20,988
Deferred gains or losses on hedges	(0)	1
Revaluation reserve for land	8,537	6,454
Foreign currency translation adjustment	10,422	8,931
Remeasurements of defined benefit plans	-	(3,201)
Total accumulated other comprehensive income	35,775	33,175
Minority interests	6,718	6,934
Total net assets	364,912	364,144
<b>Total liabilities and net assets</b>	902,139	949,950

Takashimaya Reports Earnings for the Six Months Ended Aug. 31, 2014

	(million yen)	
	Six months ended August 31, 2013	Six months ended August 31, 2014
Consolidated quarterly statements of (comprehensive) income		
Net sales	406,419	411,493
Cost of sales	302,193	307,477
Gross profit	104,225	104,016
Other operating revenue	28,872	30,179
Operating gross profit	133,097	134,196
Selling, general and administrative expenses		
Advertising expenses	11,582	11,663
Provision for point card certificates	1,607	1,533
Provision of allowance for doubtful accounts	152	255
Directors' compensations, salaries and allowances	33,055	33,133
Retirement benefit expenses	2,270	2,293
Rent expenses on real estates	19,978	19,525
Other	53,293	53,577
Total selling, general and administrative expenses	121,940	121,982
Operating income	11,156	12,214
Non-operating income		
Interest income	207	212
Dividends income	634	672
Equity in earnings of affiliates	1,125	1,544
Foreign exchange gains	357	-
Other	698	499
Total non-operating income	3,022	2,929
Non-operating expenses		
Interest expenses	547	530
Foreign exchange losses	-	1
Other	139	408
Total non-operating expenses	686	941
Ordinary income	13,492	14,202
Extraordinary income		
Gain on sales of noncurrent assets	210	2,951
Gain on sales of investment securities	38	-
Other	28	-
Total extraordinary income	277	2,951
Extraordinary loss		
Loss on retirement of noncurrent assets	2,085	1,033
Other	-	210
Total extraordinary losses	2,085	1,243
Income before income taxes and minority interests	11,684	15,910
Income taxes-current	3,559	7,667
Income taxes-deferred	148	△1,744
Total income taxes	3,707	5,922
Income before minority interests	7,977	9,988
Minority interests in income	362	408
Net income	7,614	9,579

Takashimaya Reports Earnings for the Six Months Ended Aug. 31, 2014

	(million yen)	
	Six months ended August 31, 2013	Six months ended August 31, 2014
<b>Consolidated quarterly statements of comprehensive income</b>		
Income before minority interests	7,977	9,988
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	2,941	4,192
Deferred gains or losses on hedges	(1)	1
Foreign currency translation adjustment	2,978	(929)
Remeasurements of defined benefit plans	-	422
Share of other comprehensive income of associates accounted for using equity method	2,033	(562)
Total other comprehensive income	7,951	3,124
Comprehensive income	15,928	13,113
<b>Comprehensive income attributable to</b>		
Comprehensive income attributable to owners of the parent	15,565	12,698
Comprehensive income attributable to minority interests	362	414

Takashimaya Reports Earnings for the Six Months Ended Aug. 31, 2014

	(million yen)	
	Six months ended August 31, 2013	Six months ended August 31, 2014
<b>Consolidated quarterly statements of cash flows</b>		
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	11,684	15,910
Depreciation and amortization	9,158	9,663
Amortization of goodwill	56	56
Increase (decrease) in allowance for doubtful accounts	(222)	82
Increase (decrease) in net defined benefit liability	-	(1,138)
Increase (decrease) in provision for retirement benefits	(615)	-
Increase (decrease) in provision for directors' retirement benefits	28	25
Increase (decrease) in provision for point card certificates	39	(96)
Interest and dividends income	(841)	(884)
Interest expenses	547	530
Equity in (earnings) losses of affiliates	(1,125)	(1,544)
Gain on sale of fixed assets	(210)	(2,951)
Loss on retirement of noncurrent assets	1,385	506
Decrease (increase) in notes and accounts receivable-trade	(7,832)	(12,227)
Decrease (increase) in inventories	277	1,574
Increase (decrease) in notes and accounts payable-trade	4,437	2,019
Other, net	4,143	14,706
Subtotal	20,912	26,232
Interest and dividends income received	1,888	2,124
Interest expenses paid	(462)	(444)
Income taxes paid	(3,282)	(7,219)
Net cash provided by (used in) operating activities	19,056	20,694
Net cash provided by (used in) investing activities		
Payments into time deposits	(577)	-
Proceeds from withdrawal of time deposits	186	165
Purchase of short-term and long term investment securities	(208)	(161)
Proceeds from sales of short-term and long term investment securities	64	3,000
Purchase of property, plant and equipment and intangible assets	(11,450)	(115,624)
Proceeds from sales of property, plant and equipment and intangible assets	237	5,717
Other, net	35	22
Net cash provided by (used in) investing activities	(11,711)	(106,880)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	40	-
Proceeds from long-term loans payable	3,000	25,000
Repayment of long-term loans payable	(1,252)	(5,205)
Proceeds from issuance of bonds	-	10,000
Redemption of bonds	-	(10,000)
Cash dividends paid	(1,649)	(1,649)
Other, net	(520)	(618)
Net cash provided by (used in) financing activities	(381)	17,526
Effect of exchange rate change on cash and cash equivalents	3,714	(1,049)
Net increase (decrease) in cash and cash equivalents	10,677	(69,709)
Cash and cash equivalents at beginning of period	63,980	145,108
Cash and cash equivalents at end of period	74,657	75,398