

# Takashimaya Company, Limited

Takashimaya Reports Earnings for the Year Ended February 28, 2014

## 1. Qualitative Information about Consolidated Operating Results

### (1) Summary of Operating Results

Total consolidated sales and other operating revenue for the Takashimaya Group rose 3.9% from the previous fiscal year, to 904,180 million yen. Consolidated operating income was up 14.2%, to 29,099 million yen, and consolidated ordinary income increased 11.7%, to 33,350 million yen. Consolidated net income climbed 13.2%, to 18,716 million yen.

Looking at the Japanese economy during the fiscal year, corporate performance staged a steady recovery, chiefly reflecting a weaker yen and higher stock prices thanks to Abenomics. However, given the effect of the consumption tax hike on buying behavior, it is difficult to be optimistic about future conditions in the department store industry.

In this environment, the Takashimaya Group continued to execute structural reforms and sought to enhance its sales capabilities, mainly in department stores. In addition, the Group made the most of its advantage of having highly profitable companies. Reflecting these initiatives, consolidated ordinary income rose for the fourth consecutive fiscal year.

We deeply apologize for the inconvenience caused by last year's improper food labeling. We will strive to thoroughly manage food labeling, including food labeling at our business partners, to prevent a recurrence and will make ardent efforts to restore confidence.

### (2) Segment Information

Operating performance by segment is discussed below.

#### **Department Stores**

In the Department Stores segment, sales and other operating revenue increased 3.6% from the previous fiscal year, to 798,079 million yen. Operating income rose 17.5%, to 13,962 million yen.

Aiming to change its department stores to continue to offer new value, the Takashimaya Group bolstered the sales base for its stores, including the customer base and merchandizing capabilities, to improve earnings power.

Partly because of the wealth effect associated with higher stock prices, big-ticket items such as jewelry and select clothing, general merchandise, and articles for living, including furniture, sold well. The Group issued a new credit card for affluent customers to retain good customers. Meanwhile, the Group took steps to attract customers, using all-store sales promotions in spring and autumn and TV commercials in December, the peak demand season, last year. In June last year, five large stores introduced a new duty-free system to improve convenience for the rising number of foreign tourists. By store, the Nihombashi store reported increased revenues, reflecting events to commemorate its 80th anniversary and an increase in out-of-store sales. The Yokohama store, a major store, also recorded increased revenues due to strong sales of jewelry and articles for living. The number of customers who visited the Shinjuku store increased, reflecting the store's initiatives to tap into growing numbers of people visiting Shinjuku after the linking of the Tokyu Toyoko Line with the Tokyo Metro Fukutoshin Line in March 2013. The Shinjuku store performed well as a result of those and other initiatives to attract customers as a test store for omni-channel retailing. Despite intensifying competition triggered by large-scale development projects in the Umeda and Abeno areas, the Osaka store recorded increased revenues through meticulous, community-based initiatives tailored for the area. Of small and medium-sized stores,

the Tamagawa store, which has a strong customer base, performed well. The Okayama store expanded and renovated its food floor and increased the number of customers and sales. The Omiya store introduced large tenants to attract more customers and bolster its revenue base, and the number of customers increased significantly.

In terms of merchandise, the Group emphasized the features of Takashimaya, especially its high-quality merchandise. The Group considerably expanded its Cashmere Knit Collection in terms of the number of events and the volume of products and introduced STYLE & EDIT at the Tamagawa store. The Group held the “Art + Living: Takashimaya” exhibition at the Setagaya Art Museum in Tokyo in the first half of the fiscal year and at the Osaka store in the latter half. The Group linked the exhibition at the Osaka store to departments in the store and the Takashimaya Historical Museum to enhance the value of the brand of Takashimaya, which has made cultural contributions, and to increase customer numbers. Overseas, Takashimaya Singapore Ltd. expanded its floor area and renovated the building in October last year, taking the opportunity of the 20th anniversary, and posted increased revenues. Although expenses, including renovation costs, increased, operating income rose chiefly due to the effect of foreign exchange. Since the grand opening of Shanghai Takashimaya in September last year, Shanghai Takashimaya Co., Ltd. proposed high-quality lifestyles and provided service with hospitality.

### **Contract & Design**

In the Contract & Design segment, sales and other operating revenue increased 8.5% from the previous fiscal year, to 20,622 million yen. Operating income rose 27.9%, to 1,110 million yen.

Takashimaya Space Create Co., Ltd. posted an increase in sales and other operating revenue and operating income, attributable to the expansion of the housing renovation business and strong orders from hotels and commercial facilities.

### **Real Estate**

The Real Estate segment’s sales and other operating revenue increased 8.7% from the previous fiscal year, to 36,804 million yen. Operating income totaled 8,380 million yen, an increase of 8.0%.

Toshin Development Co., Ltd. posted higher revenues and earnings due to strong performance in the operation of the Tamagawa Takashimaya Shopping Center, Kashiwa Station Mall, and Nagareyama Otakanomori Shopping Center and an improvement in operational efficiency.

### **Finance**

Sales and other operating revenue in the Finance segment increased 2.2% from the previous fiscal year, to 11,911 million yen, and operating income rose 14.3%, to 4,144 million yen.

Takashimaya Credit Co., Ltd. posted increased operating revenues and earnings due to solid growth in credit-card transactions and an increase in income from annual fees.

### **Other**

Sales and other operating revenue in the Other segment, including the Group’s Cross Media Division, increased 2.9% from the previous fiscal year, to 36,762 million yen. The segment posted operating income of 1,650 million yen, a rise of 30.8% from a year ago. In the Cross Media Division, while net media, especially major promotions, performed well, orders by catalog media declined, reflecting a reduction in the circulation of catalogs as a means to improve efficiency. Overall, revenues in the Cross Media Division fell. Takashimaya Service Co., Ltd. moved into the black by improving operational efficiency and cutting costs.

## 2. Qualitative Information about Consolidated Financial Status

### Assets, Liabilities, and Net Assets

Consolidated assets at the end of the fiscal year (February 28, 2014) totaled 902,139 million yen, up 111,452 million yen from the end of the previous fiscal year (February 28, 2013), mainly reflecting increases in cash and deposits and short-term investment securities. Liabilities rose 81,983 million yen from the end of the previous fiscal year, to 537,227 million yen, chiefly due to an increase in bonds payable. Net assets totaled 364,912 million yen, up 29,468 million yen from the end of the previous fiscal year due to a rise in retained earnings, among other factors.

### Cash Flows

Consolidated cash and cash equivalents at the end of the fiscal year (February 28, 2014) totaled 145,108 million yen, an increase of 81,127 million yen from the previous fiscal year.

Net cash provided by operating activities was 40,582 million yen, a decrease of 3,559 million yen from the previous fiscal year. This mainly reflects a decrease of 30,774 million yen in notes and accounts receivable-trade, as well as an increase of 7,187 million yen in notes and accounts payable-trade and an increase of 4,565 million yen in provision for retirement benefits.

Net cash used in investing activities was 30,389 million yen, an increase of 1,919 million yen from the previous fiscal year. This was mainly due to a 14,120 million yen increase in the purchase of tangible and intangible fixed assets, a 3,786 million yen decrease in payments into time deposits, a 3,261 million yen decrease in purchase of stocks of subsidiaries and affiliates, and a 5,586 million yen increase in proceeds from withdrawal of time deposits.

Net cash provided by financing activities was 64,391 million yen (compared with net cash used in financing activities of 32,931 million yen in the previous fiscal year). This was mainly due to a 65,525 million yen increase in proceeds from the issuance of bonds, a 11,200 million yen increase in proceeds from long-term loans payable, and a 20,755 million yen decrease in repayment of long-term loans payable.

Takashimaya Reports Earnings for the Year Ended February 28, 2014

	As of February 28, 2013	(million yen) As of February 28, 2014
<b>Consolidated balance sheet</b>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	69,495	106,451
Notes and accounts receivable - trade	98,978	106,671
Securities	-	43,099
Merchandise and finished goods	37,270	38,490
Work in process	443	262
Raw materials and supplies	521	487
Deferred tax assets	6,601	7,221
Other	23,529	29,876
Allowance for doubtful accounts	(577)	(439)
<b>Total current assets</b>	<b>236,263</b>	<b>332,121</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures, net	154,003	157,381
Machinery, equipment and vehicles, net	110	147
Tools, furniture and fixtures, net	8,050	9,520
Land	213,057	223,296
Leased assets, net	2,939	2,615
Construction in progress	594	1,476
<b>Total property, plant and equipment</b>	<b>378,755</b>	<b>394,436</b>
<b>Intangible assets</b>		
Leasehold right	11,414	11,414
Goodwill	745	631
Other	16,819	16,670
<b>Total intangible assets</b>	<b>28,979</b>	<b>28,716</b>
<b>Investments and other assets</b>		
Investment securities	96,100	105,890
Guarantee deposits	41,288	34,420
Deferred tax assets	7,131	4,292
Other	4,962	5,029
Allowance for doubtful accounts	(2,794)	(2,768)
<b>Total investments and other assets</b>	<b>146,688</b>	<b>146,864</b>
<b>Total non-current assets</b>	<b>554,423</b>	<b>570,017</b>
<b>Total assets</b>	<b>790,687</b>	<b>902,139</b>

Takashimaya Reports Earnings for the Year Ended February 28, 2014

	As of February 28, 2013	As of February 28, 2014
(million yen)		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	87,883	95,901
Short-term loans payable	19,172	17,301
Current portion of bonds	-	30,000
Lease obligations	856	923
Income taxes payable	4,045	7,822
Advances received	77,022	78,125
Gift certificates	57,174	54,498
Deposits received	25,545	24,505
Provision for point card certificates	3,136	3,260
Provision for directors' bonuses	16	17
Asset retirement obligations	-	11
Other	19,793	23,232
<b>Total current liabilities</b>	<u>294,645</u>	<u>335,599</u>
<b>Non-current liabilities</b>		
Bonds payable	30,000	65,503
Long-term loans payable	49,674	54,724
Lease obligations	2,109	1,715
Asset retirement obligations	1,301	1,514
Provision for retirement benefits	43,648	42,098
Provision for directors' retirement benefits	207	254
Provision for environmental measures	651	647
Deferred tax liabilities	109	360
Deferred tax liabilities for land revaluation	8,721	8,721
Other	24,174	26,087
<b>Total non-current liabilities</b>	<u>160,597</u>	<u>201,627</u>
<b>Total liabilities</b>	<u>455,243</u>	<u>537,227</u>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	56,025	56,025
Capital surplus	45,085	45,085
Retained earnings	206,440	221,857
Treasury shares	(536)	(549)
<b>Total shareholders' equity</b>	<u>307,014</u>	<u>322,418</u>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	12,106	16,815
Deferred gains or losses on hedges	1	0
Revaluation reserve for land	8,537	8,537
Foreign currency translation adjustment	1,767	10,422
<b>Total accumulated other comprehensive income</b>	<u>22,413</u>	<u>35,775</u>
<b>Minority interests</b>	6,015	6,718
<b>Total net assets</b>	<u>335,443</u>	<u>364,912</u>
<b>Total liabilities and net assets</b>	<u>790,687</u>	<u>902,139</u>

Takashimaya Reports Earnings for the Year Ended February 28, 2014

	(million yen)	
	Year ended February 28, 2013	Year ended February 28, 2014
<b>Consolidated statement of income</b>		
Net sales	815,387	845,785
Cost of sales	605,687	631,111
Gross profit	209,700	214,673
Other operating revenue	54,945	58,394
Operating gross profit	264,646	273,068
<b>Selling, general and administrative expenses</b>		
Advertising expenses	22,835	23,640
Provision for point card certificates	3,136	3,316
Distribution and operational expense	26,519	27,009
Supplies expenses	3,371	3,569
Provision of allowance for doubtful accounts	385	227
Directors' compensations, salaries and allowances	66,686	67,266
Retirement benefit expenses	6,814	4,581
Provision for directors' bonuses	16	17
Provision for directors' retirement benefits	74	70
Welfare expenses	13,464	13,484
Heating and lighting expenses	12,031	13,069
Commission fee	2,842	3,399
Rent expenses on real estates	37,157	40,256
Rent expenses on machines	1,093	927
Depreciation	18,405	18,198
Amortization of goodwill	206	206
Other	24,127	24,727
Total selling, general and administrative expenses	239,169	243,969
Operating income	25,476	29,099
<b>Non-operating income</b>		
Interest income	370	435
Dividend income	856	993
Gain on adjustment of account payable	711	177
Share of profit of entities accounted for using equity method	2,228	2,482
Foreign exchange gains	1,159	408
Gain on donation of non-current assets	387	780
Other	442	456
Total non-operating income	6,157	5,734
<b>Non-operating expenses</b>		
Interest expenses	1,263	1,121
Other	503	362
Total non-operating expenses	1,766	1,483
Ordinary income	29,866	33,350

Takashimaya Reports Earnings for the Year Ended February 28, 2014

	(million yen)	
	Year ended February 28, 2013	Year ended February 28, 2014
Extraordinary income		
Gain on sales of non-current assets	-	213
Gain on sales of investment securities	-	38
Other	-	34
Total extraordinary income	-	286
Extraordinary losses		
Loss on retirement of non-current assets	2,751	3,756
Loss on valuation of investment securities	24	-
Impairment loss	877	-
Other	33	360
Total extraordinary losses	3,686	4,116
Income before income taxes and minority interests	26,180	29,520
Income taxes - current	5,890	10,101
Income taxes - deferred	3,058	(71)
Total income taxes	8,949	10,029
Income before minority interests	17,230	19,491
Minority interests in income	690	774
Net income	16,540	18,716

Takashimaya Reports Earnings for the Year Ended February 28, 2014

	Year ended February 28, 2013	(million yen) Year ended February 28, 2014
<b>Consolidated statement of comprehensive income</b>		
Income before minority interests	17,230	19,491
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	6,772	4,519
Deferred gains or losses on hedges	(9)	(2)
Foreign currency translation adjustment	3,829	5,272
Share of other comprehensive income of entities accounted for using equity met	3,445	3,572
Total other comprehensive income	14,038	13,361
<b>Comprehensive income</b>	<b>31,268</b>	<b>32,852</b>
<b>Comprehensive income attributable to</b>		
Comprehensive income attributable to owners of parent	30,578	32,077
Comprehensive income attributable to minority interests	690	774



Takashimaya Reports Earnings for the Year Ended February 28, 2014

	(million yen)	
	Year ended February 28, 2013	Year ended February 28, 2014
<b>Cash flows from operating activities</b>		
Income before income taxes and minority interests	26,180	29,520
Depreciation	18,427	18,218
Impairment loss	877	-
Amortization of goodwill	113	113
Increase (decrease) in allowance for doubtful accounts	(1,912)	(167)
Increase (decrease) in provision for retirement benefits	(6,115)	(1,550)
Increase (decrease) in provision for directors' retirement benefits	(34)	47
Increase (decrease) in provision for point card certificates	(381)	124
Interest and dividend income	(1,227)	(1,428)
Interest expenses	1,263	1,121
Share of (profit) loss of entities accounted for using equity method	(2,228)	(2,482)
Loss (gain) on sales of non-current assets	-	(213)
Loss on retirement of non-current assets	1,821	2,297
Loss (gain) on sales of short-term and long-term investment securities	-	(38)
Loss (gain) on valuation of investment securities	24	0
Decrease (increase) in notes and accounts receivable - trade	23,054	(7,720)
Decrease (increase) in inventories	(249)	(861)
Increase (decrease) in notes and accounts payable - trade	(413)	6,774
Other, net	(9,467)	1,708
Subtotal	49,733	45,462
Interest and dividend income received	2,001	2,446
Interest expenses paid	(1,383)	(1,115)
Income taxes paid	(6,210)	(6,211)
Net cash provided by (used in) operating activities	44,141	40,582
<b>Cash flows from investing activities</b>		
Payments into time deposits	(4,859)	(1,072)
Proceeds from withdrawal of time deposits	60	5,647
Purchase of short-term and long-term investment securities	(13)	(782)
Proceeds from sales of short-term and long-term investment securities	18	56
Purchase of shares of subsidiaries and associates	(3,261)	-
Purchase of property, plant and equipment and intangible assets	(20,425)	(34,546)
Proceeds from sales of property, plant and equipment and intangible assets	-	242
Other, net	11	66
Net cash provided by (used in) investing activities	(28,470)	(30,389)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	-	40
Proceeds from long-term loans payable	5,300	16,500
Repayments of long-term loans payable	(34,116)	(13,360)
Proceeds from issuance of bonds	-	65,525
Cash dividends paid	(3,298)	(3,298)
Other, net	(815)	(1,014)
Net cash provided by (used in) financing activities	(32,931)	64,391
Effect of exchange rate change on cash and cash equivalents	5,162	6,543
Net increase (decrease) in cash and cash equivalents	(12,097)	81,127
Cash and cash equivalents at beginning of period	76,077	63,980
Cash and cash equivalents at end of period	63,980	145,108