

# Takashimaya Company, Limited

## Takashimaya Reports Earnings for the Fiscal Year to February 29, 2008

Tokyo, Japan April 11, 2008—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated sales and other operating revenue of 1,042,711 million yen for the fiscal year ended February 29, 2008, and net income of 18,697 million yen, or 56.66 yen per share.

### Summary of Operating Results

Total consolidated sales and other operating revenue for the Takashimaya Group decreased 0.6% from the previous fiscal year to 1,042,711 million yen. Operating income grew 11.3% to 37,699 million yen, and ordinary income rose 6.4% to 42,070 million yen. Net income fell 26.2% to 18,697 million yen due to extraordinary losses from changes to the accounting treatment of gift certificates and other factors. Taking into account changes to the accounting period of five consolidated subsidiaries, actual total consolidated sales and other operating revenue increased 0.2% on the previous fiscal year.

During the fiscal year under review, although the Japanese economy continued to expand on a mild recovery path on the back of strong capital expenditure, there was no flow-on effect to personal consumption. Growth in corporate earnings slowed in the second half of the year, reflecting rising crude oil and raw materials prices and instability in the US economy.

In the department stores sector, the effects of sector reorganization and intensifying competition across business categories, together with stagnant wages growth, the abolition of the fixed-rate tax reduction, and unseasonable summer weather saw difficult trading conditions persist.

Under these conditions, the Takashimaya Group worked to increase earnings potential in department stores and other business segments by, bolstering marketing capabilities and increasing operating efficiency, with a view to fulfilling the new long-term business plan, *Strategies for Growth*, which was launched in fiscal 2005. In April 2007, the first total renovation of the Shinjuku store since it was opened was completed. The Group has worked to create a store that appeals to a wide range of customers by shifting to high-quality product lines and enhancing in-store traffic flow through a complete reorganization of the floor plan. The Group has continued to improve profit margins on merchandise by integrating merchandizing strategies across all stores. Product planning and design efforts have been bolstered and brand recognition in comparison to other stores increased through the development of specialty shops providing information to customers and original products that reflect customer feedback.

The Group has actively expanded the activities of its shopping center business, the Group's second core business, by developing shopping centers offering lifestyle goods and increasing the floor area of existing retail facilities.

Corporate governance reforms have been instituted, including the introduction of an executive officer system and active guidance from the Board of Directors so that executive decisions are implemented more rapidly. To improve corporate value and company results, the Group has also introduced an incentive-based remuneration scheme for directors that links pay to results.

## **Segment Information**

### **Department Stores**

Sales and other operating revenue for the department stores segment decreased 0.2% to 940,086 million yen. Operating income grew 15.3% to 26,903 million yen as a result of reductions in selling, general and administrative expenses resulting from more effective use of advertising expenses and changes to the rental scheme at the Shinjuku store.

During the year, the Group continued working to solidify Takashimaya department stores' position as the dominant, upmarket store in each locality under the credo of always serving customers with a smile and a heartwarming attitude.

The Group has established a characteristic merchandizing profile by enhancing its Voice File range—products that incorporate demands and feedback from customers—and by actively introducing new brands in stores that offer a selected range of fashion items: Style & Edit (women's fashion) and CS Case Study (men's fashion).

In March, to coincide with the opening of the Nagareyama Otakanomori Shopping Center (Nagareyama, Chiba), the Group opened a Takashimaya Food Maison store—a new type of food store that specializes in the product lineup found on department store basement floors—and in April the full Shinjuku store was opened, having been transformed into a new, classy, high-quality department store.

The Group worked to enhance store environment and the range of goods and services to meet consumer expectations. The Group did this by rapidly implementing customer opinions and requests across all stores and inviting service level checks conducted by external parties. In March 2007, the introduction of new VIP credit card, “Takashimaya Card <<Gold>>”, which, in addition to the Takashimaya Card and the Takashimaya-Saison Card, allows customers to choose between three different types of cards, has assisted in ensuring a broad customer base. The Group also introduced “Takashimaya gift cards” that can be designed to suit customers' personal preferences in a bid to create further demand for gifts.

The Group is holding a range of unique cultural events to mark the 100th anniversary of the establishment of its Fine Art Department. These events include a program titled “Takashimaya’s Centenary: 100 Years of Beauty”, a three-year series of exhibitions featuring the work of modern artists under the main theme of “the succession of beauty, towards 100 years”.

As a result, sales in the Group’s seven stores in Kyoto, Tokyo, Senboku, Gifu, Tamagawa, Omiya, and Kashiwa exceeded those of the previous year, but domestic sales in the department store segment declined 0.2% from the previous year.

Overseas, Takashimaya (Singapore) Ltd. achieved substantial gains in sales and operating income due to strong performance in specialist boutiques, women’s clothing, and sporting goods, supported by a strong increase in tourism and continuing economic expansion in Singapore.

### **Contract & Design**

Sales and other operating revenue for the Contract & Design segment fell 22.5% to 25,861 million yen, while operating income rose 101.1% to 955 million yen. Sales fell in comparison to the previous year at Takashimaya Space Create Co., Ltd., a Group company, due to a decrease in large-scale projects and changes to the accounting period made in the previous period. In contrast, operating revenue greatly exceeded last year’s due to work on highly profitable projects and improvements to the expense structure.

### **Real Estate**

Sales and other operating revenue increased 20.6% to 29,040 million yen, and operating income grew 21.5% to 7,671 million yen.

Toshin Development Co., Ltd., a Group company, opened the Nagareyama Okatanomori Shopping Center in Nagareyama, Chiba, and T-terrace in the specialty store zone of the Namba Parks complex in Osaka. Among efforts to expand its activities, the company acquired trust beneficiary rights in the Eeny Meeny Miny Mo (Hakata Riverain) commercial property in Fukuoka and commenced facilities management activities. The growth in sales and earnings was also due in part to increased rental income resulting from strong sales at the Singapore Takashimaya shopping centers.

### **Finance**

Sales and other operating revenue increased 9.4% to 8,738 million yen, while operating income shrank 53.9% to 960 million yen.

Takashimaya Credit Co., Ltd., enjoyed an increase in billings at both department stores and franchise stores due to an increase in the number of cardholders resulting from the launch of “Takashimaya Card

<<Gold>>”. However, sales and other operating revenue fell due to an increase in systems costs associated with the transfer of card processing activities to Credit Saison Co., Ltd., and an increase in advertising expenses aimed at increasing the number of cardholders.

### **Other**

Sales and other operating revenue for other segments decreased 7.7% to 38,983 million yen, while operating income decreased 19.0% to 1,688 million yen.

Although the mail order business showed strong growth in orders via the Internet and direct mail, mainstay catalogue orders performed poorly and resulted in an overall fall in sales on the previous period.

### **Financial Condition**

#### **Assets, Liabilities, and Net Assets**

Consolidated total assets at the end of the fiscal year under review totaled 758,870 million yen, an decrease of 24,125 million yen from the end of the previous fiscal year. This mainly reflects an increase in tangible fixed assets resulting from an active investment program in conjunction with the new long-term business plan, *Strategies for Growth*, and a decrease in guarantee deposits (such as deposits for the Shinjuku store). Total liabilities decreased 28,549 million yen to 467,617 million yen. This was mainly due to a decrease in loans. Total shareholders’ equity rose 4,423 million yen by the end of the fiscal year to 291,253 million yen.

#### **Cash Flows**

Consolidated cash and cash equivalents at the end of the fiscal year under review amounted to 39,905 million yen, a decline of 15,056 million yen from the end of the previous year.

Net cash provided by operating activities was 65,480 million yen, which represents an increase of 36,718 million yen on the previous fiscal year. This is primarily due to an increase in income of 48,222 million yen over the previous year resulting from a decrease in guarantee deposits due to the refunding of the security deposit paid in relation to the Shinjuku store as well as an increase of 13,393 million yen in notes and accounts receivable over the previous fiscal year resulting from the outsourcing of a part of the business activities of Takashimaya Credit Co., Ltd.

Net cash used in investing activities was 45,522 million yen, an increase of 35,446 million yen on the previous fiscal year. This increase may be summarized as an outflow of 47,621 million yen for the acquisition of tangible and intangible fixed assets (a year-on-year increase of 18,077 million yen), an

outflow of 6,015 million yen relating to the purchase of securities (a year-on-year increase of 3,990 million yen), and an inflow of 4,415 million yen from the sale of investment securities and shares in consolidated subsidiaries (a year-on-year decrease of 6,641 million yen).

Net cash used in financing activities was 35,125 million yen, an increase of 19,276 million yen on the previous fiscal year. This was primarily due to a 30,055 million yen decline in financing proceeds compared with last year when the Group procured funds through a public offering and the allocation of shares to third parties.

## **Outlook for the Coming Year**

### **Overview**

For the full year ending February 28, 2009, consolidated sales and other operating revenue increased 2.2% to 1,065,500 million yen, operating income increased 6.1% to 40,000 million yen, ordinary income increased 1.0% to 42,500 million yen, and net income increased 25.7% to 23,500 million yen.

World economic growth is expected to slow in the coming year as a result of the economic slowdown in the US, and there is also little room for optimism regarding domestic economic conditions. Increases in prices on daily necessities, uncertainty regarding the social security system, and other factors that adversely affect consumer confidence and are expected to produce difficult business conditions in the coming year. Increasing competition is expected in the department store sector as a result of continuing mergers resulting in the formation of highly competitive department store groups.

### **Outlook by Segment**

#### **Department Stores**

Given the difficult conditions ahead, best use must be made of management resources to maximize corporate value. In the core department store sector, the Group is working to *build the ultimate sales framework* that manifests Takashimaya's philosophy that "the customer comes first". The Group will thoroughly revise employee duties to prioritize sales and marketing, strengthen its ability procure products that meet the needs of customers by revising purchasing protocols and restructuring systems, and strive to bolster the Takashimaya customer base (strengthen CRM) through efforts that utilize customer sales data (cardholder data).

To further strengthen its earning base, the Group is proceeding with renovations to its Tokyo, Kyoto, and Okayama stores, in addition to the renovation and enlargement of the Osaka store, slated for completion in autumn 2009-2010, and the total renovation of the Yokohama store, which will be completed in stages.

The Shinjuku store, the renovation of which was completed last year, will make full use of the advantage of a direct connection with a newly completed subway line to promote repeat visits. Takashimaya Food Maison, Shin-Yokohama, opened in March in the JR Shin-Yokohama Station building. This will be the Group's second store modeled on department store-style basement food floors.

The Group will work to strengthen its customer base by increasing membership of the Takashimaya Card <<Gold>>, the Takashimaya Card while continuing to target customer needs through CRM efforts that utilize card data.

The Group will continue working to expand revenues through sales promotions and unique cultural events, such as the "Takashimaya's Centenary: 100 Years of Beauty" exhibition program, which marks the 100th anniversary of the establishment of the Fine Art Department, and the "France Exhibition", which marks 150 years of cultural exchange between Japan and France.

Takashimaya (Singapore) Ltd. will work to expand earnings, utilizing its position as the premier store in the region and its overseas operating expertise.

### **Contract & Design**

Takashimaya Space Create Co., Ltd., will work to expand orders from potential growth sectors, such as commercial spaces and environments, accommodation, and medical- and welfare-related institutions, while reducing costs by rationalizing its supplier base and reforming the income and expenditure structure.

### **Real Estate**

Toshin Development Co., Ltd., will open a new building of Kashiwa Takashimaya Station Mall in Chiba in the fall of this year. Utilizing extensive development and operating expertise, the company will work to enhance earnings potential by actively pursuing new projects, both domestically and overseas, and by renovating and expanding floor areas at the Group's department stores.

### **Finance**

Takashimaya Credit Co., Ltd., will work to increase use of Takashimaya's credit cards by providing an attractive rewards system and services that fulfill cardholder demands that will also contribute to strengthening the marketing capabilities of the Group's department stores.

**Dividend Policy**

Takashimaya's basic policy on profit distribution is to consistently provide a stable dividend stream by reinforcing its operating base, with a view towards future business expansions, while giving due consideration to earnings performance and the foundations of the Group's operations. The Group aims to return profits to shareholders at a target dividend payout ratio of 30% of both consolidated and non-consolidated earnings. On the basis of this policy, the Group will provide an annual dividend of 10 yen per share for fiscal 2008, and the Group also expects to provide an annual dividend of 10 yen per share in fiscal 2009.

The Group makes effective use of retained earnings to further enhance sales capabilities through store renovations and to strengthen its financial position.

The Group also periodically considers the possibility of making changes to the articles of incorporation to introduce quarterly dividends.

**Forward-Looking Statements**

This news release contains forward-looking statements based on current expectations and assumptions regarding future events as well as information available to the Group at the time the release was prepared. Although the Group believes its expectations and assumptions are reasonable, actual results and trends in the Group's performance could differ materially from those expressed or implied by figures or statements presented in this release because of risks and uncertainties, including but not limited to economic conditions, market trends, and foreign exchange rate fluctuations.

**Consolidated Financial Statements**
**Balance Sheets**

(million yen)

	As of	As of	(B)-(A)
	February 28, 2007	February 29, 2008	
	(A)	(B)	
	Amount	Amount	Amount
<b>Assets</b>			
Current assets	258,857	212,888	(45,969)
Cash and deposits	55,009	35,130	(19,879)
Notes and accounts receivable	72,622	96,396	23,774
Marketable securities	599	5,000	4,400
Inventories	41,494	43,729	2,235
Short-term loans	0	-	(0)
Deferred tax assets	6,210	8,011	1,800
Guarantee deposits	63,757	-	(63,757)
Other	19,773	25,568	5,794
Allowance for doubtful accounts	(611)	(948)	(337)
Fixed assets	524,138	545,982	21,843
Tangible fixed assets	281,394	384,608	103,214
Buildings and structures	114,850	161,607	46,756
Machinery, equipment and vehicles	185	169	(15)
Furniture and fixtures	8,770	10,387	1,616
Land	142,229	201,015	58,785
Construction in progress	15,357	11,428	(3,928)
Intangible fixed assets	15,894	15,710	(183)
Leasehold	11,354	11,354	-
Consolidation difference	1,145	-	(1,145)
Goodwill	-	1,050	1,050
Other	3,395	3,306	(88)
Investments and other assets	226,849	145,662	(81,187)
Investment securities	100,162	87,028	(13,133)
Long-term loans	82,821	-	(82,821)
Long-term guarantee deposits	36,875	42,937	6,061
Deferred tax assets	3,738	10,888	7,150
Other	6,330	7,825	1,495
Allowance for doubtful accounts	(3,078)	(3,017)	60
Total assets	782,996	758,870	(24,125)



(million yen)

	As of February 28, 2007 (A)	As of February 29, 2008 (B)	(B)-(A)
	Amount	Amount	Amount
<b>Liabilities</b>			
Current liabilities	341,057	302,034	(39,023)
Notes and accounts payable	99,020	99,921	900
Short-term bank loans	50,898	16,072	(34,826)
Current portion of long-term debt	10,000	-	(10,000)
Accrued income taxes	9,959	8,939	(1,019)
Advances received	67,876	71,631	3,754
Gift certificates outstanding	44,637	51,515	6,877
Deposits received	23,538	24,716	1,178
Reserve for directors' bonuses	91	80	(10)
Allowance for Point Gift Certificates	3,731	4,437	705
Allowance for loss on disposal of buildings and structures	2,379	1,451	(928)
Other	28,923	23,268	(5,655)
Fixed liabilities	155,109	165,583	10,474
Corporate bonds	11,231	21,231	10,000
Long-term debt	44,361	47,455	3,093
Allowance for employees' retirement benefits	56,824	55,573	(1,250)
Allowance for directors' and corporate auditors' retirement benefits	606	285	(321)
Liabilities resulting from application of equity method	317	317	-
Deferred tax liabilities	124	112	(11)
Deferred tax liabilities related to revaluation	10,184	10,080	(103)
Other	31,460	30,528	(932)
Total liabilities	496,166	467,617	(28,549)
<b>Net assets</b>			
Shareholders' capital			
Common stock	56,025	56,025	-
Additional paid-in capital	45,076	45,080	3
Retained earnings	145,975	161,524	15,549
Treasury stock	(425)	(478)	(52)
Total shareholders' capital	246,652	262,151	15,499
Net unrealized gains/losses on other securities	25,631	14,282	(11,348)

Net deferred gains/losses on hedge contracts	(0)	(2)	(2)
Land revaluation difference	8,505	8,354	(151)
Foreign currency translation adjustments	2,803	3,085	281
Total valuation and translation adjustments	36,939	25,718	(11,220)
Minority interests	3,237	3,382	144
Total net assets	286,829	291,253	4,423
Total liabilities and net assets	782,996	758,870	(24,125)

## Statements of Operations

(million yen)

	Year ended February 28, 2007	Year ended February 29, 2008	(B – A)	
	(A)	(B)	Amount	%
Net sales	1,007,476	994,585	(12,890)	(1.3)
Cost of sales	734,083	725,993	(8,090)	(1.1)
Gross profit	273,392	268,591	(4,800)	(1.8)
Other operating revenue	41,929	48,125	6,195	14.8
<i>Total sales and operating revenue</i>	<i>1,049,405</i>	<i>1,042,711</i>	<i>(6,694)</i>	<i>(0.6)</i>
Gross operating income	315,322	316,717	1,395	0.4
Selling, general and administrative expenses	281,461	279,018	(2,443)	(0.9)
Operating income	33,860	37,699	3,838	11.3
Interest and dividend income	3,549	1,451	(2,097)	(59.1)
Equity in gain of affiliated companies	2,151	2,503	352	16.4
Other non-operating income	6,680	3,482	(3,198)	(47.9)
Total non-operating income	12,381	7,437	(4,943)	(39.9)
Interest expense	2,851	1,549	(1,302)	(45.7)
Other non-operating expense	3,846	1,517	(2,328)	(60.5)
Total non-operating expense	6,698	3,067	(3,631)	(54.2)
Ordinary income	39,543	42,070	2,526	6.4
Extraordinary gains	15,362	7,293	(8,068)	(52.5)
Extraordinary losses	11,970	17,177	5,207	43.5
Net income before income taxes	42,936	32,186	(10,750)	(25.0)
Income tax, inhabitants tax, and enterprise tax	12,063	13,708	1,644	13.6
Income tax, inhabitants tax, and enterprise tax for past year	755	736	(19)	(2.6)
Income taxes adjustments	4,665	(1,144)	(5,810)	(124.5)
Minority interests in earnings of consolidated subsidiaries	131	188	57	43.4
Net income	25,319	18,697	(6,622)	(26.2)

### Statement of Changes in Shareholders' Capital

(March 1, 2007 to February 29, 2008)

(million yen)

	Shareholders' capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital
Balance as of February 28, 2007	56,025	45,076	145,975	(425)	246,652
Changes during period					
Cash dividends			(3,299)		(3,299)
Net income			18,697		18,697
Purchase/disposition of treasury stock		3		(52)	(49)
Reversal of land revaluation difference			151		151
Net change in items other than shareholders' capital during period					
Total changes during period		3	15,549	(52)	15,499
Balance as of February 29, 2008	56,025	45,080	161,524	(478)	262,151

	Valuation and translation adjustments					Minority interests	Total net assets
	Net unrealized gains/losses on other securities	Net deferred gains/losses on hedge contracts	Land revaluation difference	Foreign currency adjustments	Total valuation and translation adjustments		
Balance as of February 28, 2007	25,631	(0)	8,505	2,803	36,939	3,237	286,829
Changes during period							
Cash dividends							(3,299)
Net income							18,697
Purchase/disposition of treasury stock							(49)

Reversal of land revaluation difference							151
Net change in items other than shareholders' capital during period	(11,348)	(2)	(151)	281	(11,220)	144	(11,075)
Total changes during period	(11,348)	(2)	(151)	281	(11,220)	144	4,423
Balance as of February 29, 2008	14,282	(2)	8,354	3,085	25,718	3,382	291,253

## Statements of Cash Flows

(million yen)

	Year ended February 28, 2007	Year ended February 29, 2008
	Amount	Amount
I Cash flows from operating activities:		
Income before income taxes and minority interests	42,936	32,186
Depreciation	12,226	14,686
Loss on impairment of property and equipment	43	—
Amortization of consolidation difference	95	—
Amortization of goodwill	-	95
Increase (decrease) in allowance for doubtful accounts	(9,036)	276
Decrease in allowance for directors' and corporate auditors' bonuses	(7)	(10)
Decrease in allowance for employees' retirement benefits	(545)	(1,250)
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	69	(321)
Increase in allowance for Point Gift Certificates	527	703
Loss on adjustments of gift coupons, etc.	-	8,580
Increase (decrease) in allowance for loss on disposal of buildings and structures	2,379	(928)
Interest and dividend income	(3,549)	(1,451)
Interest expenses	2,851	1,549
Equity in gain of affiliated companies	(2,151)	(2,503)
Gain (loss) on sale of property and equipment, net	(3,567)	(1,603)
Loss on disposal of property and equipment	3,018	3,736
Gain (loss) on sale of securities, net	(832)	(4,036)
Write-down of investment securities	2	242
Gain on sale of consolidated subsidiaries	(1,417)	—
Increase in notes and accounts receivable	(9,989)	(23,382)
Increase in inventories	(284)	(2,253)
Increase in notes and accounts payable	1,921	697
Decrease in guarantee deposits	-	55,041
Other	2,000	(220)
Subtotal	36,689	79,832
Interest and dividend income received	4,165	3,122
Interest expense paid	(3,745)	(2,101)
Income taxes paid	(8,347)	(15,371)
Net cash provided by (used in) operating activities	28,762	65,480

II Cash flows from investing activities:		
Purchase of time deposits maturing after three months	(60)	(55)
Repayment of time deposits maturing after three months	60	55
Purchase of securities	(2,025)	(6,015)
Proceeds from sale of securities	11,056	4,415
Purchase of property and equipment	(29,543)	(47,621)
Proceeds from sale of property and equipment	7,812	3,693
Increase in long-term advances	(29)	(47)
Proceeds from collection of long-term advances	1,059	52
Other	1,593	0
Net cash provided by (used in) investing activities	(10,075)	(45,522)
III Cash flows from financing activities		
Net decrease in short-term bank loans	(50)	—
Proceeds from long-term bank loans	4,000	14,500
Repayment of long-term bank loans	(38,906)	(46,232)
Proceeds from issuance of bonds	-	10,000
Redemption of bonds	(8,000)	(10,000)
Proceeds from sale of treasury stock	3	5
Cash dividends paid	(2,856)	(3,299)
Proceeds from capital increase	30,055	—
Other	(94)	(98)
Net cash provided by (used in) financing activities	(15,848)	(35,125)
IIV Effect of exchange rate changes on cash and cash equivalents	527	110
V Increase (decrease) in cash and cash equivalents	3,365	(15,056)
VI Cash and cash equivalents at beginning of year	51,595	54,961
VII Cash and cash equivalents at end of year	54,961	39,905