Takashimaya Company, Limited

Takashimaya Reports Earnings for the Six Months ended August 31, 2011

Summary of Operating Results

Total consolidated sales and other operating revenue for the Takashimaya Group declined 3.0% from the year-ago period to 410,069 million yen. Consolidated operating income was up 13.5% to 9,069 million yen and consolidated ordinary income increased 6.8% to 10,789 million yen, while consolidated net income decreased 35.7% to 5,376 million yen.

In the first six months (March 1 – August 31, 2011) of the fiscal year ending February 2012, the Japanese economy was heavily impacted by the Great East Japan Earthquake of March 11, 2011. While the economy has since been recovering steadily, uncertainties such as the issue of electric power supply remain. However, the economy continues on a course to return to pre-disaster conditions.

Under its "Always by People," management philosophy, the Takashimaya Group is making steady progress, particularly with respect to the following three objectives.

- Consistently provide products and services that meet our customers' needs
- Proactively and accurately cooperate as a public institution to national and local requests
- Fulfill social responsibilities such as hiring new employees through efforts to earn stable profits

Factoring in the current situation, the Group updated its rolling long-term business plan, *New Strategies for Growth*, and undertook structural reforms and measures to bolster sales capabilities with a view to achieving the plan's new targets.

Amid this business environment, revenues from June onward were basically the same as the previous year, as the Group's core Department Stores segment gradually recovered from the impact of the disaster.

Segment Information

Operating performance by segment is discussed below. For comparative purposes, segment operating performance amounts for the same period of the previous fiscal year have been converted into reporting segments used for the second period of the current fiscal year.

Department Stores

In the Department Stores segment, sales and other operating revenue declined 3.2% from the year-ago period to 365,575 million yen, while operating income fell 20.5% to 4,053 million yen.

During the period, tepid consumer sentiment and rolling brownouts in the wake of the earthquake disaster had a significant impact on stores, particularly in the Kanto Region. However, from this year, the segment has assigned senior managers with purchasing authority to each store and instituted an overhaul of the purchasing framework to enable stores to more accurately and quickly respond to customer needs in each region. As a result, operating performance has been recovering since April. In particular, since June we have seen more diversification in consumption as shoppers are becoming increasingly price conscious, as well as a marked increase in sales of choice goods and jewelry in response to higher demand for bridal presents as people put more emphasis on bonds with other people.

Following its grand reopening in March, the Osaka Store has made thorough efforts to collect opinions from local customers and provide products and services to match their preferences and needs. As a result, thanks to the support of our customers, sales have steadily grown since April in spite of moves by competitors to expand existing outlets and open new stores. The Tachikawa Store has adopted a strategy of joint management in close cooperation with specialty retailers. In February, the store welcomed Otsuka Furniture, before adding Uniqlo as a new tenant in April. Combined with a full-store renovation, this has boosted its customer appeal, and the number of tenants has steadily grown.

In response to the calls for energy conservation, including the electricity use restrictions ordered this July in eastern Japan, the MD office worked with senior managers analyzing local needs at each store to provide products to help people conserve electric power, including "cool business" clothing and products that are cool to the skin. Also, the segment rolled out special goods commemorating Takashimaya's 180th anniversary and otherwise worked to bolster the product lineup as well as enhance marketing capabilities. For the summer gift-giving season, the stores, with the support of customers, collected goods to give to people in the Tohoku Region, shortened the period of special events held at stores to more effectively use both event space and store personnel, and otherwise bolstered marketing efficiency and reduced operating costs in an attempt to earn more operating income.

Overseas, Takashimaya Singapore Ltd. recorded growth in both revenue and profit amid the Singaporean economic recovery, as it captured consumer demand through proactive sales efforts.

Contract & Design

The Contract & Design segment's sales and other operating revenue was down 13.2% from the year-ago period to 7,166 million yen, while it incurred an operating loss of 79 million yen, narrower than the year-ago period's operating loss of 174 million yen.

Takashimaya Space Create Co., Ltd. saw a decline in revenue due to delays and suspensions of work on buildings following the earthquake, but ongoing structural reforms helped lower fixed costs, leading to a year-on-year contraction of its operating loss.

Real Estate

The Real Estate segment's sales and other operating revenue was up 3.9% from the year-ago period to 15,698 million yen, while its operating income was up 6.5% to 3,559 million yen.

Toshin Development Co., Ltd.'s revenues expanded on the opening of new Futako Tamagawa Rise Dogwood Plaza, along with a service to grant Takashimaya Card points at specialty retailers in Tamagawa Takashimaya Shopping Center. Additionally, efforts to streamline expenses to minimize the impact of the disaster helped boost both revenue and profit versus the year-ago period. Toshin Development Singapore Pte. Ltd. posted higher revenues and profits due to the strong performance of the Singapore Takashimaya Shopping Center.

Finance

The Finance segment's sales and other operating revenue declined 1.8% to 5,840 million yen, while operating income increased 62.3% to 1,557 million yen.

Takashimaya Credit Co., Ltd.'s revenues declined as transaction volume declined following the disaster, but operating income increased as it further raised cost efficiencies. Such efforts included a review of outsourcing costs and a reduction of credit losses by enhancing credit management.

Other

Sales and other operating revenue in the Other segment, including the Group's Cross Media Division, edged up 1.1% from the year-ago period to 15,788 million yen. The segment incurred an operating loss of 267 million yen, narrower than the year-ago period's operating loss of 1,283 million yen.

The Cross Media Division took advantage of the unique nature of its Internet catalog business to quickly meet the changing needs of consumers, many of whom refrained from going outside and looked online to buy items such as emergency supplies, water, and survival food. Also, the internet business bolstered its food products and living goods business, while in the area of cosmetics and other fashion mall goods, progress was made on efforts to leverage the strengths of stores.

Financial Condition

Assets, Liabilities, and Net Assets

Consolidated assets at the end of the second quarter (August 31, 2011) totaled 811,659 million yen, down 5,429 million yen from the end of the previous fiscal year (February 28, 2011), mainly due to a decrease in merchandise and products. Liabilities decreased 8,289 million yen from the end of the previous fiscal year, to 507,698 million yen, chiefly due to a decrease in gift certificates and long-term debt. Net assets totaled 303,960 million yen, up 2,860 million yen from the end of the previous fiscal year.

Cash Flows

Consolidated cash and cash equivalents at the end of the second quarter (August 31, 2011) totaled 82,569 million yen, up 12,289 million yen from the end of the previous fiscal year (February 28, 2011).

Net cash provided by operating activities was 23,923 million yen, an increase of 24,019 million yen from the year-ago period. This mainly reflects a decrease of 22,132 million yen in notes and accounts receivable.

Net cash used in investment activities was 8,282 million yen, an increase of 8,337 million yen from the year-ago period. This was mainly due to a 8,122 million yen decline in outlays for the purchase of tangible and intangible fixed assets, while proceeds from the sale of tangible and intangible fixed assets declined 12,899 million yen and proceeds from the sale of securities were down 2,941 million yen.

Net cash used in financing activities was 4,107 million yen, a 20,004 million yen change from net cash provided in the year-ago period. This was mainly due to a 8,325 million yen decline in expenditures from the repayment of long-term loans, which was offset by a 28,000 million yen decline in proceeds from long-term loans.

Consolidated Earnings Forecast

The business environment is gradually recovering toward pre-disaster levels. Accordingly, the Group has upwardly revised its forecasts for sales and other operating revenue, operating income, ordinary income and net income announced on June 24, 2011.

For details, refer to the press release titled “Takashimaya Announces Variances in Earnings Forecasts and Revisions to Earnings Forecasts and Dividend Forecasts,” dated October 7, 2011.

Consolidated Financial Statements

Balance Sheets

(million yen)

	As of August 31, 2011	As of February 28, 2011
	Amount	Amount
Assets		
Current assets	267,813	265,878
Cash and deposits	67,627	55,503
Notes and accounts receivable	123,769	121,263
Marketable securities	15,000	15,000
Merchandise and products	33,550	37,211
Work in process	479	771
Raw materials and supplies	563	584
Other	27,367	36,105
Allowance for doubtful accounts	(544)	(562)
Fixed assets	543,845	551,209
Tangible fixed assets	378,049	381,920
Buildings and structures, net	158,116	160,020
Land	208,718	208,772
Other, net	11,214	13,127
Intangible fixed assets	28,685	26,451
Goodwill	716	764
Other	27,969	25,686
Investments and other assets	137,109	142,838
Investment securities	75,693	79,528
Long-term guarantee deposits	42,272	43,613
Other	24,010	24,486
Allowance for doubtful accounts	(4,866)	(4,790)
Total assets	811,659	817,088

(million yen)

	As of August 31, 2011 Amount	As of February 28, 2011 Amount
Liabilities		
Current liabilities	319,683	304,198
Notes and account payable	86,638	87,248
Short-term bank loans	31,933	14,083
Income taxes payable	3,229	3,035
Advances received	76,936	76,871
Gift certificates outstanding	71,482	77,174
Allowance for point gift certificates	3,641	3,828
Asset retirement obligations	35	-
Other	45,786	41,957
Fixed liabilities	188,015	211,789
Corporate bonds	30,000	30,000
Long-term debt	67,687	87,679
Allowance for employees' retirement benefits	51,745	51,889
Allowance for directors' and corporate auditors' retirement benefits	256	244
Reserve for environmental measures	693	693
Asset retirement obligations	1,206	-
Other	36,425	41,284
Total liabilities	507,698	515,988
Net assets		
Shareholders' capital	289,582	285,854
Common stock	56,025	56,025
Additional paid-in capital	45,085	45,085
Retained earnings	189,001	185,272
Treasury stock	(529)	(528)
Valuation and translation adjustments	9,285	10,383
Net unrealized gains/losses on other securities	3,267	6,237
Net deferred gains/losses on hedge contracts	(13)	3
Land revaluation difference	7,980	7,998
Foreign currency translation adjustments	(1,949)	(3,856)
Minority interests	5,092	4,861
Total net assets	303,960	301,099
Total liabilities and net assets	811,659	817,088

Statements of Operations

(million yen)

	Six months ended August 31, 2010	Six months ended August 31, 2011
	Amount	Amount
Net sales	396,704	383,861
Cost of sales	293,197	284,186
Gross profit	103,507	99,675
Other operating revenue	26,023	26,207
Gross operating income	129,530	125,882
Selling, general and administrative expenses		
Advertising expenses	10,844	10,827
Provision for point gift certificates	1,862	1,727
Provision for doubtful accounts	962	558
Directors' compensation and salaries	34,422	32,669
Retirement benefit expenses	3,892	3,702
Rental expenses	19,470	18,909
Other	50,086	48,417
Total selling, general and administrative expenses	121,541	116,813
Operating income	7,989	9,069
Non-operating income		
Interest income	171	174
Dividend income	515	538
Equity in gains of affiliated companies	986	1,087
Other non-operating income	1,569	1,392
Total non-operating income	3,242	3,192
Non-operating expenses		
Interest expenses	852	792
Foreign exchange gain or loss	-	549
Other non-operating expense	278	130
Total non-operating expenses	1,131	1,473
Ordinary income	10,099	10,789
Extraordinary gains		
Reversal of allowance for doubtful accounts	-	15
Gain on sale of fixed assets	10,923	64
Gain on sales of investment securities	-	32
Total extraordinary gains	10,923	111
Extraordinary losses		
Loss on disposal of fixed assets	1,503	777
Additional early retirement benefits	1,580	583
Loss on change in equity interest	448	-
Loss on revaluation of investment securities	-	493
Loss of disaster	-	353
Effect of adoption of accounting standard for asset retirement obligations	-	369
Other	696	246
Total extraordinary losses	4,228	2,823
Net income before income taxes and minority interests	16,795	8,077
Income taxes, inhabitants' tax, and enterprise taxes	6,319	2,450
Income tax adjustments	1,961	(25)
Total income taxes	8,280	2,424
Income before minority interests	-	5,652
Minority interests in income	153	275
Net income	8,360	5,376

Statements of Cash Flows

(million yen)

	Six months ended August 31, 2010	Six months ended August 31, 2011
	Amount	Amount
I Cash flows from operating activities:		
Income before income taxes and minority interests	16,795	8,077
Depreciation	8,029	8,403
Amortization of goodwill	47	47
Increase (decrease) in allowance for doubtful accounts	839	57
Increase (decrease) in allowance for employees' retirement benefits	(2,363)	(143)
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	(19)	12
Increase (decrease) in allowance for point gift certificates	(8)	(186)
Increase (decrease) in allowance for loss on disposal of buildings and structures	-	(341)
Interest and dividend income	(686)	(713)
Interest expenses	852	792
Equity in (gains) losses of affiliated companies	(986)	(1,087)
(Gain) loss on sale of fixed assets	(10,921)	(62)
Loss on disposal of fixed assets	1,000	521
(Gain) loss on revaluation of investment securities	-	493
Effect of adoption of accounting standard for asset retirement obligations	-	369
(Increase) decrease in notes and accounts receivable trade	(26,367)	(4,235)
(Increase) decrease in inventories	2,751	3,998
Increase (decrease) in trade account payable	4,782	(543)
(Increase) decrease in accrued revenue	-	9,951
Other	6,014	(227)
Subtotal	(240)	25,183
Interest and dividend income received	1,499	1,606
Interest expense paid	(739)	(809)
Income taxes paid	(2,665)	(2,283)
Income taxes refunded	2,050	225
Net cash provided by (used in) operating activities	(95)	23,923
II Cash flows from investing activities:		
Purchase of time deposits maturing after three months	(48)	(48)
Repayment of time deposits maturing after three months	36	220
Purchase of securities	(6)	(12)
Proceeds from sale of securities	3,000	58
Purchase of stocks of subsidiaries and affiliates	-	(758)
Purchase of tangible and intangible fixed assets	(16,061)	(7,939)
Proceeds from sale of tangible and intangible fixed assets	13,023	133
Other	111	63
Net cash provided by (used in) investing activities	54	(8,282)
III Cash flows from financing activities		
Proceeds from long-term bank loans	30,000	2,000
Repayment of long-term bank loans	(12,466)	(4,141)
Cash dividends paid	(1,649)	(1,649)
Other	13	(316)
Net cash provided by (used in) financing activities	15,897	(4,107)

IV	Effect of exchange rate changes on cash and cash equivalents	(1,160)	754
V	Increase (decrease) in cash and cash equivalents	14,696	12,289
VI	Cash and cash equivalents at beginning of period	55,963	70,279
VII	Increase in cash and cash equivalents due to newly consolidated subsidiaries	235	-
VIII	Cash and cash equivalents at end of period	70,894	82,569

Notes on the Going-concern Assumption

Not applicable

Segment information

Business segment information for March 1 – August 31, 2010

(million yen)

	Department Stores	Contract & Design	Real Estate	Finance	Other	Total	Elimination and corporate	Consolidated
Sales and other operating revenue:								
Outside customers	377,799	8,255	15,114	5,944	15,613	422,727	–	422,727
Intersegment	2,967	1,086	2,715	2,045	15,155	23,970	(23,970)	–
Total	380,766	9,342	17,830	7,990	30,768	446,698	(23,970)	422,727
Operating income (loss)	5,100	(174)	3,343	959	(1,283)	7,946	42	7,989

Notes: 1. Business operations are categorized based on the type and use of merchandise and services involved into the Department Stores, Contract & Design, Real Estate, and Finance segments.

2. The Other segment mainly consists of the mail-order business, the wholesale business, and the sewing and processing business.

3. Effective the first quarter of the fiscal year ended February 28, 2011, the Company adopted the *Accounting Standard for Construction Contracts (ASBJ Statement No. 15)* and its associated *Guidance on the Accounting Standard for Construction Contracts (ASBJ Guidance No. 18)*. Due to this change, in the Contract & Design segment, operating income was 1,497 million yen higher and operating loss was 136 million yen lower than would have resulted with the previous accounting method.

Geographical segment information for March 1 – August 31, 2010

Geographical segment information is omitted from disclosure, as operating revenue in Japan exceeds 90% of the total operating revenue.

Overseas sales for March 1 – August 31, 2010

Overseas sales information is omitted from disclosure, as overseas sales account for less than 10% of the consolidated operating revenue.

Segment information

Additional information

Effective the first quarter of the fiscal year ending February 28, 2012, the Company adopted the *Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information* (ASBJ Statement No.17 (Revised 2009)) and its accompanying *Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* (Guidance No. 20, March 21, 2008).

1. Overview of reportable segments

The Company's reportable segments are components of the Company about which separate financial information is available. These segments are subject to periodic examinations to enable the Company's board of directors to decide how to allocate resources and assess performance.

The Group's business, consisting mainly of Department Stores operations, is classified into reportable segments based on service categories and service delivery methods. Reportable segments are the Department Stores segment, the Contract & Design segment, the Real Estate segment, and the Finance segment.

The Department Stores segment mainly sells apparel, personal items, household goods, utensils, food items, etc. The Contract & Design segment receives and undertakes orders for interior renovations and other such work. The Real Estate segment provides real estate management services and operates shopping malls and related facilities. The Finance segment issues credit cards and is engaged in the Takashimaya Group companies' financial business.

2. Sales and income/loss by reportable segment for March 1 – August 31, 2011

(million yen)

	Reportable segment					Other *1	Total	Adjust-ments *2	Amounts reported on the consolidate statements of operations *3
	Depart-ment Stores	Contract & Design	Real Estate	Finance	Total				
Sales and other operating revenue:									
Outside customers	365,575	7,166	15,698	5,840	394,280	15,788	410,069	—	410,069
Intersegment	2,945	884	2,513	1,931	8,275	15,231	23,506	(23,506)	—
Total	368,520	8,051	18,211	7,771	402,555	31,019	433,575	(23,506)	410,069
Segment income (loss)	4,053	(79)	3,559	1,557	9,090	(267)	8,822	246	9,069

Notes: 1. "Other" represents business segments that are not included in the reportable segments and consists of the mail-order business, the whole sale business, and the sewing and processing business.

2. Segment income of 246 million yen under "Adjustments" is the amount resulting form eliminations of inter-segment transactions.

3. Segment income adjustments are based on operating income reported on the quarterly consolidated statements of operations for the corresponding period.

3. Impairment loss on fixed assets or goodwill by reportable segment

Not applicable

Notes on significant changes in shareholders' capital

Not applicable