Takashimaya Company, Limited

Takashimaya Reports Earnings for the Six Months Ended August 31, 2008

Tokyo, Japan, October 10, 2008—Takashimaya Company, Limited (TSE Security Code 8233) announced consolidated sales and other operating revenue of 488,217 million yen for the first half (ended August 31, 2008) of the fiscal year ending February 28, 2009, and net income of 8,788 million yen, or 26.63 yen per share.

Summary of Operating Results

Total consolidated sales and other operating revenue for the Takashimaya Group decreased 3.2% from the same period a year earlier to 488,217 million yen. Operating income declined 14.7% to 14,088 million yen, and ordinary income fell 18.0% to 16,187 million yen. Net income rose 29.2% to 8,788 million yen from the previous fiscal year when extraordinary losses due to changes to the accounting treatment of gift certificates were recorded.

During the interim period under review, economic slowdown became more evident in Japan as growth in consumer spending faltered and exports and production levels weakened against the backdrop of a global economic slowdown triggered by the U.S. subprime mortgage crisis as well as rising raw materials and food prices. In the department stores industry, sales continued to decline year over year as competition among department store operators and with other retail formats intensified and consumers tightened their purse strings and became more conservative in their daily spending.

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 its new long-term business plan, *Strategies for Growth*, which was launched in fiscal 2005. In the core department store sector, the Group worked to build the ultimate sales framework that manifests Takashimaya's philosophy that "the customer comes first." The Group 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 strived to bolster the Takashimaya customer base (strengthen CRM) through efforts that utilize customer sales data (cardholder data).

In its shopping center business, the Group's second core business, the Group worked actively to increase traffic to its shopping centers by increasing the floor area of its existing retail facilities and through tenant turnovers.

Segment Information

Department Stores

Sales and other operating revenue for the department stores segment decreased 3.7% from the same period a year earlier to 439,667 million yen. Operating income fell 26.6% to 8,551 million yen.

Amid weak consumption and intense competition during the interim period under review, the Group strived to build the ultimate sales framework by reforming operations to prioritize sales and building an efficient and effective sales floor operation to enable it to respond flexibly to changes in the business environment.

On the sales floor, the Group strived to ensure that sales activities are prioritized by working to reform the employee mindset and reform operations based on the credo that "we are all sales personnel" so as to increase sales opportunities and time spent selling. In services, the Group focused on improving customer satisfaction, using external consultants to help examine and improve its services. In merchandising, the Group increased numbers of buyers, upgraded information systems, and implemented efforts to respond accurately and quickly to customer needs by performing analyses using data on the in-store behavior of customers. The Group also utilized CRM and, based on customer shopping data, worked to communicate information and implement measures to encourage customer visits. It also continue to win new Takashimaya Card members and saw a steady increase in the number cardholders and other customer groups.

In addition to these efforts, the Group opened a Takashimaya Food Maison store in the JR Shin-Yokohama Station building. To coincide with the opening of the new Tokyo Metro Fukutoshin subway line in June, the Group also opened an entrance connected to the subway station concourse and renovated the food floor of the Shinjuku store. At the Kyoto store, it introduced luxury brands highly demanded by customers, improving customer convenience and ensuring that customer needs are reflected in the way sales floors are planned.

In merchandising, the Group worked to secure fast-moving merchandise by accurately and quickly identifying customer needs, while planning and launching lower-priced Nice Price merchandise designed to appeal to consumers amid increasing price consciousness. The Group also worked to differentiate and reinforce the unique characteristics of its merchandising profile: In addition to its Voice File range—original products that incorporate demands and feedback from customers—and brands that offer a selected range of fashion items such as Style & Edit (women's fashion) and CS Case Study (men's fashion), the Group also relaunched Yokohama Club, an original clothing and household goods brand developed by the Yokohama store in collaboration with local companies.

Despite these efforts, luxury goods as well as foods and other merchandise were affected by lower spending as consumers became more conservative in response to the economic slowdown and price hikes on gasoline and daily essentials. As a result, the Group's sales from domestic department stores decreased 4.0%. By department store, sales at the Shinjuku store increased from a year earlier as the negative impact of the previous year's renovation work was absorbed and due to the favorable impact of the opening of the Tokyo Metro Fukutoshin subway line. However, other stores recorded a decline in sales from a year earlier. Overseas, sales remained strong at the Singapore store due to a relatively solid local economy, and the store achieved growth in both revenue and earnings.

Contract & Design

Sales and other operating revenue for the Contract & Design segment increased 3.9% from the same period a year earlier to 11,426 million yen, while operating income fell 44.0% to 290 million yen.

Sales and other operating revenue increased from a year earlier as Takashimaya Space Create Co., Ltd., a Group company, actively sought to take external orders. However, operating income decreased as competition with peers further intensified, despite efforts to cut personnel and outsourcing expenses through the flexible assignment of personnel.

Real Estate

Sales and other operating revenue increased 4.5% to 14,742 million yen, and operating income grew 2.7% from the same period a year earlier to 3,832 million yen.

The Nagareyama Otakanomori Shopping Center in Nagareyama, Chiba, and at T-terrace in the specialty store zone of the Namba Parks complex in Osaka fully contributed to segment sales. Both facilities were opened last year by Group company Toshin Development Co., Ltd. In addition, rental income increased due to strong sales at the Kashiwa Takashimaya Station Mall in Kashiwa, Chiba, where the Group worked actively on turning over tenants.

Takashimaya

Finance

Sales and other operating revenue increased 23.0% from the same period a year earlier to 5,198 million yen, and operating income surged 294.4% to 904 million yen.

Takashimaya Credit Co., Ltd., enjoyed a substantial increase in billings due to an increase in the number of cardholders of the Takashimaya Card Gold, which was launched in March 2007. The resulting increase in card processing expenses was more than offset by the increase in revenue from processing charges and annual membership fees.

Other

Sales and other operating revenue for other segments decreased 7.3% from the same period a year earlier to 17,183 million yen, and operating income fell 35.7% to 529 million yen.

Although the mail order business showed strong growth in orders via the Internet, mainstay catalogue orders performed poorly resulting in an overall fall in sales from the same period a year earlier.

Financial Condition

Assets, Liabilities, and Net Assets

Consolidated total assets at the end of the interim period totaled 761,373 million yen, an increase of 2,502 million yen from the end of the previous fiscal year. This mainly reflects a seasonal increase in notes and accounts receivable. Total liabilities decreased 2,500 million yen to 465,116 million yen. This was mainly due to a decrease in long-term debt. Total net assets rose 5,003 million yen from the end of the previous fiscal year to 296,256 million yen.

Cash Flows

Consolidated cash and cash equivalents at the end of the interim period amounted to 38,892 million yen, a decline of 1,012 million yen from the end of the previous fiscal year.

Net cash provided by operating activities was 12,000 million yen, which represents a decrease of 40,000 million yen from the same period a year earlier. This was primarily due to the non-recurrence of the refunding of the security deposit paid in relation to the Shinjuku store last year.

Net cash used in investing activities was 9,240 million yen, a decrease of 29,713 million yen from the same period a year earlier. This decrease was primarily due to an outlay of 11,065 million yen for the acquisition of tangible and intangible fixed assets (a year-over-year decrease of 24,483 million yen), and an outlay of 6 million yen relating to the purchase of securities (a year-over-year decrease of 4,003 million yen).

Net cash used in financing activities was 3,677 million yen, a decrease of 29,358 million yen from the same period a year earlier. This was primarily due to a 1,982 million yen outlay for the repayment of long-term debt (a year-over-year decrease of 40,336 million yen) and an 11,000 million yen decline in financing proceeds compared with the same period a year earlier when the Group procured funds through the issuance of bonds and long-term debt.

Outlook for the Coming Year

Overview

For the full year ending February 28, 2009, the Group expects consolidated sales and other operating revenue to decrease 1.6% year over year to 1,025,700 million yen, operating income to decrease 9.8% to 34,000 million yen, ordinary income to decrease 10.2% to 37,800 million yen, and net income to increase 6.4% to 19,900 million yen.

In the second half of the fiscal year, global economic growth is expected to slow further due to the economic slowdown in the U.S. and global inflation concerns, and the Japanese economy is expected to slow further and possible enter a prolonged slump. Pervasive factors such as rising prices of daily essentials and uncertainty over the social security system look set to adversely affect consumption, and the retail sector, particularly the department stores industry, faces continued challenges in the business environment.

Given the difficult conditions ahead, the Group will do its utmost to increase revenue at domestic department stores and consolidated subsidiaries alike. Moreover, it will continue with thorough reforms to its earnings structure through initiatives that look beyond the conventional mindset, and boost corporate value by allocating managerial resources generated through these reforms to measures aimed at improving customer satisfaction.

Outlook by Segment

Department Stores

In the core department store business, the Group will continue with reforms to build the ultimate sales framework. To achieve this, it will implement thorough operational reforms to facilitate the design of sales floors that prioritize sales, work to improve services and store environments from a customer perspective, strengthen its ability to procure products that accurately meet the needs of customers, and strengthen ties with customers through CRM.

In merchandising, the Group will concentrate efforts on speeding up its response to customer needs by continuously adapting merchandising to the rapid changes in the business environment. It will work to increase customer satisfaction by further enhancing its merchandising activities for the Nice Price, Voice File, and Limited Selection ranges.

The Group will also work to attract customers through 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.

The Group will ramp up sales promotion efforts conducted through the Takashimaya website, which has seen an increasing number of page views. The Group will further enrich information on promotions and events conducted at each of its stores and also plans to launch the Shinjuku Takashimaya Blog, which will provide information from the sales floor on new merchandise and the latest issues in a timely fashion. In addition to the existing shopping website, the Group will launch Takashimaya Fashion Mall, a new website that brings together some 130 fashion and cosmetics brands, in an effort to expand on-line sales.

To cultivate new demand for gifts, the Group will enhance its gift catalogs with a wide range of gifts, with a focus on tourism and gourmet items that tend to attract strong customer interest, such as accommodation plans and dinner tickets. The Group will also work to boost sales of department store gift cards, plastic card-type gift certificates that can be used at Takashimaya and other department stores, and sales of Takashimaya gift cards, which can be personalized according to customer preferences.

The Group will also move ahead with the plan for the full renovation of the Yokohama store (the first stage of the plan is scheduled for completion in spring 2009) and the plan for the renovation and enlargement of the Osaka store (slated for completion in autumn 2009–2010). At the same time, the Group will implement operational measures to minimize the impact of the renovations on sales.

Contract & Design

Takashimaya Space Create Co., Ltd., will work to expand orders from potential growth sectors, such as large commercial facilities, accommodation, and medical- and welfare-related institutions, while reducing cost ratios by streamlining factory production systems and rationalizing its supplier base to enhance its earnings structure.

Real Estate

Toshin Development Co., Ltd., expects increased revenue from the opening of a new annex of the Kashiwa Takashimaya Station Mall in Kashiwa, Chiba, opened on October 1. Utilizing extensive development and operating expertise, the company will work to enhance earnings potential.

Finance

Takashimaya Credit Co., Ltd., will work to increase the attractiveness of Takashimaya cards by introducing airport lounge services (for Takashimaya Card Gold holders) in response to cardholder demands and adding American Express cards to its card lineup. This will expand opportunities for existing cardholders to use their cards and help to further increase cardholder numbers, thereby strengthening the marketing and sales potential 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 pay an interim dividend of 5 yen per share, and the Group also expects to pay an annual dividend of 10 yen per share for 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 regarding dividends and the possible introduction of 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 August 31, 2007 (A)	As of August 31, 2008 (B)	(B – A)	As of February 29, 2008 (C)	(B – C)
	Amount	Amount	Amount	Amount	Amount
Assets					
Current assets	202,025	217,595	15,570	212,888	4,707
Cash and deposits	35,529	28,953	(6,575)	35,130	(6,177)
Notes and accounts receivable	88,217	103,704	15,487	96,396	7,307
Marketable securities	599	10,000	9,400	5,000	5,000
Inventories	44,045	42,991	(1,054)	43,729	(738)
Deferred tax assets	6,967	8,123	1,156	8,011	112
Other	27,563	24,630	(2,933)	25,568	(938)
Allowance for doubtful accounts	(896)	(807)	89	(948)	141
Fixed assets	552,045	543,777	(8,267)	545,982	(2,204)
Tangible fixed assets	382,569	381,890	(679)	384,608	(2,718)
Buildings and structures	157,647	158,767	1,119	161,607	(2,839)
Machinery, equipment and vehicles	181	159	(21)	169	(9)
Furniture and fixtures	10,518	10,006	(511)	10,387	(380)
Land	202,054	201,409	(645)	201,015	393
Construction in progress	12,167	11,547	(620)	11,428	118
Intangible fixed assets	16,052	18,813	2,760	15,710	3,102
Leasehold	11,354	11,354	-	11,354	-
Goodwill	1,097	1,002	(95)	1,050	(47)
Other	3,600	6,456	2,855	3,306	3,150
Investments and other assets	153,422	143,073	(10,349)	145,662	(2,589)
Investment securities	97,874	84,000	(13,874)	87,028	(3,028)
Long-term loans	96	81	(14)	-	81
Long-term guarantee deposits	43,499	42,357	(1,141)	42,937	(579)
Deferred tax assets	7,300	11,893	4,593	10,888	1,004
Other	7,602	7,981	379	7,825	156
Allowance for doubtful accounts	(2,950)	(3,241)	(291)	(3,017)	(223)
Total assets	754,070	761,373	7,302	758,870	2,502

(million yen)

	As of August 31, 2007 (A)	As of August 31, 2008 (B)	(B – A)	As of February 29, 2008 (C)	(B – C)
	Amount	Amount	Amount	Amount	Amount
Liabilities					
Current liabilities	303,478	300,150	(3,327)	302,034	(1,884)
Notes and account payable	103,658	100,841	(2,817)	99,921	919
Short-term bank loans	11,396	16,404	5,008	16,072	332
Current portion of long-term debt	10,000	-	(10,000)	-	-
Accrued income taxes	6,837	6,803	(34)	8,939	(2,136)
Advances received	71,968	73,322	1,353	71,631	1,690
Gift certificates outstanding	50,118	52,373	2,255	51,515	858
Deposits received	22,845	23,881	1,036	24,716	(834)
Reserve for directors’ bonuses	15	-	(15)	80	(80)
Allowance for point gift certificates	4,160	4,220	60	4,437	(216)
Allowance for loss on disposal of buildings and structures	-	-	-	1,451	(1,451)
Other	22,477	22,302	(175)	23,268	(966)
Fixed liabilities	162,121	164,966	2,845	165,583	(616)
Corporate bonds	21,231	21,231	-	21,231	-
Long-term debt	42,545	45,140	2,595	47,455	(2,314)
Allowance for employees’ retirement benefits	55,244	56,183	939	55,573	609
Allowance for directors’ and corporate auditors’ retirement benefits	246	242	(3)	285	(42)
Liabilities resulting from application of equity method	317	317	-	317	-
Deferred tax liabilities	128	111	(17)	112	(0)
Deferred tax liabilities related to revaluation	10,134	10,080	(53)	10,080	-
Other	32,273	31,659	(614)	30,528	1,131
Total liabilities	465,599	465,116	(482)	467,617	(2,500)
Net assets					
Common stock	56,025	56,025	-	56,025	-
Additional paid-in capital	45,078	45,082	4	45,080	2
Retained earnings	151,200	168,663	17,463	161,524	7,138
Treasury stock	(449)	(486)	(37)	(478)	(8)
Total shareholders’ capital	251,854	269,284	17,430	262,151	7,132
Net unrealized gains/losses on other securities	21,206	12,374	(8,832)	14,282	(1,908)
Net deferred gains/losses on hedge contracts	6	18	12	(2)	21
Land revaluation difference	8,433	8,354	(79)	8,354	-
Foreign currency translation adjustments	3,726	2,847	(878)	3,085	(237)
Total valuation and translation adjustments	33,372	23,594	(9,777)	25,718	(2,123)
Minority interests	3,244	3,377	132	3,382	(5)
Total net assets	288,471	296,256	7,785	291,253	5,003
Total liabilities and net assets	754,070	761,373	7,302	758,870	2,502

Takashimaya

Statements of Operations

(million yen)

	Six months ended August 31, 2007 (A)	Six months ended August 31, 2008 (B)	(B – A)		Year ended February 29, 2008
	Amount	Amount	Amount	%	Amount
Net sales	480,927	463,344	(17,583)	(3.7)	994,585
Cost of sales	351,251	338,191	(13,060)	(3.7)	725,993
Gross profit	129,675	125,152	(4,522)	(3.5)	268,591
Other operating revenue	23,676	24,873	1,196	5.1	48,125
Total sales and operating revenue	*504,604*	*488,217*	*(16,386)*	*(3.2)*	*1,042,711*
Gross operating income	153,352	150,026	(3,326)	(2.2)	316,717
Selling, general and administrative expenses	136,835	135,937	(897)	(0.7)	279,018
Operating income	16,517	14,088	(2,428)	(14.7)	37,699
Interest and dividend income	873	738	(134)	(15.4)	1,451
Equity in gains of affiliated companies	1,279	1,050	(228)	(17.9)	2,503
Other non-operating income	2,690	1,256	(1,433)	(53.3)	3,482
Total non-operating income	4,842	3,045	(1,796)	(37.1)	7,437
Interest expense	815	705	(110)	(13.5)	1,549
Other non-operating expense	797	240	(556)	(69.8)	1,517
Total non-operating expense	1,613	946	(667)	(41.4)	3,067
Ordinary income	19,746	16,187	(3,558)	(18.0)	42,070
Extraordinary gains	1,572	-	(1,572)	-	7,293
Extraordinary losses	9,246	1,216	(8,030)	(86.8)	17,177
Net income before income taxes	12,071	14,971	2,899	24.0	32,186
Income taxes, inhabitants' tax, and enterprise taxes	5,981	5,969	(12)	(0.2)	13,708
Income tax, inhabitants' tax, and enterprise tax for past year	567	-	(567)	-	736
Income tax adjustments	(1,330)	179	1,509	-	(1,144)
Minority interests in earnings of consolidated subsidiaries	50	34	(16)	(32.6)	188
Net income	6,802	8,788	1,986	29.2	18,697

Statement of Changes in Shareholders' Capital

(March 1, 2008 to August 31, 2008)

(million yen)

	Shareholders' capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital
Balance as of February 29, 2008	56,025	45,080	161,524	(478)	262,151
Changes during period					
Cash dividends			(1,649)		(1,649)
Net income			8,788		8,788
Purchase/disposition of treasury stock		2		(8)	(6)
Net change in items other than shareholders' capital during period					
Total changes during period		2	7,138	(8)	7,132
Balance as of August 31, 2008	56,025	45,082	168,663	(486)	269,284

	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 adjustments		
Balance as of February 29, 2008	14,282	(2)	8,354	3,085	25,718	3,382	291,253
Changes during period							
Cash dividends							(1,649)
Net income							8,788
Purchase/disposition of treasury stock							(6)
Net change in items other than shareholders' capital during period	(1,908)	21		(237)	(2,123)	(5)	(2,129)
Total changes during period	(1,908)	21		(237)	(2,123)	(5)	5,003
Balance as of August 31, 2008	12,374	18	8,354	2,847	23,594	3,377	296,256

Statements of Cash Flows

(million yen)

	Six months ended August 31, 2007	Six months ended August 31, 2008	Year ended February 29, 2008
	Amount	Amount	Amount
I Cash flows from operating activities:			
Income before income taxes and minority interests	12,071	14,971	32,186
Depreciation	7,329	7,760	14,686
Amortization of goodwill	47	47	95
Increase (decrease) in allowance for doubtful accounts	157	82	276
Decrease in allowance for directors' and corporate auditors' bonuses	(75)	(80)	(10)
Increase (decrease) in allowance for employees' retirement benefits	(1,580)	609	(1,250)
Decrease in allowance for directors' and corporate auditors' retirement benefits	(359)	(42)	(321)
Increase (decrease) in allowance for point gift certificates	423	(215)	703
Loss on adjustments of gift coupons, etc.	5,465	-	8,580
Decrease in allowance for loss on disposal of buildings and structures	(2,379)	(1,451)	(928)
Interest and dividend income	(873)	(738)	(1,451)
Interest expenses	815	705	1,549
Equity in gain of affiliated companies	(1,279)	(1,050)	(2,503)
Gain (loss) on sale of property and equipment, net	(44)	-	(1,603)
Loss on disposal of property and equipment	2,760	1,702	3,736
Gain (loss) on sale of securities, net	1	(1)	(4,036)
Write-down of investment securities	18	-	242
Increase in notes and accounts receivable	(15,022)	(8,261)	(23,382)
(Increase) decrease in inventories	(2,533)	737	(2,253)
Increase in notes and accounts payable	4,242	809	697
Decrease in guarantee deposits	54,374	-	55,041
Other	(3,345)	3,546	(220)
Subtotal	60,215	19,130	79,832
Interest and dividend income received	2,563	1,472	3,122
Interest expense paid	(1,291)	(600)	(2,101)
Income taxes paid	(9,486)	(8,002)	(15,371)
Net cash provided by operating activities	52,000	12,000	65,480
II Cash flows from investing activities:			
Purchase of time deposits maturing after three months	(43)	(12)	(55)
Repayment of time deposits maturing after three months	31	-	55
Purchase of securities	(4,010)	(6)	(6,015)
Proceeds from sale of securities	2	1,838	4,415
Purchase of property and equipment	(35,549)	(11,065)	(47,621)
Proceeds from sale of property and equipment	618	0	3,693
Increase in long-term advances	(34)	(15)	(47)
Proceeds from collection of long-term advances	29	20	52
Other	0	0	0
Net cash used in investing activities	(38,953)	(9,240)	(45,522)
III Cash flows from financing activities			
Proceeds from long-term bank loans	1,000	-	14,500
Repayment of long-term bank loans	(42,319)	(1,982)	(46,232)
Proceeds from issuance of bonds	10,000	-	10,000
Redemption of bonds	-	-	(10,000)
Proceeds from sale of treasury stock	2	4	5
Cash dividends paid	(1,650)	(1,649)	(3,299)
Other	(68)	(49)	(98)
Net cash provided by (used in) financing activities	(33,035)	(3,677)	(35,125)
IV Effect of exchange rate changes on cash and cash equivalents	316	(94)	110
V Increase (decrease) in cash and cash equivalents	(19,672)	(1,012)	(15,056)
VI Cash and cash equivalents at beginning of period	54,961	39,905	54,961
VII Cash and cash equivalents at end of period	35,289	38,892	39,905