Interim 2017/02 Financial Results

Takashimaya

7 October 2016

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Summary

Consolidated performance down 1.4%, operating income same as previous year

- Domestic department stores experienced a decrease in revenue, but an increase in profits reflecting cuts in expenses
- Domestic group business generally performed well
- Overseas business struggled due to the high yen

Domestic department stores performance down 0.8%, operating revenue up 9.1%

- Inbound sales were positive, but expensive goods negative
- Failure to meet targets despite improvement in product margin
- Continued efforts to cut SG&A expenses, resulting in increase in operating and ordinary profits

Consolidated Performance

*Figures released in April 12, same applies hereafter

(billion JPY)	1H	Year-on-year		Change from Projection*	
Operating Revenue	443.3	-6.5	-1.4%	-14.2	-3.1%
SG&A Expenses	119.9	-1.9	-1.5%	-3.2	-2.6%
Operating Income	13.8	0.0	-0.3%	-0.1	-0.9%
Ordinary Income	15.1	-1.2	-7.1%	-0.7	-4.7%
Net Income	8.5	-2.6	-23.2%	-1.5	-15.2%

- Operating revenue down because of decline in domestic department stores performance and impact of high yen on overseas business
- However, operating income improved because the poor performance of domestic department stores was offset by dynamic initiatives to cut SG&A expenses; consequently, operating income maintained same level as previous year.
- Ordinary and net income were down and fell short of targets. The former was down because of a foreign exchange loss affecting Shanghai Takashimaya Co., Ltd.'s borrowings in Singapore dollars, and the latter because of a reactionary decline following the previous year's gain on sales of short-term investment securities.

Consolidated SG&A expenses

(billion JPY)	1H	Change from Preceding Fiscal Year	Year-on-year
Personnel related expenses	41.1	-0.7	-1.8%
Advertising expenses	13.3	-0.9	-6.3%
General affairs expenses	44.1	-0.1	-0.2%
Accounting related expenses	21.4	-0.2	-0.8%
Total	119.9	-1.9	-1.5%

- Consolidated SG&A expenses benefitted from the success of the domestic department stores' dynamic initiatives to cut selling, general and administrative expenses; there was an improvement in cost-effectiveness across the board.
- Personnel related expenses and advertising expenses declined, particularly among domestic department stores.
- Thanks to cost-cutting among domestic department stores, general affairs expenses were down compared to the previous year, including anticipated costs of developing new businesses such as Takashimaya Ho Chi Minh City.
- Accounting related expenses increased among domestic department stores because of the development of new facilities, but it decreased among overseas businesses because of the high yen.

Performance of the Domestic Department Store Segment

(billion JPY)	1H	Year-on-year		Change from Projection*	
Operating Revenue	364.5	-3.0	-0.8%	-9.5	-2.5%
Sales	359.3	-3.0	-0.8%	-9.5	-2.6%
Gross Margin	24.37%	-0.22		-0.09	
SG&A Expenses	89.0	-1.8	-2.0%	-2.7	-3.0%
Operating Income	3.8	+0.3	9.1%	+0.0	1.3%
Ordinary Income	6.9	+0.2	3.3%	+0.3	4.5%
Net Income	4.2	-1.5	-25.8%	-0.6	-12.5%

- Despite a year-on-year increase in inbound demand, operating revenue was down, reflecting a year-on-year decline in expensive goods sales, which occurred because of factors such as an adverse assets-effect prompted by unstable market conditions.
- Despite an improvement in product margin decline following improvement measures, product margin fell short of the targeted figure
- Operating and ordinary income improved and exceeded targets. This result was attributable to the fact that planned increases in SG&A expenses, which were premised on increased revenue, were dynamically cut in areas of decreasing revenue.
- Net income declined because of a reactionary decline following the previous year's gain on sales of short-term investment securities.

SG&A Expenses in the Domestic Department Store Segment

(billion JPY)	1H	Year-on-year		Change from Projection*	
Personnel related expenses	29.8	-0.9	-2.8%	-0.6	-2.0%
Advertising expenses	12.7	-0.8	-5.6%	-0.6	-4.5%
General affairs expenses	32.7	-0.4	-1.3%	-1.3	-3.8%
Accounting related expenses	13.8	+0.3	+1.9%	-0.2	-1.4%
Total	89.0	-1.8	-2.0%	-2.7	-3.0%

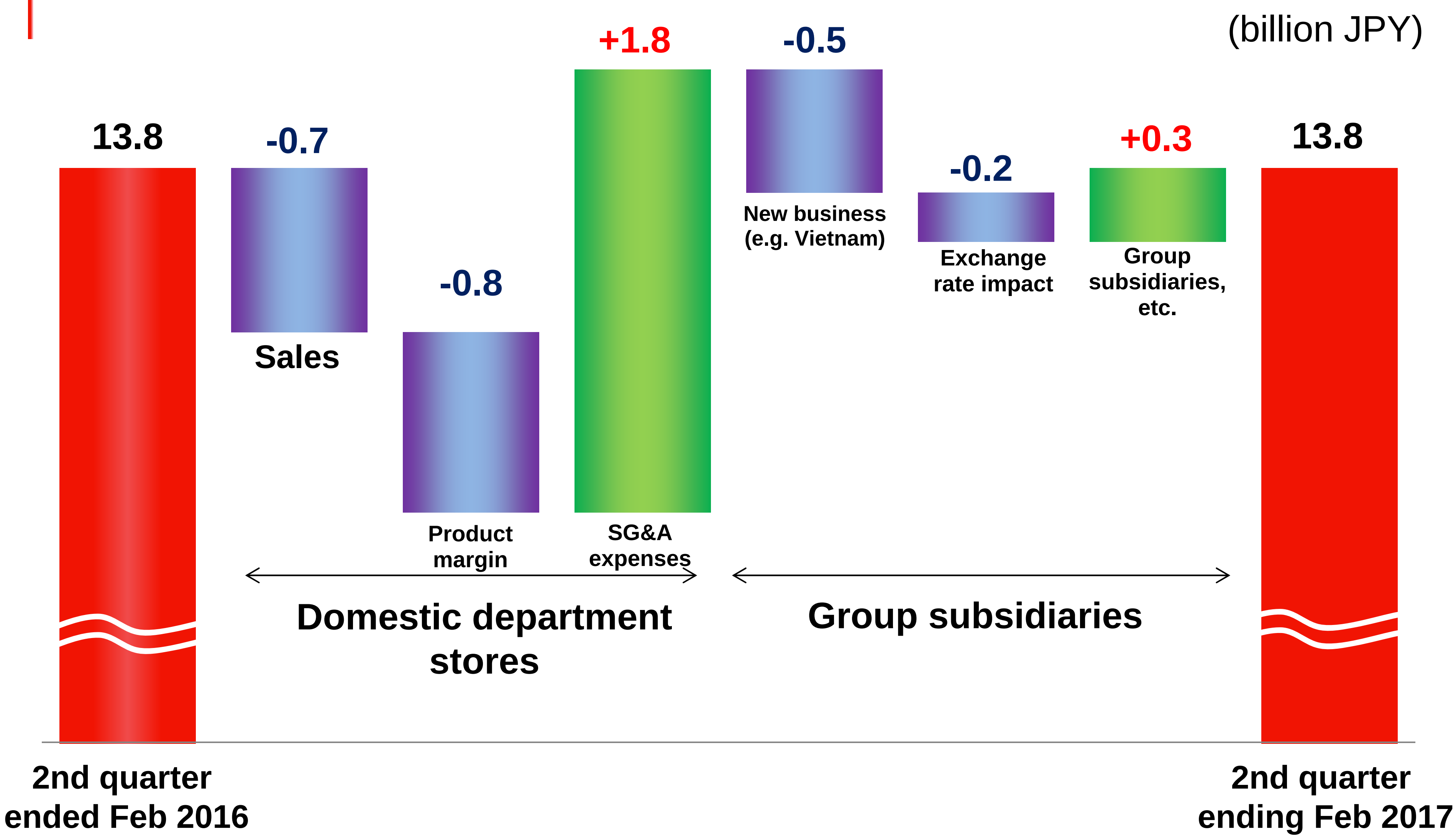
- Regarding SG&A expenses at domestic department stores, efforts to cut costs further resulted in an improvement in cost-effectiveness.
- Personnel related expenses were reduced from the previous year's level and held within the targeted figure. This result was achieved because of a concerted effort to improve labor efficiency, which included restrictions on temporary workers.
- Advertising expenses were reduced below the previous year's/targeted figure following the streamlining of advertising expenses and point expenses.
- General affairs expenses were revised, particularly with respect to repair costs, utilities, and general affairs expenses.
- Accounting related expenses increased year-on-year following the development of new facilities such as Takashimaya Watch Maison. However, they remained within the targeted range.

Performance of Each Company

(billion JPY)	Operating Revenue	Year-on-yea	Change from Projection*	Operating Revenue	Year-on-year	Change from Projection*
Toshin Development Co., Ltd.	**17.7**	+0.6 +3.5%	-0.1 -0.6%	**4.2**	+0.2 +6.0%	+0.1 +2.7%
Toshin Development Singapore Pte, Ltd. (local currency basis)	**4.6** 56 mil.	-0.2 -3.2% +6.5%	-0.1 -2.4% -1.2%	**1.3** 17 mil.	+0.2 +13.0% +24.3%	+0.0 +0.2% +1.3%
Takashimaya Singapore Ltd. (local currency basis)	**25.3** 311 mil.	-3.0 -10.5% -1.6%	-1.4 -5.4% -4.3%	**1.4** 17 mil.	-0.6 -28.4% -21.2%	-0.3 -19.3% -18.4%
Shanghai Takashimaya Co., Ltd. (local currency basis)	**3.2** 189 mil.	-0.4 -11.9% +0.2%	-0.3 -9.7% -8.2%	**-0.5** -32 mil.	+0.1 - -	-0.1 - -
Takashimaya Credit Co., Ltd.	**8.8**	+0.2 +1.9%	-0.1 -0.8%	**2.3**	+0.1 +5.7%	+0.1 +4.8%
Takashimaya Space Create Co., Ltd. (including Takashimaya Space Create Tohoku)	**16.5**	+1.9 +13.2%	-0.0 -0.3%	**0.9**	+0.1 +13.5%	+0.0 +1.7%

- Toshin Development Co., Ltd. improved its revenue and profits primarily because of strong performance among the principal shopping centers.
- TDS achieved an improvement in performance following the success of its sales strategy, including renovation work, which averted the effects of the high yen.
- Takashimaya Singapore Ltd. experienced a decline in performance due to factors such as the impact of the high yen and additional processes connected with Singapore’s Singapore Goods and Services Tax (GST Tax).

Factors Contributing to Changes in Consolidated Operating Income



Takashimaya

1. 2nd quarter results

2. **Management strategy and trends of key businesses**
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3. Full Year Projections

Group-wide Strategy: "Machi-dukuri" Strategy

Group-wide strategy for pursuing customer satisfaction and meeting a wide range of needs

Playing role of anchor of local community

<Co-creation with communities>
- Collaborate with government bodies
- Cooperate with local commercial facilities
- Collaborate in redevelopment planning
- Cooperate with railway companies

Maximize appeal of the building

[Takashimaya's unique commercial facility-building]

Integrate department stores with specialty stores by leveraging Toshin Development Co., Ltd.'s expertise in commercial facility production

Department stores

Specialty stores

[Merchandise lineup]

Achieve an extensive lineup; this will feature an optimum mix of sales areas that embody department stores' curatorial ability, and specialist stores that capture trends and offer high freshness.

[Services]

Ensure the high standard of service expected of department stores is present throughout the buildings

[Environment]

Leverage Toshin Development Co., Ltd.'s special knowhow in spatial presentation and facility management

"Machi-dukuri" Strategy:
Bringing out the Appeal of Buildings

Ensuring that facilities in Japan and overseas are managed optimally and achieve maximum effectiveness

<Department stores + Specialist stores>

Sales in first half of fiscal year: 458 billion yen

Operating income in first half of fiscal year: 11.5 billion yen, consolidated share of 80% or more

－Progress made in the pursuit of "Machi-dukuri" in collaboration with Toshin Development Co., Ltd. －

Tachikawa

Managed by Toshin Tatemono from second half of 2015

Ho Chi Minh City

Opened in July 2016

Shinjuku

Managed by Toshin Tatemono from second half of 2016

Konandai

Nitori store introduced in September 2016

Nihombashi

To be revamped as new city style shopping center in 2018

"Machi-dukuri" Strategy

Takashimaya Times Square, Shinjuku

Completion of Shinjuku Station South Gate area infrastructure business

- Steady growth in number of stores introduced since completion of renovation; number of store visitors in first half: +5.3%
- Sales up in restaurant area and basement levels; gross sales in first half: +0.5%

Switch to new management scheme led by Toshin Development Co., Ltd.

- Toshin Development Co., Ltd. will organize unified management of entire building (from September)

Enhance the appeal of entire building in conjunction with 20th anniversary

- Annex (B building)'s major refurbishment effect to be extended throughout entire building
  - September: Kinokuniya Bookstore Southern Theater TAKASHIMAYA
  - December: Introduce Nitori store
- Attract many new customers, including d POINT CLUB members, implement sales growth measures

"Machi-dukuri" Strategy

Nihombashi Redevelopment Plan

"Machi-dukuri" in the Nihombashi area based on new urban shopping center concept

Autumn 2018	**Opening of C zone (**17,000m^2 **specialist store area)**
Spring 2019	**Renovation of department store, opening of all zones**

- Increase specialist store area in the zones adjacent to Nihombashi Takashimaya and create new buildings to complement the department store. Toshin Development Co., Ltd. will spearhead these efforts.

- Enhance shopping center as a whole, including with respect to services and environmental facilities (carpark for customers, rooftop greenification, etc.).

Outdoor design by SOM *
*Leading US architecture and interior design firm

"Machi-dukuri" Strategy

Regional/Suburban Store Policy

Pursue sales structure reform with a “machi-dukuri” perspective

- Pursue store-creation that is closely tied to local area/administration
- Leverage Toshin Development Co., Ltd.’s expertise in commercial facility production(introduction of specialist stores, operation/management of buildings)
- Collaborate in procurement with large stores, including spinoff stores; consolidate managerial operations

Nitori introduced in Konandai Store (September)

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Domestic Department Store Business (Department store sales structure reform)

Ⅰ. Execute Product Margin Improvement Plan

- Set profitability so that is mutually beneficial to Takashimaya and its business partners
- Revise management of merchandise with enhanced features
- Revise priority sales

Ⅱ. Improve Business Cost-effectiveness

- Optimum deployment of personnel
- Reform distribution structure
- Optimize building maintenance costs
- Reform outsourcing operations

Ⅲ. Establish pillar for higher profits

- Expand presence in inbound and Asian market
- Increase connection points with Customers through business alliances
- Step up efforts to develop Omni-channel
- Take steps to capture more of the wealthy clientele market

Domestic Department Store Business

Improvement of product margin

First half of FY2016: **Improved product margin, surpassed 700 million**

- Set profitability so that is mutually beneficial to Takashimaya and its business partners
- Revise management of merchandise with enhanced features
- Secure product margin by revising priority sales

Resolutely implement department store business structure reform, improve product margin

Domestic Department Store Business

Efforts to Capture Inbound Demand

FY2016 target	**31.4 billion yen**	**+5.3%YOY**
Performance in first half of FY2016	**15.2 billion yen**	**+5.8%YOY**

Duty-free sales performance of department stores nationwide* -14.2%YOY

* Aggregate figures from March-August survey conducted by Japan Department Stores Association

Enhance services and attract more customers through business alliances

- Extend range of payment services, including Alipay and WechatPayment
- Attract more visitors through collaboration with Chinese online travel agency, Ctrip, and NTT DOCOMO
- Plan to tailor 11th floor of Takashimaya Shinjuku to inbound customers, consider revising the airport-style duty-free shop plan (Downward revision of first year's sales targets from 15 billion yen to 9-10 billion yen)

A&S TAKASHIMAYA
DUTY FREE

Joint venture established between ANA Trading, Hotel Shilla, and **Takashimaya to collaborate in airport-style duty-free shopping business**

Domestic Department Store Business

Increase Connection Points

Attracting many new customers through alliance with NTT DOCOMO

Reaching out to the 58 million-strong d POINT CLUB membership

- Point system collaboration
  (Commenced April, d card sales in first half: +75.3%YOY)
- Joint development of marketing strategy

Commence loyalty marketing collaboration (October)

Reach out to the 77 million-strong Ponta membership, increase connection points further

Tomonokai: Win new members, encourage them to be active members

Number of new members gained in first half: approximately 60 thousand (+81%YOY)

Domestic department store business

Omni-channel Strategy

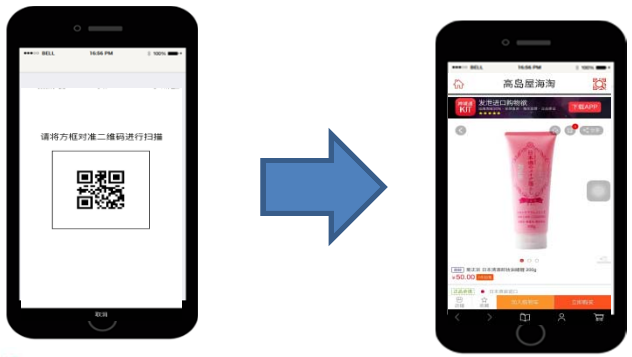
FY2016 sales target 13 billion yen ＋14%YOY
Performance in first half of FY2016 5.3 billion +9.2%YOY

Expand functions of the main e-commerce site “Online Store”

Expand functions of exclusive website for out-of-store sales customers “Takashimaya e-salon”

Commence cross-selling of Japanese goods through electronic transactions (scheduled to commence in October)

- Dedicated app for ordering and payment; work together with overseas stores to capture demand



<Presentation of product/QR codes>

- Introduce to visitors from overseas
- Show samples in Shanghai Takashimaya Co., Ltd.
- Introduce on Shanghai Takashimaya Co., Ltd. website

Domestic Department Store Business

Efforts to Capture Wealthy Clientele Market

Opening of Watch Maison Osaka (November)

- Largest watch store in Japan, featuring extensive product line-up and high-quality service (62 brands, approximately 3,000 products)
- Two-site system (Kanto and Kansai) to capture demand across country
- With Nihombashi store, aim for combined annual sales of 10 billion yen or more

Domestic Department Store Business

Promotion of merchandise with enhanced features

FY2016 sales target — **56 billion yen ＋2.9 %YOY**
Performance in first half of FY2016 — **25.5 billion +1.2 %YOY**

Pursue differentiation strategy with a focus on high quality, popularity, and profit point of view

Prepare sales area dedicated to items for adult women
Develop Season Style Lab

Commenced September, being developed primarily in large stores

- Evolutionary “specific item display space” =Space dedicated to showcasing a particular stylish product
  (Person in charge: Director Naoko Okusa)
- Around half of the products will be planned/produced in collaboration with suppliers in pursuit of profit

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Overseas Business

Takashimaya Singapore Ltd.

Pursue further profits based on a robust customer base centered on wealthy clientele

- First half: Revenue and profits down because of worsening of Singapore's economy and impact of high yen
- Second half: Step up efforts with regard to differentiation, card strategy, and measures to attract tourist

Shanghai Takashimaya Co., Ltd.

Achieve early profitability by strengthening sales strength and pursuing low-cost operation

- First half: Amid fierce competition, profits increased on a local currency basis, but revenue declined because of the high yen
- Second half: Retain customers by enhancing daily items, capture wide range of customers by enhancing net sales, leading to increased profits

Overseas Business

Takashimaya Ho Chi Minh City (Saigon Centre)

Store opened in July this year and it is acting as the second foothold in the ASEAN area

Integrated management of the 3 businesses will contribute to revenue growth

Store opened in July 30 as core tenant of Saigon Centre, developed by leading real-estate company Keppel Land Limited

Integrated management of the department store business, real estate business, and commercial facility management with a view to achieving profitability

Siam Takashimaya

Store will open as a core tenant in Thailand's large commercial facility "ICONSIAM"

Scheduled to open in 2017 in partnership with locally influential company Iconsiam

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Real Estate Business (Commercial development)

Toshin Development Co., Ltd. (including Toshin Development Singapore Pte, Ltd. ）

Strengthen business base through group-wide promotion of Machi-dukuri

FY2016 operating income target 10.9 billion yen ＋3.5 %YOY
Performance in first half of FY2016 5.5 billion +7.6%YOY

First half: Profits and revenue increased because existing shopping centers performed well thanks to the success of sales strategy

Second half: Pursue growth through promotion of Machi-dukuri
Pursue growth through apartment sales using group’s idle land

Finance Business

Takashimaya Credit Co., Ltd.

Growing as third core company of Group, and achieving revenue expansion

FY2016 operating income target 4.5 billion yen ＋4.4%YOY
Performance in first half of FY2016 2.3 billion +5.7%YOY

First half: Profits and revenue increased because of acquisition of new members to the card system which is integrated with department stores

Second half: Increase profits and revenue through measures such as providing further opportunities to use card in affiliated stores

Contract & Design Business

Takashimaya Space Create Co., Ltd.

Achieving further revenue growth under a favorable construction market

FY2016 operating income target	2.1 billion yen +8.7%YOY
Performance in first half of FY2016	900 million yen +13.5%YOY

First half: Profits and revenue increased because of strong orders for commercial facilities and large hotels, reflecting favorable business conditions

Second half: Increase profits and revenue by steadily increasing orders

KIWAMI Cocktail Bar at Hilton Nagoya
(Photo provided by Hilton Nagoya)

Takashimaya

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Summary of Full Year Projections

Consolidated performance down 0.5%, operating revenue up 3.1%

- Domestic department stores will achieve increase in operating revenue
- Domestic group business will maintain strong performance
- Overseas business: Singapore store will struggle amid unfavorable exchange rate

Domestic department stores performance down 1.1%, operating revenue up 2.8%

- Tough consumption conditions expected to continue in second half, decrease in earnings anticipated
- Further progress in product margin improvement
- Further cuts in SG&A expenses, leading to increase in operating revenue

Consolidated Cost and Revenue Projections

*Figures released in April 12, same applies hereafter

(billion JPY)	Full Year Projections	Year-on-year		Change from Projection*	
Operating Revenue	925.0	-4.6	-0.5%	-28.0	-2.9%
SG&A Expenses	242.1	-3.5	-1.4%	-6.8	-2.7%
Operating Income	34.0	+1.0	+3.1%	+0.0	+0.0%
Ordinary Income	36.0	-1.8	-4.7%	-2.0	-5.3%
Net Income	20.0	-3.8	-16.1%	-4.0	-16.7%

- Operating revenue is expected to decrease, being significantly affected by a decrease in revenue among domestic department stores, which will offset the profits of new businesses and existing subsidiaries.
- Operating income is projected to increase because of a curtailment of SG&A expenses among domestic department stores and increase in sales value of Toshin Development Co., Ltd. apartments.
- Ordinary income is expected to decrease because of a decline in sales profits and equity profits, and a foreign exchange loss affecting Shanghai Takashimaya Co., Ltd.'s borrowings in Singapore dollars.
- Net income is expected to decrease because of a reactionary decline following the previous year's gain on sales of short-term investment securities; the projected figures are being downwardly revised.

Investment Projections

(billion JPY)	FY ending Feb 2017	FY ended Feb 2016	Change from Projection*
Domestic department stores	16.2	20.8	-4.6
Toshin Development Co., Ltd.	3.6	4.5	-0.9
Other	3.4	1.5	+1.9
Inter-company elimination	-0.4	-0.6	+0.2
Total	22.7	26.1	-3.4

- Domestic department stores will receive investment to bolster their competitiveness and sales strength. There will also be investment in business support, including renovation of head office facilities and information equipment.
- Toshin Development Co., Ltd. earning power will be strengthened by substantial investment in the key site, Tamagawa Takashimaya shopping center
- Takashimaya Ho Chi Minh City received investment of 1.5 billion yen following its opening.

Cost and Revenue Projections at Domestic Department Stores

(billion JPY)	Full-year projection	Year-on-year		Change from Projection*	
Operating Revenue	757.0	-8.5	-1.1%	-18.6	-2.4%
Sales	744.9	-10.1	-1.3%	-20.2	-2.6%
Gross Margin	24.28%	-0.18		-0.08	
SG&A Expenses	181.2	-2.5	-1.4%	-3.2	-1.8%
Operating Income	11.7	+0.3	+2.8%	-0.7	-5.6%
Ordinary Income	14.5	-0.1	-0.7%	-0.6	-3.9%
Net Income	7.1	-1.7	-19.7%	-2.3	-24.9%

- Operating revenue is expected to decline on the assumption that the tough consumption conditions will continue, offsetting an increase in inbound demand.
- Operating income is projected to increase because of an improvement in profit margin despite the likely continuation of the decline in earnings experienced in the first half, and because of further cuts to SG&A expenses.
- Ordinary income is expected to decline, being significantly affected by a decline in interest income/dividend following the previous year's gain on sales of short-term investment securities.
- Net income is expected to decrease because of a reactionary decline following the previous year's gain on sales of short-term investment securities; the projected figure is being downwardly revised.

SG&A Expenses Projections at Domestic Department Stores

(billion JPY)	Full-year projection	Year-on-year		Change from Projection*	
Personnel related expenses	61.5	-0.7	-1.2%	-0.8	-1.3%
Advertising expenses	25.2	-1.7	-6.3%	-1.6	-5.9%
General affairs expenses	65.0	-2.2	-3.3%	-2.3	-3.4%
Accounting related expenses	29.5	+2.1	+7.8%	+1.4	+5.1%
Total	181.2	-2.5	-1.4%	-3.2	-1.8%

- SG&A expenses at domestic department stores will be cut further in accordance with the downward revisions of the projected figures following initial increase in profits
- Personnel related expenses will be reduced from the level of the previous year in order to thoroughly implement labor efficiency and also to reflect the revisions of projected figures.
- Advertising expenses will be subject to additional cuts in order to pursue further cost-effectiveness.
- General affairs expenses will be placed under cost-cutting measures, with controls on fixed costs and other items.
- Projections for accounting related expenses will be revised to reflect the increase in rent income following the introduction of an integrated operation and management scheme in the Shinjuku Store.

Cost and Revenue Projections of Each Company

(billion JPY)	Operating Revenue	Year-on-year	Change from Projection*	Operating Revenue	Year-on-year	Change from Projection*
Toshin Development Co., Ltd.	**44.8**	+9.8 +28.1%	+2.6 +6.2%	**8.5**	+0.5 +6.4%	+0.1 +1.8%
Toshin Development Singapore Pte, Ltd. (local currency basis)	**8.7** 111 mil.	-0.7 -7.9% +2.7%	-0.5 -5.2% -1.2%	**2.3** 30 mil.	-0.1 -5.7% +5.2%	+0.0 +0.1% +4.3%
Takashimaya Singapore Ltd. (local currency basis)	**51.2** 650 mil.	-6.6 -11.4% -1.2%	-4.3 -7.7% -3.8%	**3.3** 41 mil.	-0.8 -20.1% -10.9%	-0.6 -14.7% -11.1%
Shanghai Takashimaya Co., Ltd. (local currency basis)	**6.3** 385 mil.	-1.0 -14.3% 1.2%	-1.0 -13.6% -7.9%	**-1.0** -63 mil.	+0.2 - -	-0.1 - -
Takashimaya Credit Co., Ltd.	**17.6**	+0.4 +2.3%	-0.2 -0.9%	**4.5**	+0.2 +4.4%	+0.1 +3.0%
Takashimaya Space Create Co., Ltd. (including Takashimaya Space Create Tohoku)	**35.1**	+3.9 +12.5%	-0.1 -0.1%	**2.1**	+0.2 +8.7%	+0.0 +0.7%

- Toshin Development Co., Ltd. is projected to grow in view of the introduction of an integrated operation and management scheme in the Shinjuku Store and strong performance, particularly among existing shopping centers.
- Takashimaya Singapore Ltd. and TDS are expected to experience a decrease in profits and revenue, being significantly affected by the impact of the high yen in the first half.
  Shanghai Takashimaya Co., Ltd. will experience a decrease in revenue, reflecting the impact of the high yen, but an increase in operating income.
- Takashimaya Credit Co., Ltd. and Takashimaya Space Create Co., Ltd. are projected to achieve an increase in profits and revenue, reflecting continued strong performance.

Statements contained herein regarding cost and revenue projections reflect our judgment based on information currently available, and involve a number of risks and uncertainties. It should be noted that actual results could differ materially from the cost and revenue projections stated herein due to a variety of factors.