Takashimaya Company, Limited

Takashimaya Reports Earnings for the Fiscal Year to February 28, 2010

Consolidated Operating Results

(1) Analysis of Consolidated Operating Results

1) Review of operations

The Japanese economy continued to confront severe conditions during the fiscal year under review, as it grappled with the downturn created by the global financial and economic crises that began in the second half of 2008.

In this environment, consumer confidence declined, uncertainty over employment and income rose, asset values fell as a result of share price falls, and anxieties about the future grew, fueled by the aging of society and the low birth rate. The combination of these trends ensured that personal consumption remained sluggish.

Sales also continued to fall across the department store industry.

To achieve the targets set out under the Takashimaya Group's Long-Term Business Plan (New Strategies for Growth), the Takashimaya Group stepped up efforts to reform its business, expenses and Group structures, took steps to strengthen its management culture, and sought to bolster its sales capacity with a focus on regional characteristics and prices. These initiatives notwithstanding, Group operations, including the core department store business in Japan, unfortunately recorded declines in both consolidated sales and profit for the fiscal year under review, as the Group struggled to respond to changes in the consumption structure and the sustained economic downturn.

Specifically, the Group posted consolidated operating revenue of 877,762 million yen (down 10.1% year on year) consolidated operating income of 13,428 million yen (down 45.9% year on year), consolidated ordinary income of 16,764 million yen (down 40.1% year on year) and consolidated net income of 7,709 million yen (down 34.4% year on year).

2) Operating results by business segment

An overview of operations by business segment is as follows:

Department Store

In the Department Store business, the Group sustained its efforts to offer the finest sales-related services and the optimum product lineup to customers, in accordance with its basic stances that “all employees are salespeople” and “sales is the starting point for all operations.” In addition, the Group acted to strengthen its sales-related service capabilities with initiatives that included comprehensive operations management with an emphasis on sales, sharing customer opinions across the Group and continuing with activities designed to improve services. These efforts were designed to enable the Takashimaya Group to respond to the changing needs of customers, but they were not sufficient to respond to changes in the consumption structure and the unprecedented economic downturn. Signs of improvement were observed in certain product categories, including living-room items and women’s goods, in the second half of the fiscal year under review. In spite of these signs, operating revenue fell year on year for the Department Store business in Japan, the result of weaker operating revenue for key products, such as women’s wear and specially selected clothing items.

The Group focused its initiatives for enhancing merchandise appeal on responses to changing price consciousness contemporary trends and regional characteristics. More specifically, the Group reviewed its price range in light of products and regional characteristics, and expanded strategic “nice price” items, which consist of quality products offered at reasonable prices. The Group also proposed lifestyle products that reflect prevailing demands, such as eco-friendly Clean Rose items, and extended its lineup of community-based items to promote local consumption of local products.

As an initiative to enhance its sales capabilities, the Group reopened the renovated first floor, which now offers a sense of relaxation and quality, and opened a considerably increased number of restaurants on the substantially expanded eighth floor, as first-stage renovations of the Yokohama Store to coincide with the 150th anniversary of the opening of the Yokohama Port and the 50th anniversary of the Store’s operation. The Group will sustain efforts to solidify the Store’s position as the dominant department store in Yokohama. In other initiatives for strengthening sales operations, the Group expanded the scope of the Takashimaya Blog, originally launched for the Shinjuku Store in 2008, to four other large stores and the Tamagawa Store to bolster its capacity to convey information, and organized events such as the “2009 Takashimaya Italian Fair” and the “Shoen, Shoko and Atsushi Uemura Three-Generation Exhibition Commemorating the Centennial of the Art Department,” to raise its ability to attract customers.

Looking at Group operations overseas, operating revenue declined year on year for Takashimaya Singapore Ltd., influenced by the opening of a number of competing local commercial facilities, in addition to a slump in personal consumption triggered by the global economic downturn. In contrast, operating income rose year on year for the subsidiary, thanks to reduced operating expenses. However, both operating revenue and operating income fell year on year on a converted yen basis, the consequence of currency exchange levels.

As a result, operating revenue for the business segment came to 786,987 million yen (down 10.5% year on year) and operating income for the segment amounted to 5,098 million yen (down 66.3% year on year).

Contract & Design

In the Contract & Design business, Takashimaya Space Create Co., Ltd. stepped up its activities to win orders in new priority fields, such as medical and educational facilities, and worked to cut costs and expenses in the environment of market downsizing due to postponement and cancellation of interior furnishing plans for commercial and accommodation facilities and fierce price battles with competitors. However, the Group was unable to compensate for the decline in operating revenue and this resulted in an operating loss for the business.

As a result, operating revenue for the business segment totaled 15,737 million yen (down 24.4% year on year) and the operating loss for the segment came to 501 million yen (compared with operating income of 64 million yen recorded in the previous fiscal year).

Real Estate

In the Real Estate business, operating revenue grew for Toshin Development Co., Ltd. owing to contributions made by the Kashiwa Takashimaya Station Mall New Building, second-stage sections of which opened in Kashiwa City, Chiba Prefecture in March 2009. However, operating revenue for the business declined because of factors such as smaller rent income associated with poor tenant sales, which in turn resulted from weak consumption. Operating income also fell, mainly because of the adverse impact of the stronger yen on Singapore Takashimaya Shopping Center and an increase in costs associated with renovations at Tamagawa Takashimaya Shopping Center.

As a result, operating revenue for the business segment totaled 29,401 million yen (down 0.6% year on year) and operating income for the segment amounted to 6,491 million yen (down 7.0% year on year).

Finance

Both operating revenue and operating income grew for the Finance business, reflecting rises in external handling fees and income from annual membership fees that resulted from an increase in membership of the Takashimaya Card Gold, which Takashimaya Credit Co., Ltd. issues to customers as their main credit card.

As a result, operating revenue for the business segment reached 10,916 million yen (up 5.5% year on year) and operating income for the segment amounted to 1,613 million yen (up 5.3% year on year).

Other

In the Cross Media business, the Group merged its mail-order and online operations and set up the Cross Media Business Division in September 2009 to increase sales capabilities and radically review its expenses structure. Under the new organization, operating revenue grew year on year for Internet and teleshopping sales. However, core catalog sales remained weak, causing operating revenue for the business to fall year on year.

As a result, operating revenue for the business segment, including the Cross Media business, totaled 34,718 million yen (down 3.4% year on year) and operating income for the segment came to 938 million yen (down 26.2% year on year).

(2) Analysis of Consolidated Financial Status

1) Analysis of the state of assets, liabilities, net assets and cash flows

Assets at the end of the fiscal year under review rose 34,141 million yen from the end of the previous fiscal year, to 785,098 million yen. Key factors included a rise in cash and deposits owing to increased loans and corporate bonds. Liabilities grew 24,812 million yen from the end of the previous fiscal year, to 493,859 million yen. Net assets stood at 291,239 million yen, up 9,328 million yen from the end of the previous fiscal year, primarily because of increases in retained earnings, and valuation and translation adjustments.

(3) Basic Policy on Profit Distribution and Dividends for the Current and Following Fiscal Years

The Company intends to distribute its profits to shareholders by taking into overall consideration consolidated operating results and operating foundations, in accordance with its basic stance of sustaining a stable dividend level by strengthening its operating foundations in preparation for events that may occur in the future.

Based on this policy, the Company has decided to pay an annual dividend of 10 yen per share for the fiscal year under review, and also plans to pay an annual dividend of 10 yen per share for the next fiscal year.

The Company intends to use its retained earnings as funds reserved for activities aimed at raising its sales capabilities, including store renovations, and for steps designed to strengthen its financial structure.

Consolidated Financial Statements
Balance Sheets

(million yen)

	As of February 28, 2010	As of February 28, 2009
Assets		
Current assets	**239,816**	206,617
Cash and deposits	**56,011**	31,165
Notes and accounts receivable	**102,200**	98,960
Marketable securities	**3,000**	20
Inventories	**-**	44,889
Marchandise and products	**39,665**	-
Work in process	**2,945**	-
Raw materials and supplies	**608**	-
Deferred tax assets	**7,281**	8,321
Other	**28,599**	24,163
Allowance for doubtful accounts	**(497)**	(902)
Fixed assets	**545,282**	544,340
Tangible fixed assets	**381,943**	382,808
Buildings and structures	**162,591**	160,854
Machinery, equipment and vehicles	**155**	155
Furniture and fixtures	**8,835**	9,734
Land	**201,608**	202,165
Construction in progress	**7,766**	9,898
Other	**986**	-
Intangible fixed assets	**19,417**	19,273
Leasehold	**11,354**	11,354
Goodwill	**859**	954
Other	**7,203**	6,964
Investments and other assets	**143,921**	142,257
Investment securities	**79,394**	74,854
Long-term guarantee deposits	**42,760**	43,787
Deferred tax assets	**17,840**	19,150
Other	**8,741**	8,019
Allowance for doubtful accounts	**(4,816)**	(3,553)
Total assets	**785,098**	750,957

(million yen)

	As of February 28, 2010	As of February 28, 2009
Liabilities		
Current liabilities	**302,444**	313,830
Notes and account payable	**85,684**	89,188
Short-term bank loans	**24,593**	14,249
Current portion of long-term debt	**-**	11,231
Commercial paper	**-**	13,000
Accrued income taxes	**3,202**	3,571
Advances received	**77,020**	73,536
Gift certificates outstanding	**59,489**	49,572
Deposits received	**22,309**	28,606
Reserve for directors' bonuses	**-**	14
Allowance for point gift certificates	**3,742**	4,177
Allowance for loss on disposal of buildings and structures	**-**	810
Other	**26,400**	25,870
Fixed liabilities	**191,415**	155,215
Corporate bonds	**30,000**	10,000
Long-term debt	**65,962**	53,755
Allowance for employees' retirement benefits	**55,383**	56,639
Allowance for directors' and corporate auditors' retirement benefits	**251**	283
Deferred tax liabilities	**67**	72
Deferred tax liabilities related to revaluation	**9,838**	10,266
Other	**29,910**	24,198
Total liabilities	**493,859**	469,046
Net assets		
Common stock	**56,025**	56,025
Additional paid-in capital	**45,085**	45,084
Retained earnings	**174,741**	169,704
Treasury stock	**(514)**	(501)
Total shareholders' capital	**275,336**	270,312
Net unrealized gains/losses on other securities	**6,048**	2,296
Net deferred gains/losses on hedge contracts	**(12)**	(38)
Land revaluation difference	**7,998**	8,624
Foreign currency translation adjustments	**(1,973)**	(2,795)
Total valuation and translation adjustments	**12,060**	8,086
Minority interests	**3,842**	3,511
Total net assets	**291,239**	281,911
Total liabilities and net assets	**785,098**	750,957

Statements of Operations

(million yen)

	Fiscal year ended February 28, 2010	Fiscal year ended February 28, 2009
Net sales	827,872	926,281
Cost of sales	609,816	678,701
Gross profit	218,056	247,579
Other operating revenue	49,889	49,835
Gross operating income	267,945	297,415
Selling, general and administrative expenses	254,517	272,605
Operating income	13,428	24,810
Interest income	367	494
Dividend income	807	716
Equity in gains of affiliated companies	1,353	1,679
Other non-operating income	3,138	2,439
Total non-operating income	5,667	5,330
Interest expense	1,686	1,423
Other non-operating expense	644	712
Total non-operating expense	2,331	2,136
Ordinary income	16,764	28,003
Extraordinary gains	1,184	447
Extraordinary losses	5,549	8,494
Net income before income taxes	12,400	19,956
Income taxes, inhabitants' tax, and enterprise taxes	4,584	8,938
Income tax adjustments	(256)	(900)
Minority interests in earnings of consolidated subsidiaries	362	168
Net income	7,709	11,750

Statement of Changes in Net Assets

		Net assets				(million yen)
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Balance as of February 29, 2008	330,827,625	56,025	45,080	161,524	(478)	262,151
Cash dividends paid				(3,299)		(3,299)
Net income for the fiscal year				11,750		11,750
Gain on sales of treasury stock and increase in treasury stock, net			4		(23)	(19)
Reversal of revaluation reserve for land				(270)		(270)
Net changes during the year						-
Balance as of February 28, 2009	330,827,625	56,025	45,084	169,704	(501)	270,312
Cash dividends paid				(3,299)		(3,299)
Net income for the fiscal year				7,709		7,709
Gain on sales of treasury stock and increase in treasury stock, net			0		(13)	(12)
Reversal of revaluation reserve for land				626		626
Net changes during the year						
Balance as of February 28, 2010	330,827,625	56,025	45,085	174,741	(514)	275,336

(million yen)

	Unrealized gains on available-forsale securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Total accumulated gains from revaluation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance as of February 28, 2009	14,282	(2)	8,354	3,085	25,718	3,382	291,253
Cash dividends paid					-		(3,299)
Net income for the fiscal year					-		11,750
Gain on sales of treasury stock and increase in treasury stock, net					-		(19)
Reversal of revaluation reserve for land					-		(270)
Net changes during the year	(11,986)	(35)	270	(5,880)	(17,631)	128	(17,503)
Balance as of February 28, 2009	2,296	(38)	8,624	(2,795)	8,086	3,511	281,911
Cash dividends paid					-		(3,299)
Net income for the fiscal year					-		7,709
Gain on sales of treasury stock and increase in treasury stock, net					-		(12)
Reversal of revaluation reserve for land					-		626
Net changes during the year	3,752	26	(626)	821	3,973	330	4,304
Balance as of February 28, 2010	6,048	(12)	7,998	(1,973)	12,060	3,842	291,239

Statements of Cash Flows

(million yen)

	Fiscal year ended February 28, 2010	Fiscal year ended February 28, 2009
I Cash flows from operating activities:		
Income before income taxes and minority interests	12,400	19,956
Depreciation	15,684	15,381
Amortization of goodwill	95	95
Allowance for doubtful accounts	857	490
Allowance for directors' and corporate auditors' bonuses	(14)	(66)
Allowance for employees' retirement benefits	(1,255)	1,066
Allowance for directors' and corporate auditors' retirement benefits	(32)	(1)
Allowance for point gift certificates	(438)	(215)
Allowance for loss on disposal of buildings and structures	(810)	(640)
Interest and dividend income	(1,174)	(1,210)
Interest expenses	1,686	1,423
Equity in gain of affiliated companies	(1,353)	(1,679)
Gain (loss) on sale of property and equipment, net	(685)	(79)
Loss on disposal of property and equipment	1,669	2,808
Gain (loss) on sale of securities, net	-	(3)
Write-down of investment securities	5	3,176
Notes and accounts receivable	(595)	(2,697)
Inventories	1,693	(1,337)
Accounts payable	(3,467)	(9,974)
Other	5,615	2,480
Subtotal	29,880	28,972
Interest and dividend income received	1,816	1,959
Interest expense paid	(1,430)	(1,630)
Income taxes paid	(6,837)	(14,615)
Net cash provided by operating activities	23,428	14,686
II Cash flows from investing activities:		
Purchase of time deposits maturing after three months	(55)	(3,930)
Repayment of time deposits maturing after three months	3,493	213
Purchase of securities	(617)	(13,282)
Proceeds from sale of securities	32	1,843
Purchase of property and equipment	(19,892)	(23,352)
Proceeds from sale of property and equipment	6,569	268
Increase in long-term advances	(25)	(29)
Proceeds from collection of long-term advances	48	39
Other	(60)	(120)
Net cash used in investing activities	(10,508)	(38,348)

(million yen)

	Fiscal year ended February 28, 2010	Fiscal year ended February 28, 2009
III Cash flows from financing activities		
Proceeds of commercial papers	(13,000)	13,000
Proceeds from long-term bank loans	31,000	15,000
Repayment of long-term bank loans	(8,449)	(10,522)
Proceeds from issuance of bonds	20,000	-
Redemption of bonds	(11,231)	-
Proceeds from sale of treasury stock	2	12
Cash dividends paid	(3,299)	(3,299)
Other	(204)	(68)
Net cash provided by financing activities	14,817	14,121
IV Effect of exchange rate changes on cash and cash equivalents	474	(2,615)
V Increase in cash and cash equivalents	28,212	(12,154)
VI Cash and cash equivalents at beginning of period	27,750	39,905
VII Cash and cash equivalents at end of period	55,963	27,750

Segment information

March 1, 2009 to February 28, 2010 (million yen)

	Department store	Contract & design	Real estate	Finance	Other	Total	Elimination and corporate	Consolidated
Sales and other operating revenue:								
Outside customers	786,987	15,737	29,401	10,916	34,718	877,762	-	877,762
intersegment	5,720	5,170	5,617	4,330	31,377	52,216	(52,216)	-
Total	792,707	20,908	35,019	15,247	66,096	929,979	(52,216)	877,762
Operating expenses	787,609	21,409	28,527	13,634	65,158	916,339	(52,005)	864,334
Operating income	5,098	(501)	6,491	1,613	938	13,640	(211)	13,428
Assets	504,816	17,911	108,160	86,496	19,981	737,366	47,732	785,098
Depreciation	11,592	72	3,739	5	131	15,540	143	15,684
Loss on impairment	-	-	-	-	-	-	-	-
Capital expenditure	17,246	41	6,319	7	92	23,707	(164)	23,542

March 1, 2008 to February 28, 2009 (million yen)

	Department store	Contract & design	Real estate	Finance	Other	Total	Elimination and corporate	Consolidated
Sales and other operating revenue:								
Outside customers	879,440	20,814	29,590	10,346	35,925	976,116	-	976,116
intersegment	6,089	4,076	5,759	4,778	35,583	56,287	(56,287)	-
Total	885,529	24,890	35,349	15,124	71,509	1,032,404	(56,287)	976,116
Operating expenses	870,407	24,826	28,366	13,593	70,238	1,007,432	(56,126)	951,306
Operating income	15,121	64	6,982	1,531	1,271	24,971	(161)	24,810
Assets	505,275	16,131	105,028	82,036	19,756	728,229	22,728	750,957
Depreciation	11,722	89	3,312	14	133	15,270	110	15,381
Loss on impairment	-	-	-	-	-	-	-	-
Capital expenditure	15,613	134	7,638	0	87	23,474	(43)	23,431