Takashimaya Company, Limited

Takashimaya Reports Earnings for the Six Months Ended August 31, 2010

Tokyo, Japan, October 12, 2010—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated sales and other operating revenue of 422,727 million yen for the first half (ended August 31, 2010) of the fiscal year ending February 28, 2011, and net income of 8,360 million yen, or 25.34 yen per share.

Summary of Operating Results

Total consolidated sales and other operating revenue for the Takashimaya Group decreased 1.4% from the year-ago first half to 422,727 million yen. Operating income rose 53.2% to 7,989 million yen, and ordinary income rose 39.4% to 10,099 million yen. Net income surged 172.0% to 8,360 million yen.

The Japanese economy staged a moderate recovery during the fiscal first half, but the overall economic environment, marked by instability in international financial markets and the yen's rapid appreciation, is not overly conducive to optimism.

In light of current economic conditions, the Takashimaya Group is pushing ahead with structural reforms and measures to bolster sales capabilities with a view to achieving financial targets set out in its long-term business plan, titled *New Strategies for Growth.*

Amid this operating environment, the Group's core Department Stores segment appears to be on a recovery path and the Group's overall operating performance is improving steadily.

Segment Information

Department Stores

Sales and other operating revenue in the Department Stores segment decreased 2.1% from the year-ago first half to 377,799 million yen. Operating income surged 363.3% to 5,100 million yen.

The Osaka store enjoyed steady sales growth after opening the first phase of its enlarged sales floor in March, ahead of the store's grand reopening scheduled for spring 2011. The Shinjuku store welcomed new tenants in April. By tapping into synergies between those tenants and its department store operations, it boosted customer traffic and benefited from the "shower effect" (whereby shoppers are first drawn to upper floors from where they "flow down" and shop through the floors below). The Okayama store initiated structural reforms upon entering into a capital alliance with Ryobi Holdings Co., Ltd. in April.

The Group worked to build product lineups that are precisely tuned to local customers' preferences, including by enhancing the capabilities of individual stores' retail buyers and by assigning merchandising managers to large stores. The Group also staged local customer-centric events, such as a campaign at the Kyoto store encouraging shoppers to rediscover quality Kyoto products and a *yukata* (summer kimono) fashion show in collaboration with local companies at the Kashiwa store.

The Group stepped up efforts to bolster sales by providing meticulous customer service. For example, to attract foreign tourists, whose numbers are growing rapidly, the Group assigned personnel with foreign language skills exclusively to accompany and assist such shoppers during their visits to large stores, including the Shinjuku and Osaka stores. These measures to increase sales yielded a year-over-year increase in domestic department stores' customer traffic in the fiscal first half and helped to attenuate the revenue decline.

Overseas, Takashimaya Singapore Ltd. recorded growth in both revenue and earnings, despite intensified competition, reflecting the success of its proactive efforts to boost sales, such as the introduction of new brands.

Contract & Design

Sales and other operating revenue in the Contract & Design segment grew 24.7% versus the year-ago first half to 8,255 million yen, while operating loss narrowed to 174 million yen from 460 million yen in the year-ago first half.

Group company Takashimaya Space Create Co., Ltd. posted double-digit growth in sales and other operating revenue versus the year-ago first half after booking various large orders, including second phase renovation works for the Osaka store and interior works for hotels and offices. The segment continued working to cut costs, mainly fixed costs, which also helped to reduce its operating loss.

Real Estate

In the Real Estate segment, sales and other operating revenue increased 1.9% to 15,114 million yen. Operating income amounted to 3,343 million yen, unchanged from the year-ago first half.

Group company Toshin Development Co., Ltd.'s revenue increased as a result of the opening of a new restaurant area as part of the Osaka store enlargement project and an event celebrating the 40th anniversary of Tamagawa Takashimaya Shopping Center. Efforts to reduce costs, such as personnel and advertising expenses, and the addition in March of newly established local subsidiary Toshin Development Singapore Pte. Ltd. (formerly Toshin Development's Singapore branch), also contributed to growth in both revenue and earnings.

We booked an operating loss associated with the liquidation of Takashimaya Fifth Avenue Corporation in New York.

Finance

Sales and other operating revenue increased 7.1% versus the year-ago first half to 5,944 million yen, and operating income rose 19.3% to 959 million yen.

Takashimaya Credit Co., Ltd. recorded revenue growth due to increased revenue from external handling charges and annual membership fees as a result of an increase in the number of cardholders and a recovery in shopping transaction volume. The revenue increase more than offset an increase in expenses, which included bad debt-related expenses and one-time charges due to legislative changes. Revenue and earnings were both up versus the year-ago first half.

Other

Sales and other operating revenue in the Other segment (which includes the Group's Cross Media business) were down 2.0% versus the year-ago first half to 15,613 million yen, resulting in an operating loss of 1,283 million yen, compared with operating income of 402 million yen in the year-ago first half.

Merging its mail-order and online operations, the Group set up its Cross Media Division in September 2009 to bolster its sales capabilities and radically review its expenses structure. However, mainstay catalogue orders remained weak, resulting in an overall fall in operating revenue for the segment versus the year-ago first half. An increase in expenditures associated with the establishment of Takashimaya Service Co., Ltd., an amalgamation of several functional subsidiaries, also contributed to the segment's operating loss.

Financial Condition

Assets, Liabilities, and Net Assets

Consolidated assets at the end of the fiscal first half (August 31, 2010) totaled 817,166 million yen, an increase of 32,067 million yen from the end of the previous fiscal year (February 28, 2010). This mainly reflects an increase in notes and accounts receivable and land. Total consolidated liabilities increased 28,258 million yen to 522,117 million yen. This was mainly due to an increase in long-term debt and notes and accounts payable. Consolidated net assets rose 3,809 million yen from the end of the previous fiscal year to 295,048 million yen.

Cash Flows

Consolidated cash and cash equivalents at the end of the fiscal first half amounted to 70,894 million yen, an increase of 14,931 million yen from the end of the previous fiscal year.

Net cash used in operating activities was 95 million yen, which represents a decrease of 16,559 million yen from the year-ago first half. This was primarily due to an 11,419 million yen increase in income before income taxes and minority interests, a net increase in notes and accounts payable of 4,051 million yen, and a net decrease in notes and accounts receivable of 39,336 million yen.

Net cash provided by investing activities was 54 million yen, an 8,384 million yen reversal versus the year-ago first half's net outflow. This was primarily due to a 4,448 million yen year-over-year increase in the acquisition of tangible and intangible fixed assets and a 12,861 million yen increase in the sale of tangible and intangible fixed assets.

Net cash provided by financing activities was 15,897 million yen, an increase of 8,433 million yen from the year-ago first half. This was primarily due to a 13,000 million yen decrease in outlays reflecting that commercial paper was unchanged during the fiscal first half, a 5,000 million yen increase in long-term loans, and a 9,651 million yen increase in repayments of long-term loans.

Full-year Outlook

Consolidated Performance Forecast

For the full fiscal year ending February 28, 2011, the Group has raised its forecasts of consolidated sales and other operating revenue and ordinary income from the previous forecast announced on June 28, 2010. Full-year operating income and net income forecasts remain unchanged.

Consolidated Financial Statements

Balance Sheets

(million yen)

	As of August 31, 2010	As of February 28, 2010
	Amount	Amount
Assets		
Current assets	269,513	239,816
Cash and deposits	56,131	56,011
Notes and accounts receivable	127,587	102,200
Marketable securities	15,000	3,000
Merchandise and products	38,040	39,665
Work in process	1,843	2,945
Raw materials and supplies	560	608
Other	30,816	35,881
Allowance for doubtful accounts	(466)	(497)
Fixed assets	547,652	545,282
Tangible fixed assets	383,345	381,943
Buildings and structures, net	160,583	162,591
Land	208,240	201,608
Other, net	14,521	17,744
Intangible fixed assets	24,576	19,417
Goodwill	811	859
Other	23,764	18,557
Investments and other assets	139,730	143,921
Investment securities	73,627	79,394
Long-term guarantee deposits	43,469	42,760
Other	28,321	26,582
Allowance for doubtful accounts	(5,687)	(4,816)
Total assets	817,166	785,098

(million yen)

	As of August 31, 2010	As of February 28, 2010
	Amount	Amount
Liabilities		
Current liabilities	305,929	302,444
Notes and account payable	90,407	85,684
Short-term bank loans	16,268	24,593
Accrued income taxes	6,522	3,202
Advances received	77,895	77,020
Gift certificates outstanding	65,581	59,489
Allowance for point gift certificates	3,733	3,742
Other	45,520	48,710
Fixed liabilities	216,187	191,415
Corporate bonds	30,000	30,000
Long-term debt	91,820	65,962
Allowance for employees' retirement benefits	53,020	55,383
Allowance for directors' and corporate auditors' retirement benefits	232	251
Other	41,113	39,817
Total liabilities	522,117	493,859
Net assets		
Shareholders' capital		
Common stock	56,025	56,025
Additional paid-in capital	45,085	45,085
Retained earnings	181,432	174,741
Treasury stock	(520)	(514)
Total shareholders' capital	282,022	275,336
Valuation and translation adjustments		
Net unrealized gains/losses on other securities	3,198	6,048
Net deferred gains/losses on hedge contracts	(28)	(12)
Land revaluation difference	7,998	7,998
Foreign currency translation adjustments	(2,750)	(1,973)
Total valuation and translation adjustments	8,417	12,060
Minority interests	4,608	3,842
Total net assets	295,048	291,239
Total liabilities and net assets	817,166	785,098

Statements of Operations

(million yen)

	Six months ended August 31, 2010	Six months ended August 31, 2009
	Amount	Amount
Net sales	396,704	403,630
Cost of sales	293,197	296,097
Gross profit	103,507	107,532
Other operating revenue	26,023	25,234
Gross operating income	129,530	132,766
Selling, general and administrative expenses		
Advertising expenses	10,844	11,497
Provision for point gift certificates	1,862	1,616
Provision for doubtful accounts	962	843
Directors' compensation and salaries	34,422	38,353
Retirement benefit expenses	3,892	4,127
Rental expenses	19,470	20,291
Other	50,086	50,821
Total selling, general and administrative expenses	121,541	127,553
Operating income	7,989	5,213
Non-operating income and expenses		
Interest income	171	192
Dividend income	515	513
Equity in gains of affiliated companies	986	644
Other non-operating income	1,569	1,936
Total non-operating income	3,242	3,285
Interest expense	852	854
Other non-operating expense	278	400
Total non-operating expenses	1,131	1,254
Ordinary income	10,099	7,244
Extraordinary gains		
Gain on sale of fixed assets	10,923	-
Gain on reversal of allowance for loss on disposal of buildings and structures	-	214
Other	-	95
Total extraordinary gains	10,923	309
Extraordinary losses		
Loss on disposal of fixed assets	1,503	764
Write-down of inventories	-	995
Additional early retirement benefits	1,580	317
Loss on change in equity interest	448	-
Other	696	101
Total extraordinary losses	4,228	2,178
Net income before income taxes	16,795	5,375
Income taxes, inhabitants' tax, and enterprise taxes	6,319	2,646
Income tax adjustments	1,961	(514)
Total income taxes	8,280	2,131
Minority interests in earnings of consolidated subsidiaries	153	169
Net income	8,360	3,073

Statements of Cash Flows

(million yen)

	Six months ended August 31, 2010	Six months ended August 31, 2009
	Amount	Amount
I Cash flows from operating activities:		
Income before income taxes and minority interests	16,795	5,375
Depreciation	8,029	7,901
Amortization of goodwill	47	47
Increase (decrease) in allowance for doubtful accounts	839	581
Increase (decrease) in allowance for employees' retirement benefits	(2,363)	(223)
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	(19)	(32)
Increase (decrease) in allowance for point gift certificates	(8)	(241)
Increase (decrease) in allowance for loss on disposal of buildings and structures	-	(810)
Interest and dividend income	(686)	(705)
Interest expenses	852	854
Equity in (gain) loss of affiliated companies	(986)	(644)
(Gain) loss on sale of fixed assets	(10,921)	-
Loss on disposal of property and equipment	1,000	613
(Increase) decrease in notes and accounts receivable	(26,367)	12,968
(Increase) decrease in inventories	2,751	2,468
Increase (decrease) in notes and accounts payable	4,782	730
Other	6,014	(11,365)
Subtotal	(240)	17,518
Interest and dividend income received	1,499	1,336
Interest expense paid	(739)	(484)
Income taxes paid	(2,665)	(1,906)
Income taxes refunded	2,050	-
Net cash provided by (used in) operating activities	(95)	16,464
II Cash flows from investing activities:		
Purchase of time deposits maturing after three months	(48)	(37)
Repayment of time deposits maturing after three months	36	3,453
Purchase of securities	(6)	(6)
Proceeds from sale of securities	3,000	-
Purchase of tangible and intangible fixed assets	(16,061)	(11,613)
Proceeds from sale of tangible and intangible fixed assets	13,023	-
Other	111	(125)
Net cash provided by (used in) investing activities	54	(8,329)
III Cash flows from financing activities		
Proceeds from long-term bank loans	30,000	25,000
Repayment of long-term bank loans	(12,466)	(2,814)
Increase (decrease) in commercial papers	-	(13,000)
Cash dividends paid	(1,649)	(1,649)
Other	13	(71)
Net cash provided by financing activities	15,897	7,463
IV Effect of exchange rate changes on cash and cash equivalents	(1,160)	599
V Increase (decrease) in cash and cash equivalents	14,696	16,197
VI Cash and cash equivalents at beginning of period	55,963	27,750
VII Increase in cash and cash equivalents due to newly consolidated subsidiaries	235	-
VIII Cash and cash equivalents at end of period	70,894	43,947

Notes on the Going-concern Assumption

Not applicable

Segment information

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 ending February 28, 2011, the Company adopted the *Accounting Standard for Construction Contracts (ASBJ Statement No. 15)* and its accompanying *Guidance on the Accounting Standard for Construction Contracts (ASBJ Guidance No. 18)*. Due to this change, for the six months ended August 31, 2010, in the Contract & Design business, 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.

Segment information for March 1 – August 31, 2009

(million yen)

	Department Stores	Contract & Design	Real Estate	Finance	Other	Total	Elimination and corporate	Consolidated
Sales and other operating revenue:								
Outside customers	385,927	6,622	14,828	5,551	15,933	428,864	-	428,864
Intersegment	2,873	1,849	2,871	2,119	15,926	25,641	(25,641)	-
Total	388,801	8,472	17,700	7,671	31,860	454,505	(25,641)	428,864
Operating income (loss)	1,101	(460)	3,344	804	402	5,192	21	5,213

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.