



Retail Tradition with the
CUSTOMER AT THE CORE

Annual Report Year ended February 28, 2007

Established as a clothing retailer in 1831, Takashimaya Company, Limited began operations as a department store in 1922. Today, it is Japan's leading department store operator in terms of turnover, with services extending into Contract & Design, Real Estate, Finance and other businesses. Through 20 stores in Japan and three overseas—in Singapore, New York and Taiwan—it offers its customers a shopping experience characterized by the highest in Japanese quality, service and tradition. One of the Company's strengths is its development of large metropolitan retail stores that exceed 50,000 m² or boast annual sales of more than ¥100.0 billion—notably the Tokyo, Shinjuku, Yokohama, Nagoya, Kyoto and Osaka stores. The Group, which comprises the parent company, 32 subsidiaries and 14 affiliates, employs 10,225 people. Throughout its history, Takashimaya has consistently worked to benefit all stakeholders in line with its corporate philosophy—putting people first.

Forward-looking statements and note regarding redesignation of fiscal years

Statements contained in the Annual Report regarding business results for the fiscal year ended February 28, 2007 represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly from those anticipated due to unforeseen factors, such as exchange rate fluctuations. Also, this Annual Report designates the year ended February 28, 2007 as fiscal 2006 to reflect that most of the term took place in 2006.

Refined

merchandise and service for the discerning customer

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Takashimaya's new rose wreath design

The rose is Takashimaya's company symbol and many Japanese associate the flower with the brand. Now, Takashimaya has redesigned its rose wreath wrapping paper and shopping bag to time with the opening of the refurbished Shinjuku store in April 2007.

The new rose motif was taken from a gift plate presented by Staatliche Porzellan-Manufaktur Meissen GmbH for Takashimaya's 150th anniversary celebration. The new design represents "modernity" and "gorgeousness."

Meissen will, in the name of the two companies, donate the fee paid by Takashimaya for using the plate's design to the Ban Rom Sai orphanage in Thailand.

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TAKASHIMAYA GROUP
NETWORK

FINANCIAL HIGHLIGHTS

Takashimaya Company, Limited and Consolidated Subsidiaries, Years ended February 28, 2007 and 2006	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
For the year:			
Net sales	¥ 1,007,476	¥ 989,471	\$ 8,506,214
Other operating revenue	41,930	41,679	354,019
Sales and other operating revenue	1,049,406	1,031,150	8,860,233
Operating income	33,861	32,755	285,892
Net income (loss)	25,320	21,192	213,779
At year-end:			
Total assets	782,996	765,487	6,610,908
Total liabilities	496,167	537,700	4,189,184
Interest-bearing debt	116,492	163,068	983,553
Total net assets	286,829	227,787	2,421,724
	Yen		U.S. dollars
Per share data:			
Net income (loss):			
Basic	77.82	68.77	0.66
Diluted	74.66	65.75	0.63
Cash dividends applicable to the year	9.50	9.00	0.08
Ratios:			
ROE*	9.9	10.0	
Net assets ratio*	36.2%	29.7%	

Notes: 1. The U.S. dollar amounts in this report are presented for convenience only and have been converted at the rate of ¥118.44 to \$1.00, the approximate rate prevailing at February 28, 2007.

2. $ROE = \frac{\text{Net income}}{\text{Average owners' equity and accumulated gains from revaluation and translation adjustments}} \times 100$

3. The number of shares outstanding excludes treasury stock.

*ROE and Net assets ratio are calculated from total net assets excluding minority interests in consolidated subsidiaries.



Fourth Consecutive Year of Growth in Consolidated Earnings

Consolidated sales and other operating revenue improved for the fourth consecutive year with a 1.8% year-on-year increase to ¥1,049.4 billion. Operating income has also been rising consistently for four years, and the current year's result of ¥33.9 billion was the second highest ever. Net income reached a new record of ¥25.3 billion, marking the third year of continuous growth.

Growth in Department Store Revenues and in the Number of Stores Showing Revenue Growth

In the core area of domestic department store operations, revenues increased by 0.9%. Revenues from the Shinjuku store were 2.5% lower because of refurbishment work, but the number of stores recording higher revenues increased from eight to ten year on year.

Strong Performance by Group Companies

Total income from subsidiaries, increased by ¥2.7 billion over the previous year. Toshin Development Co., Ltd. registered a ¥0.6 billion year-on-year increase in income. Overseas, Takashimaya Singapore Ltd. continued to record strong sales and achieved a ¥0.7 billion increase in income. We continued to make good progress with our Group restructuring and total income from Group companies increased.

Dividend Raised by ¥0.5 — ¥5 Final Dividend

Net income increased by 19.5% to a new record of ¥25.3 billion. The annual dividend for the current year was raised by ¥0.5 to ¥9.5. In the year ending February 28, 2008, the annual dividend will increase to ¥10.0, consisting of interim and final dividends of ¥5.0 each.

Financial Position Strengthened by Capital Increase and Income Growth

Aggressive investment under our long-term business plan has resulted in growth in fixed assets. Total assets increased by ¥17.5 billion in the year under review and stood at ¥783.0 billion as of February 28, 2007. Our improved financial structure was reflected in a 6.5% rise in the consolidated equity ratio to 36.2%.



Koji Suzuki, President

Growing

from an ever-stronger
financial foundation

I am pleased to report that our consolidated performance continued to improve in the year ended February 28, 2007. Operating income increased for the fourth consecutive year, while net income set a new record.

We are determined to maintain this upward trend in our business performance by remaining faithful to our core principle—putting the customer first.

The Year in Review

Escalating competition, abnormal weather patterns and other factors created a challenging environment for the department store industry. We met this challenge by continuing to strengthen the Takashimaya Group's marketing systems and financial structure under our long-term business plan.

We expanded our partnership with Credit Saison Co., Ltd., strengthened our financial structure through an increase in shareholders' equity, and increased consolidated income through the restructuring of Group businesses.

These efforts were reflected in growth in both revenue and income. Consolidated sales and other operating revenues increased by 1.8% year on year to ¥1,049.4 billion, and consolidated operating income climbed by 3.4% to ¥33.9 billion. Consolidated net income rose by 19.5% to ¥25.3 billion.

Group Management Policies for the Year Ending February 28, 2008

The year ending February 28, 2008 will be the third year of our long-term business plan, Strategies for Growth. We will continue to apply our core principle—putting the customer first—as we work to strengthen our marketing potential by developing stores that are a cut above the competition. Our goal is to achieve sustainable growth in partnership with society, and we will continue to foster awareness of our social responsibilities throughout our work force.

“ Consolidated net income rose by 19.5%
to ¥25.3 billion—a new record. ”

Long-term Business Plan for the Period to Fiscal 2011

Each year we revise the numerical targets of our long-term business plan, Strategies for Growth, to reflect changes in the business environment. In the current year's revision, the target for total investment was reduced, but other targets, including those for sales and other operating revenue and ordinary income in fiscal 2011, were raised compared with the plan's initial figures.

Significant changes in the founding premises of these targets include a ¥15.0 billion renovation scheme for the entire Yokohama store, to be completed in the spring of 2009, and a change to the financial plan for the Shinjuku store to reflect a change in the store's leasing scheme.

**Group Operating
Policies for the Year to
February 2008**

In the core Department Store segment, we will continue to strengthen our store marketing capacity under our strategy of developing stores that are a cut above the rest. Having reopened the completely refurbished Shinjuku store on April 19, 2007, we will continue to implement other initiatives designed to maximize our sales potential and strengthen our revenue base. These plans include the refurbishment of the Yokohama store and the expansion and refurbishment of the Osaka store.

Achievements by Group companies include the opening of the Nagareyama Otaka no Mori Shopping Center by Toshin Development Co., Ltd. on March 12, 2007. Another key event was the opening of the first Takashimaya Food Maison food store inside the shopping center. This new food store format brings together several specialist food stores, similar to the underground food courts often found beneath department stores. In April 19, Toshin Development. began leasing the T-terrace in the Namba Parks development in Osaka.

Toshin Development's shopping center business holds great growth potential, and we intend to build this area of activity into our second core segment alongside the Department Store business.

Overseas, Takashimaya Singapore Ltd. continues to enjoy an important advantage because of its knowledge of overseas operations and its status as the leading store in the region. We are also considering establishing stores in China and Southeast Asia.

In the credit card and online shopping businesses, we continued to make solid progress. In March 2007, we began issuing the Takashimaya Card «Gold», a new card for high-net-worth customers. Here, we will work to raise customer loyalty and the precision of our database marketing. March also saw the launch of full-scale Internet shopping with the establishment of the Online Business Headquarter.

“ We intend to build the shopping center business into our second core segment. ”

CSR Management

In March 2006, we established the CSR Promotion Office and formulated a policy direction for Takashimaya. In CSR, as in all other areas, we are guided by our core management philosophy that everything begins with people.

This expresses our determination to contribute to the sustainable advancement of society by always being considerate to others, by

building relationships based on trust and by helping to enrich lives. Through continuous development of our CSR activities, we will work to provide enhanced value to all stakeholders and establish this philosophy as an ideal shared by all of our employees.

**Strengthening
Corporate Governance
Structures**

We are modifying Takashimaya's governance structures to enhance our ability to meet stakeholder expectations. Planned changes include the introduction of an operating officer system and a reduction in the number of directors and operating officers.

To speed up decision-making and implementation, authority over some of the items that now require board resolutions will be delegated to the operating organization. We also plan to improve management transparency by shortening terms of office, revising the directors' compensation system and establishing a Nomination Committee and a Remuneration Committee.

“ Through continuous development of our CSR activities, we will provide enhanced value to all stakeholders. ”

To Our Shareholders

In the year ending February 28, 2008, these business activities are expected to generate consolidated sales and other operating revenues of ¥1,060.0 billion, a year-on-year increase of 1.0%. Consolidated net income is expected to decline by 21.0% to ¥20.0 billion.

Our basic goal is to strengthen our operating position so that we can maintain dividend stability, while keeping our decisions on income distribution to shareholders based on comprehensive analyses of our business performance and operating position. In the year to February 2008, the annual dividend will be ¥10.0, consisting of interim and final dividends of ¥5.0 each.

We look forward to the continuing support of our shareholders as we strive to further improve our business performance.

May, 2007



Koji Suzuki, President



Setting the Course for Stable LONG-TERM GROWTH

All members of the Takashimaya organization, from senior management to sales personnel, are working toward the same goal—further growth and success for the Takashimaya Group under our long-term business plan.

Strategies for Growth—investment and store development

Total investment under Strategies for Growth (¥)		
Initial plan	Revised plan	
275 billion	250 billion	
Numerical targets for fiscal 2011 (consolidated)		
	Initial plan	Revised plan
Sales and other operating revenue (¥)	1,100 billion	1,120 billion
Ordinary income (¥)	52 billion	55 billion
Interest-bearing debt (¥)	110 billion	70 billion
ROA (ordinary income/total assets) (%)	6.5	6.8

Yokohama store	
	Target
Project completion	Spring 2009
Total investment (¥)	15 billion
Projected sales increase (¥)	12 billion

Osaka store	
	Target
Project completion	Fall 2009
Total investment (¥)	34 billion
Projected sales increase (¥)	30 billion

Note: This figure includes a deposit of ¥3.0 billion to Nankai Urban Development Co., Ltd.

Tokyo store	
	Target
Project completion	2015
Total investment (¥)	30-35 billion (15-20 billion by fiscal 2011)

The Takashimaya Group's Long-term Business Plan

In fiscal 2005, the Takashimaya Group adopted a new long-term business plan called Strategies for Growth. The target year for this strategic plan is fiscal 2011, the year of our 180th anniversary. Under the plan, we will work to maximize the earnings of our Group companies by implementing policies in three key areas.

First, we will continue to develop superior stores that will be seen as the best in their areas. Second, we will open new stores and undertake large-scale expansion projects, as well as develop new markets in partnership with other companies in Japan and overseas. Third, we will establish the shopping center business as a second core segment. All of these initiatives will be guided by our core principle of putting the customer first.

Changes to Investment Amounts and Numerical Targets in the Long-term Business Plan

The numerical targets of the long-term business plan are revised at the start of each fiscal year to reflect changes in the business environment. The current year's revision takes into account our results for fiscal 2006 and our income planning for fiscal 2007, as well as changes in the premises on which growth investment schemes are based. The main changes are the addition of a ¥15.0 billion renovation scheme for the Yokohama store, and

Evolving
to meet market needs

a change to the financial plan to reflect a change in the leasing scheme for the Shinjuku store.

These adjustments are reflected in the revised targets for fiscal 2011. The target for total investment has been reduced to ¥250.0 billion, while other targets are above the levels set down in the initial plan. These include sales and other operating revenue of ¥1,120.0 billion, ordinary income of ¥55.0 billion, interest-bearing debt of ¥70.0 billion and an ROA (ordinary income/total assets) of 6.8%.

Review of Major Investment Plans



The Osaka store's new building

We aim to expand sales through concentrated investment in Takashimaya's five flagship stores. We are determined to consolidate the status of the Yokohama store as the leading department store in its area. The entire store will be remodeled, resulting

in radical changes in merchandising, services and the store environment.

The project, to be completed by the spring of 2009, will require a total investment of ¥15.0 billion and is expected to boost sales by ¥12.0 billion annually.

Two more of our flagship stores, the Osaka and Tokyo stores, will be remodeled as part of district redevelopment schemes. We will invest ¥34.0 billion into totally remodeling and expanding the Osaka store, including a ¥3.0 billion deposit to Nankai Urban Development Co., Ltd. This project will be the cornerstone of a redevelopment scheme for the Namba district of Osaka. When reopening in the fall of 2009, the Osaka store will have 78,000 m² of sales space spread over 11 above-ground floors and two basement levels. The aim is a ¥30.0 billion increase in annual sales.

As for the Tokyo store, we will invest a total of ¥30.0–35.0 billion in a project that will turn it into the premiere commercial facility in Tokyo's Nihombashi district. Work will start in fiscal 2009, and ¥15.0–20.0 billion will be invested in the period to fiscal 2011. The store will reopen in 2015.

Specific Policies for Fiscal 2007

Through management reforms focused primarily on operating cost structures and merchandising systems, we will further consolidate the Takashimaya Group's financial fundamentals. The following steps will allow us to grow and develop further, and achieve the goals of the long-term business plan:

- Despite strong performance in the year ended February 2007, we cannot be complacent about future consumer spending trends. In preparation for future changes, we will invest in remodeling projects, especially for our major stores. Also, we will create unique selling spaces by developing and stocking merchandise that reflects the needs of our customers, by turning our stores into sources of information and by training our staff as sales consultants capable of giving in-depth advice to customers. Another focus will be to reinforce the marketing potential of our stores by enhancing shopping comfort, safety and design quality.
- To meet escalating competition, we must enhance the competitiveness of our stores through expansion projects and other measures. On April 19, 2007, the Shinjuku store was reopened after remodeling under the RE-AXIS plan. Other major investment projects are the total remodeling of the Yokohama store, the construction of a new main building for the Osaka store, and redevelopment of the Tokyo store.
- We intend to build Toshin Development Co., Ltd.'s shopping center business into a second core segment and strengthen the Takashimaya Group through investment in this area.

There are also plans for investment in IT infrastructure designed to enhance our earning potential.



Takashimaya's Tokyo store



Strengthening Core Operations through Enhanced DEPARTMENT STORES

The department store business is the Takashimaya Group's core segment, and accounts for 90% of sales and other operating revenue. It consists of Takashimaya, ten subsidiaries and four affiliated companies, including the consolidated subsidiary Takashimaya Singapore Ltd.

Strengthening Our Sales Power

To achieve the goals of our long-term business plan, we need to strengthen the sales power and business base of the entire Takashimaya Group. Here, we are working to enhance our performance on all levels, including merchandise, services and environment, by improving customer satisfaction and convenience.

This entails offering an expanded and differentiated range of goods and improving our store environments, including providing barrier-free access. In six major stores, we are introducing the STYLE & EDIT boutique. Also, we have expanded and remodeled our stores in various parts of Japan. These initiatives are expected to bring further sales growth.

A key focus of our efforts is merchandising. We are working to differentiate and reform our marketing activities, including a shift to joint marketing.

We will apply our Group resources to the joint development of powerful brands. In small and medium outlets, we will develop "modular" sales areas based on a collaborative approach in such areas as merchandise displays, sales area management and procurement.

Being able to provide what the customers want is central to success. Here, we continue to develop products under our Voice File brand, which reflects customers' needs and wishes. We are also expanding the number of sales specialists and concierges, who can assist customers with their in-depth product knowledge, and enhancing our sales areas, which are our main interfaces with customers.

Strengthening Sales Systems and Reforming Marketing Cost Structures

We will strengthen our sales systems by building a new CRM system. By optimizing our information systems, we will be able to leverage customer information gathered with credit card data, including customer attributes and purchasing histories.

With more and more workers approaching retirement age, we anticipate changes in work patterns. This will require the development of a sales organization capable of generating maximum returns from a smaller work force. Here, we will move personnel from back-office functions into marketing activities and rationalize store administration functions so that we can effectively invest human and financial resources.

We aim to cut operating expenses by ¥9 billion over a 30-month period, starting in the second half of fiscal 2006, through centralization of standardized administrative procedures and increased use of IT and outsourcing. We will also raise the efficiency of Group companies through rationalization measures and by improving communication to and from the parent company.



The STYLE & EDIT boutique

Shinjuku Store Remodeled

Concentrated investment in Takashimaya's five flagship stores is central to expanding sales. On April 19, 2007, the Shinjuku store reopened after a ¥12 billion remodeling project under the RE-AXIS plan. The plan aimed at enhancing the store's merchandising systems and transforming its interior to deliver superior quality and fashionability. In addition to the young adult age group, which was the store's main target market in the past, it will also seek to attract affluent Baby Boomers and Generation Y consumers. The vision behind the plan was a new-style department store spanning multiple contrasting axes, including men and women, tradition and modernity, Japanese and Western.

A key feature of the Shinjuku store is its expansive floor space. Its layout has been transformed to create a human-scale environment for enjoyable shopping. Compared with other stores in the Shinjuku district, it offers customers a more relaxed and welcoming interior that includes high ceilings and an atrium space.



The remodeled Shinjuku store

Each of the ten floors has a "Welcome Zone" in the center. In addition to rest areas, these zones also offer a range of unique shops, including supplement juice bars, as well as access to specialized assistance from Takashimaya's concierge service. The Restaurant Park on the top floor is the biggest concentration of restaurants in the Shinjuku district. There are 33 restaurants, including ten new tenants.

The Shinjuku district is currently seeing intense redevelopment. When Tokyo Metro's new subway line, the Fukutoshin Line, is completed in June 2008, there will be an entrance to the new station alongside the Shinjuku store's underground food sales area. The area around JR Shinjuku Station's South Exit is also being developed. The project's completion in 2016 will dramatically improve access to JR Shinjuku Station.

The development scheme for the Shinjuku store was modified as we switched to paying store rent to a fund. This change improved the store's earnings, and even after the deduction of remodeling costs, there was a ¥3.2 billion increase in income. In fiscal 2007, sales are expected to reach ¥85.6 billion.

Sales by department store
(Billions of yen)



Sales by category
(%)





Maximizing Customer Convenience through ONLINE SHOPPING

Recognizing the power of the Internet to drive sales, we are actively developing our online business activities. The new Takashimaya Online Shopping website is at the heart of these operations.

Expanding the Online Shopping Business

As part of initiatives to boost sales from the online shopping business, which we commenced in 2000, we have remodeled and enhanced our e-Department Store (e-hyakkaten) into a new website, Takashimaya Online Shopping. On March 1, 2007, we established a new Online Business Headquarter to develop this business, setting the sales target for fiscal 2007 at ¥4.0 billion.

The new website, which aims to provide the best service quality of any department store website, was launched on April 19, 2007. Its enhanced features will enable us to reach our online sales target of ¥10.0 billion by fiscal 2009. We aim to attract 230,000 website members a year, bringing the cumulative total to 400,000.

The new website design makes it easier for the customer to find and purchase items. Also, a new online concierge service gives the customer advice and information, for instance about special campaigns and appropriate gifts and gift wrappings for special occasions.

To enhance the range of merchandise, we will develop new products, including commemorative goods and gifts. Gifts are of particular importance, as they have proven to sell very well from our online shop, especially around the traditional gift-giving occasions,

such as December (Oseibo), the summer (Ochugen), Mother's Day and Father's Day.

In June 2007, we also introduced Takashimaya Net Points, a program that lets customers make payments online with points earned through in-store credit card purchases.



The new Takashimaya Online Shopping website

The updated website now offers more merchandise and a range of first-class services.

Sales results and targets of the online shopping business (Billions of yen)



Raising Our Marketing Potential with New CREDIT CARD SERVICES

The relationship between Takashimaya Credit Co., Ltd. and Credit Saison Co., Ltd. is a powerful asset as we work to expand turnover and enhance the marketing potential of our department stores.

Customer Relationship Marketing Promotion Plan

We are developing a new, optimized Customer Relationship Marketing (CRM) structure that will allow us to strengthen our database marketing activities through rapid access to accumulated customer information, such as purchasing behavior data.

By using information gained from in-depth analyses of this data, we will be able to strengthen our relationship with customers by offering customized services, including timely suggestions and offers, that reflect each customer's needs and life stage.

Partnership between Takashimaya Credit and Credit Saison

In the area of financial services, the relationship between Takashimaya Credit and Credit Saison will give us access to know-how that will help us to

strengthen our credit card business.

We have stepped up our efforts to attract new cardholders. Here, the new Takashimaya Card «Gold», released in March 2007, will play an important role. Developed for high-net-worth customers and marketed as the “First Class” of department store credit cards, the card will help us build customer loyalty, enhance the precision of our database marketing and respond appropriately to customer needs.



Takashimaya credit cards

Takashimaya offers three types of credit cards—the Takashimaya «Saison» Card, the Takashimaya Card and the Takashimaya Card «Gold»—with benefits ranging from basic to very comprehensive.

Cardholders—breakdown by card type and targets (thousand)

	Number of new cardholders (fiscal 2006)	Total number of cardholders as of February 28, 2007	Number of new cardholders (fiscal 2007 targets)
Takashimaya Card «Gold»	—	—	160
Takashimaya Card	120	1,060	120
Takashimaya «Saison» Card	340	660	260
Total	460	1,720	540

Percentage of total sales accounted for by in-house card sales





Increasing Revenues by Leveraging SHOPPING CENTER EXPERTISE

Toshin Development Co., Ltd. the hub of our real estate activities, develops and operates regional commercial facilities. The Group is now building the Company's shopping center development activities into a second core segment.

Nagareyama Otaka no Mori Shopping Center

On March 12, 2007, Toshin Development opened its second lifestyle center, the Nagareyama Otaka no Mori Shopping Center. Investment in this large-scale mall development totaled ¥10.0 billion.

The center is located in front of Nagareyama Otaka no Mori Station, where the Tsukuba Express Line and the Tobu Noda Line meet. This area has one of Japan's highest concentrations of Baby Boomers and Generation X people, who are affluent in terms of both money and time. The new mall has 135 stores over a floor area of 41,120 m² and also houses a branch of Takashimaya Food Maison, a specialist food store similar in concept to an underground food court. The annual targets are nine million visitors and sales of ¥16.0 billion.



Nagareyama Otaka no Mori Shopping Center

T-terrace

Takashimaya Group's T-terrace was built during Phase II of the Namba Parks development in Osaka. This new specialty shop zone, which opened on April 19, 2007 after a ¥3.5 billion investment, holds 29 stores within its 4,300 m² and targets sales of ¥2.4 billion annually.

Being part of the development of the south Osaka community was a key element of the project, and the design harmonizes well with the Namba Parks area while emphasizing the Takashimaya Group's commitment to quality. The complex is geared toward people in their twenties and thirties who commute to downtown Osaka.



T-terrace

Kashiwa Takashimaya Station Mall

This full-scale shopping mall links directly to Kashiwa Station, the most important station in Chiba Prefecture in terms of passenger numbers. With approximately 130 specialty stores and Kashiwa Takashimaya as its key tenant, the mall is one of the area's most successful.

A new 12-story, multi-tenant building with two basement levels is being constructed on an adjoining site. Scheduled to open in the fall of 2008, the new building will be linked to the existing building, and enhance the shopping experience.

Expanding the shopping center and refurbishing the Kashiwa store will help Takashimaya establish a firm No. 1 position in the area. Investment in this project will total approximately ¥7.0 billion.

Pursuing New Opportunities at Home while GROWING OVERSEAS

In its Contract & Design and Finance segments, the Takashimaya Group engages in a variety of other business areas. The Group also maintains a strong presence overseas through its stores in Singapore, Taiwan and New York.

Other Business Activities

The Takashimaya Group's Contract & Design activities are handled by two subsidiaries, including the consolidated subsidiary Takashimaya Space Create Co., Ltd. These companies carry out interior finishing contracts for various buildings, including commercial facilities, luxury hotels and cultural facilities.

Currently, they are engaged in aggressive marketing activities with the aim of winning more large-scale contracts and strengthening their income structures by winning more orders as prime contractors. In the current year, Takashimaya Space Create has intensified its marketing activities in future growth categories, such as hotels and care facilities. It is also working to reduce cost ratios and reform its income and expenditure structure through strategies that include the consolidation of suppliers.

The Finance business is handled by three subsidiaries, led by the consolidated subsidiary Takashimaya Credit Co., Ltd. This company handles credit card and lending services. Here, our partnership with Credit Saison Co., Ltd. is a key asset, and we are also working to strengthen our business base by forming alliances with other companies.

Overseas Stores

Takashimaya currently has three overseas stores: Singapore Takashimaya, Dayeh Takashimaya in Taiwan, which is an equity-method subsidiary, and New York Takashimaya. Singapore Takashimaya has been especially successful. A booming domestic economy has generated strong sales in many areas, including boutique lines, ladies apparel, children's apparel and sporting goods, and both sales and operating income were substantially

higher year on year. In fiscal 2006, the Company's Net income increased by 23.2% year on year to S\$29 million (approximately ¥2.2 billion), the best result since the store opened in 1993.

Strong sales trends are also reflected in increased rental income from shopping centers operated by Toshin Development Co., Ltd., which recorded growth in both revenues and income. Takashimaya will continue to target further earnings growth by leveraging the status of its stores as the leading retail establishments in their areas.

Asia continues to see rapid economic growth, and Takashimaya recognizes the growth potential of Asian markets, especially China and Southeast Asia. Through our activities in Singapore and Taiwan, we have accumulated substantial human and financial resources and knowledge of overseas store management. We are now assessing opportunities to use these assets to create ideal commercial facilities in mainland China.



Singapore Takashimaya store



Dayeh Takashimaya store



New York Takashimaya store



The Centennale

Takashimaya Art Department, established in 1909, will celebrate its centennial in 2008. In honor, it will run the Takashimaya Centennale Art Exhibition in major cities in Japan from March 2007 to February 2010. Centered on the history of art and artistic fashion, and including special items, events and campaigns, the Centennale will bring people a unique experience of fine art.

Also in honor of the centennial, Takashimaya recreated a kimono design (above) first shown in a picture exhibited by the Company at the 1910 Japan-British Exhibition.

Caring

for the communities in which we exist

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In Partnership
WITH OUR CUSTOMERS



Pink Ribbon Campaign

The Takashimaya Group's CSR initiatives, which are always conducted in close interaction with customers, include support for the Pink Ribbon Campaign. This campaign aims to raise awareness about the importance of early detection and treatment of breast cancer.

Sound, sustainable growth requires not only close bonds with customers, but also the trust of the communities in which we exist. At Takashimaya, we continuously work to strengthen our relationship with customers and society through a variety of social and environmental activities.

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Business in Harmony with Society



At Takashimaya, we believe that everything begins with people. This philosophy forms the foundation for both our Group management and our approach to CSR. With it, we express our determination to work with society to achieve sustainable progress by acting with consideration and in good faith, by building relationships based on trust and by helping to enrich lives. We are determined to disseminate this philosophy throughout our organization as an ideal that can be shared by all employees. To this end, in March 2006, we established the CSR Promotion Office and formulated a medium- to long-term CSR policy.

As a business corporation, we must obviously fulfill our economic role and comply with all laws and regulations. Our commitment goes beyond these basic requirements, however, and we also work actively to maintain good business ethics and fulfill our social role. We want all employees to know that they can, through the way they live and act, contribute to the solution of social issues in their communities and to the alleviation of wider social problems, such as poverty and human rights abuses. CSR activities must be based firmly in the day-to-day actions and work activities of individual employees. The quality of work improves when each individual is motivated to think about what they can achieve through their own efforts.

Of course, these aims cannot be realized by a single company working in isolation. Therefore, we will continue to strengthen our communication with all stakeholders.

Koji Suzuki, President

History of the Takashimaya Group

<p>1831 Founding Spirit Our founder, Iida Shinshichi, opened a clothing and cotton cloth store in Kyoto with the trading name "Takashimaya."</p>	<p>1958 Takashimaya Branch Opened in New York The Fifth Avenue store was the first branch opened in the United States by a Japanese department store operator.</p> 	<p>1994 Taipei Branch Opened As Taipei's first suburban department store, this store became a source of new lifestyle ideas.</p> 
<p>1889 Takashimaya Wins Prize at the World Exhibition in Paris  In the 19th century, Takashimaya won several prizes at overseas exhibitions.</p>	<p>1959 Licensing Agreement with Pierre Cardin With this agreement, Takashimaya became the first Japanese company to enter into an agreement with a foreign designer.</p>	<p>1996 Takashimaya Times Square Opened Located in Tokyo's Shinjuku district and designed to be barrier-free, this store was the first retail store approved under the Tokyo Metropolitan Government's Heart Building Law*. <small>* Heart Building Law: This law was introduced to improve access for the aged and people with disabilities to specific types of buildings.</small></p>
<p>1896 Kyoto Store Unveils Innovative Show Window Known as the <i>mihonba</i> (show place), this window became the prototype for show windows in modern department stores. </p>	<p>1969 Tamagawa Takashimaya S.C. Opened The Tamagawa Takashimaya S.C. was Japan's first large-scale suburban shopping mall.</p>	<p>2006 Tokyo Store Given Historic Building Status In March 2006, the Tokyo Metropolitan Government granted historic building status to the Takashimaya store in Nihombashi, Tokyo. When built in 1933, this building attracted considerable interest with its classic exterior. </p>
<p>1938 Establishment of Biggest Department Store Restaurant in the Far East The establishment of a restaurant was unprecedented for a drapery-based department store.</p>	<p>1993 Singapore's Biggest Department Store Opened  The Takashimaya branch in Singapore set a new standard in luxury shopping in Asia.</p>	

Management Principles

For the Customer, Always

We will strengthen our business structure through innovative management.

- We will be guided by science and reason in our decision-making.
- We will actively seek outside views and knowledge.
- We will disclose essential information without delay.
- We will strive to maximize our earnings.

We will help our customers to enrich their lifestyles by offering superior goods and services.

- We will enhance our specialist skills as the basis for our ability to supply goods and services that provide real value.
- We will strive to develop goods and services in anticipation of changing preferences.
- We will at all times dedicate ourselves to the safety, comfort and peace of mind of our customers.

We will maintain an open corporate environment through fair and transparent corporate behavior.

- We will comply with all laws and ensure that our business activities follow the standards of behavior and decency expected by society.
- We will resolutely reject demands and pressure from antisocial elements.
- We will strengthen relationships of trust with our suppliers so that we can achieve steady growth together.
- We will contribute to the advancement of the industry through active participation in industry organizations.
- We will be prepared to respond to crisis situations.
- We will strive to ensure openness at Ordinary General Meetings of Shareholders and to disclose accurate information to shareholders.

Our aim is to build and maintain a corporate culture in which individual employees are respected as human beings and are able to work autonomously and be creative.

- We will set clear targets and assess our progress objectively.
- We will approach our work in an organized manner.
- We will strive to create workplaces where employees can work with pride.
- We will work to expand dialogue.

We will continually contribute to society as a corporate citizen.

- We will help to protect and conserve the global environment.
- We will foster interaction with communities.
- We will contribute to the advancement of culture and the arts.
- We will support voluntary activities by our employees.

Our Code of Behavior

Our Code of Behavior consists of guidelines that employees should keep in mind at all times as they work to fulfill our corporate philosophy and management principles.

We will consider the customer's position before acting.

1. We will adhere strictly to the basics of customer service.
2. We will place high value on dialogue with customers.
3. We will provide accurate information to customers.
4. We will keep our promises to customers.

We will create better workplaces.

1. We will set and work toward higher goals.
2. We will fulfill our responsibilities as individuals.
3. We will exercise tolerance and cooperation.
4. We will form our own opinions and participate actively in discussions.
5. We will help people to grow by teaching them and giving them responsibility.

We will conduct ourselves as responsible members of society.

1. We will make judgments according to the rules of society.
2. We will foster fair and healthy relationships with our suppliers.
3. We will strive to achieve harmonious coexistence with local communities through our activities.
4. We will open our network and foster interaction with those outside of our organization.



A Comprehensive Approach to Fulfilling Society's EXPECTATIONS

As Japan's leading department store operator in terms of turnover, the Takashimaya Group interacts with countless customers, employees and suppliers. We expect all of our employees to be aware of the important responsibilities that society expects us to fulfill, and to act after careful thought about what the Takashimaya Group can do and must do.

We will continue to develop our corporate governance systems as a foundation for the reinforcement of our corporate social responsibility (CSR) management. Sustained improvement in this area will require concerted efforts by the entire Takashimaya organization.

CSR and the Takashimaya Group

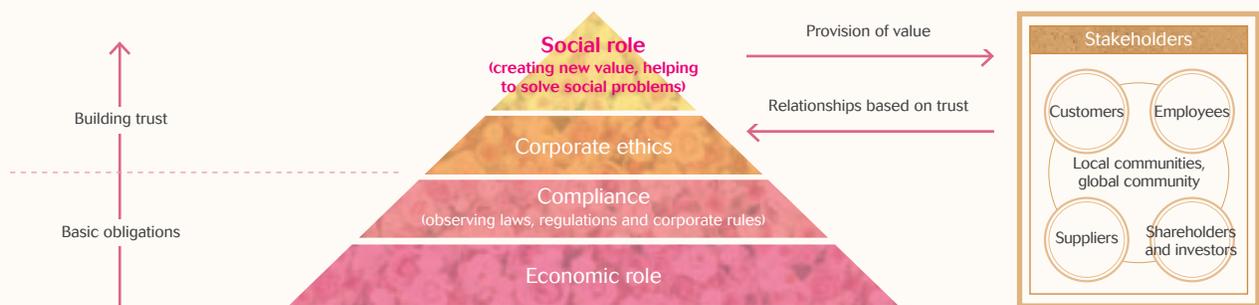
Putting people first is the Takashimaya Group's core management principle. With this, we aim to ensure that each Takashimaya employee acts with consideration and sincerity, contributes to sustainable growth and success in partnership with society, and works to enrich lives and foster trust in those

with whom Takashimaya interacts. The same philosophy also guides our approach to CSR.

We see CSR as a pyramid of four levels, at each of which we fulfill key obligations. The bottom consists of our role as a business organization that returns profits to shareholders

and our compliance with laws and regulations. These basic areas, which themselves rest on a solid internal control structure, form the foundation for Takashimaya's social role as an organization that follows good corporate ethics and helps to create new value and solve social problems.

Our CSR management philosophy



CSR infrastructure

Corporate governance						External monitoring
Management controls	Internal controls					
Reform of management structures Selection of management structures Reform of directors' remuneration system Audits by corporate auditors	Control environment	Risk management	Control activities	Competition and information distribution	Monitoring	
	Management philosophy and leadership	Risk assessment and response	Action plans, PDCA management	Internal and external communication	Line management, operations audit hotline	

CSR Dimensions

These levels form the foundation for harmonious coexistence with society. We cannot engage in CSR activities unless we fulfill these obligations.

Basic obligations



Economic role

The economic role of the Takashimaya Group includes supplying goods and services to customers, providing jobs to employees, paying suppliers for goods and contracted services, distributing dividends and improving shareholder value, and paying taxes. At this level, we fulfill basic responsibilities that are essential for a company to function in society.



Compliance

We strictly comply with all laws and regulations. This includes corporate rules as well as laws relating to accurate labeling of goods, protection of personal information, fair trading, employment and work. We will continue our efforts to ensure full compliance as the foundation for all CSR activities.

Beyond its basic obligations, the Takashimaya Group actively seeks relationships of trust that lead to growth and success in partnership with society.

Building trust



Corporate ethics

Commitment to good corporate ethics is a key aspect of compliance. It sets the standards by which the Company and its employees make and implement decisions and build trust with people. Takashimaya will continue to develop and maintain a corporate culture in which every employee shows consideration toward others at all times.



Social role

In the context of our day-to-day activities, we also aim to fulfill our social role by constantly searching for ways to contribute to the development of a better society, by creating new value, and by helping to solve social problems. While this social role also includes initiatives outside of our core areas of activity, we also place a high value on day-to-day activities within our core business areas.



Using the Resources of the Takashimaya Group to Create New Value

We do not simply respond passively to needs. Instead, we actively search out latent needs and wants in society so that we can help to enrich lives and build a sustainable society for the 21st century. This process of creating new value begins with the identification of themes that allow us to make optimal use of our business characteristics and management resources.

Helping to Solve Social Problems

As members of society, we continuously seek to enhance our understanding of how we can help solve social problems, ranging from problems in local communities to global issues such as poverty and human rights, through our day-to-day activities as individuals. To this end, we will maintain a global outlook while keeping abreast of and sharing information about current social issues.



Reinforcing Internal CONTROL & COMPLIANCE

Our goal is to maintain integrated corporate governance functions at all levels of the Takashimaya Group organization, from the boardroom to the sales floors.

We have reformed our Board of Directors by reducing the number of board members from 21 to 10, introduced a new operating officer system and made outside directors more independent.

Two of the four corporate auditors are also appointed from the outside to bring an independent perspective to the monitoring of directors.

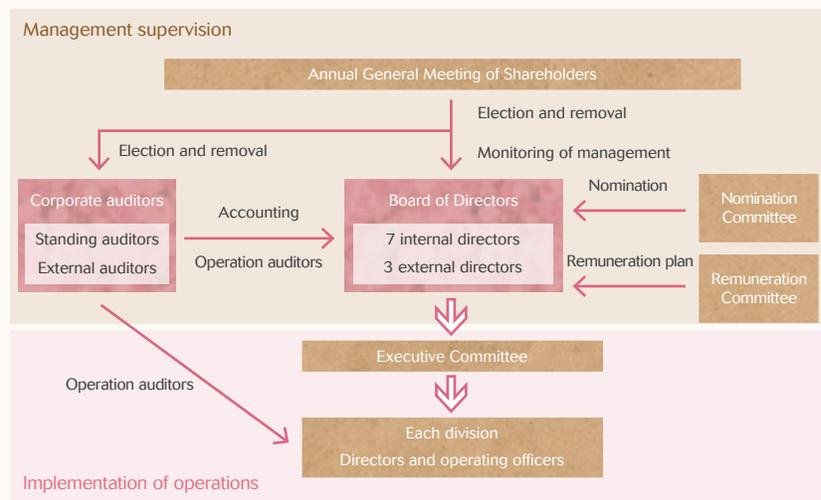
New Corporate Governance Structure Introduced in May 2007

In May 2007, we reformed our corporate governance framework. We introduced an operating officer system and reduced the number of board seats to create a streamlined, more dynamic structure for debate and good decision-making.

To speed up decision-making and implementation, executive line authority was delegated from the Board of Directors. The term of office for directors and operating officers was reduced to one year to provide clearer accountability for each business year. The directors' remuneration system was also reformed. Additionally, we established a Nomination Committee and a Remuneration Committee, both partly made up of external directors.

These committees advise the Board of Directors and ensure fairness and transparency in management systems and decision-making concerning directors' remuneration.

New corporate governance structure introduced in May 2007



1. Improving the control environment (internal environment, organization-wide initiatives)

The Board of Directors, including the senior management team, will uphold the ethical values of our management philosophy as they work to strengthen management systems and create a corporate culture permeated by this philosophy. In March 2006, we also established the CSR Promotion Office and reorganized the Takashimaya Group Corporate Ethics Committee to form the Takashimaya Group CSR Committee. Under this structure, the Takashimaya Group CSR Committee will work closely with committees responsible for specific areas, such as the Risk Management Committee, to ensure compliance and CSR awareness at all levels of the organization.

2. Strengthening risk management

The Risk Management Committee identifies risks that could affect our business activities. Those that are found are included in the "Yellow File," a manual listing potential risks and measures to minimize the resulting losses should these events occur. The committee develops risk prevention systems, promotes risk awareness at all levels of the organization and is building a risk management structure based on horizontal linkage across the entire Takashimaya organization.

3. Maintaining effective control processes

We have compiled a compliance guidebook, established clear chains of decision-making authority and clarified professional standards. We are also using PDCA (Plan, Do, Check, Action) management to manage and verify targets. CSR action targets for the Takashimaya Group are defined in action plans, the implementation of which is monitored by the Board of Directors.

4. Enhancing communication and information disclosure

Management is working to strengthen the connection between management and the shop floor by taking the initiative in developing two-way communication. We are also developing good communication, including accurate disclosure of information, with outside stakeholders.

5. Improved monitoring

The Operations Audit Office is enhancing its compliance monitoring with corporate rules and other requirements. It also conducts regular inspections to ascertain whether internal control systems are functioning effectively. We are also working to comply with the Whistleblower Protection Act, including the enhancement of the Takashimaya Group Compliance Hotline, which was established as a conduit for reporting illegal acts and other problems within the organization.

Internal control systems



Ensuring Compliance

To prevent situations that could result in compliance violations, we provide appropriate guidance based on two-way communication spanning all levels of the Takashimaya organization. The entire organization, from management to shop floor workers, is working to strengthen line management by quickly identifying workplace issues and using this information to improve operations.

We are making risk management an integral part of line management by monitoring risk factors through

dialogue with workplaces. We are also restructuring the mechanisms used to maintain preventive measures and response measures.

In the area of personal information protection, for example, we have modified credit transaction slips to show only part of the credit card numbers. Other preventive measures include controlling access to computers through IC-based identity cards. We have also strengthened our monitoring, guidance and education systems relating

to foodstuffs, including the accuracy of food labeling. Staff with advanced specialist knowledge, such as former public health center employees, have been appointed as food hygiene officers in all of our stores. All line managers undergo compliance training. When compliance-related problems arise, these people work together as a team. They discuss the causes of problems and management-related issues and work to prevent recurrences by raising awareness and improving countermeasures.



Enriching Lives by CREATING NEW VALUE

Through initiatives based on our business characteristics and management resources, the Takashimaya Group is helping to enrich lives in the 21st century by using lifestyles, culture and communities as the starting points for the creation of new value and solutions to social problems.

Takashimaya's goal is to offer lifestyle ideas that reflect contemporary needs. As values and lifestyles become more diverse, Takashimaya will continue to help people to enrich their lives by remaining sensitive to their needs, be these about beauty, health and serenity or a better work-family balance. Also, we will respond to growing concerns about product safety by offering ecological and healthy food and apparel items, and help people fulfill their lives by offering a carefully selected range of products and services. This includes creating places of natural beauty in the middle of cities.

Takashimaya held its first art exhibition in 1909. Since then, we have continued to promote art and culture by staging art exhibitions, cultural festivals and other events in our stores. In 1990, we established the Takashimaya Cultural Foundation, which has since worked to discover and support talented artists. While introducing Western culture and the latest world trends in our stores, we also aspire to show customers the cleverness and

beauty of traditional Japanese lifestyle culture, including ideas that reflect the changing seasons and the skills of traditional artisans. The Takashimaya Museum, which opened in Osaka in 1970, has a collection of over 20,000 items, including works by Seiho Takeuchi and other leading Japanese artists, 18th century Noh costumes and exclusive kimonos made by Japan's finest artisans. The museum is open to the public.

From its perspective as a developer and operator of department stores and shopping centers, the Takashimaya Group has always worked in partnership with local communities. We will continue to create community spaces that reflect the needs and wishes of people in the 21st century, and actively partake in local events and environmental activities, such as forest conservation.



Takashimaya employees join a local festival.

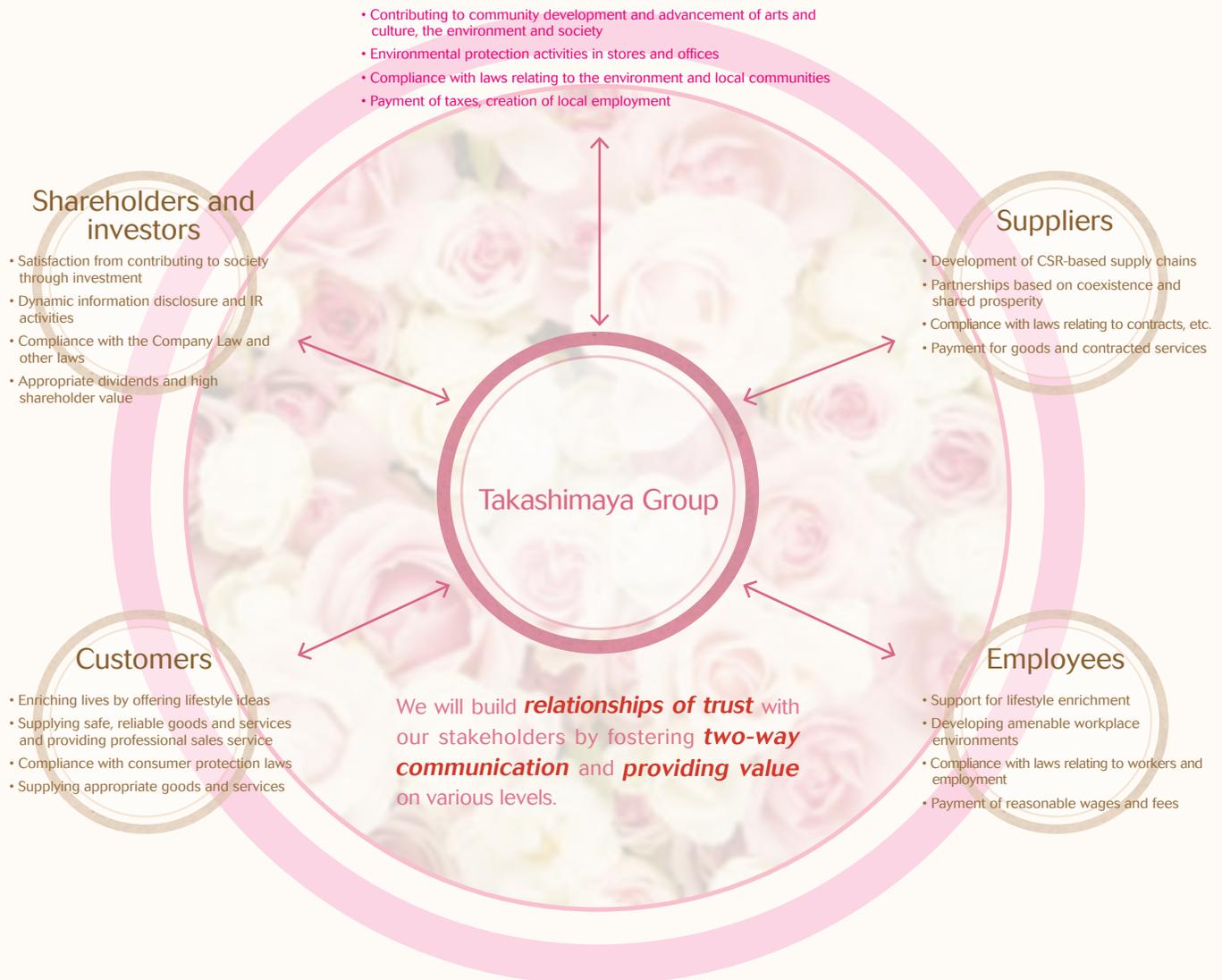


The Takashimaya Centennale Art Exhibition will run over three years to celebrate the centennial of the Takashimaya Art Department.



Takashimaya staff volunteers plant trees by Lake Biwa in Shiga Prefecture.

Local communities and the global community



Forging strong bonds with all stakeholders

Takashimaya is working to fulfill its corporate social responsibilities in a wide range of areas. Here, the way forward lies in building fruitful partnerships—we cannot achieve lasting results by working in isolation.

In all our CSR efforts, we interact closely with our stakeholders—customers, employees, suppliers, shareholders, investors and local communities, all of whom have their own links with and within society and the global community. Through strong partnerships based on trust and two-way communication, Takashimaya can leverage those links to help build a better society.



In Partnership WITH OUR CUSTOMERS

Takashimaya is helping to enrich lives by listening to its customers and creating sales areas that provide a high level of customer satisfaction.

Building Customer Trust

Takashimaya offers a variety of lifestyle ideas based on the views of its customers. A central idea in the government's COOLBIZ program, which aims at reducing CO₂ emissions by cutting air conditioner use, is to swap suits and ties for lighter, more comfortable office attire in the summer.

We are also developing products with deodorant properties to enhance comfort by alleviating unpleasant smells in living environments.

We are enhancing our food quality and safety assurance systems in response to growing consumer concerns in this area. We have also increased our range of organic products certified under the Japan Agricultural Standard (JAS) system. At the Tamagawa store, we have introduced a system that allows customers to check the production history of vegetables via their mobile telephones. In addition, we continuously train our sales staff about products and legal requirements, and inspect our suppliers' manufacturing processes and promotional goods.

Giving advice to customers is an important part of the department store staff's duties. As part of raising

service quality, we appoint qualified staff members as "sales specialists." By carrying special badges, the sales specialists indicate that they can give in-depth advice or ideas about products or services. Advice is also available through our concierge system.

One of our store design priorities is to create spaces in which people feel relaxed and comfortable. This is reflected in measures to improve safety and access, including the elimination of level variations in floors and the provision of multifunctional restrooms, handrails on stairs and access routes designed for easy walking.

PHOTO CAPTIONS

- 1. COOLBIZ attire:** One of the first companies to implement the CO₂ reduction scheme COOLBIZ, Takashimaya now offers business fashion that enables office temperatures of 28°C in the summer.
- 2. Organic foods:** Agricultural products, processed foods and other items that have been certified as meeting the Japan Agricultural Standard (JAS).
- 3. Deodorant fabrics:** These products are made from comfortable fabrics with deodorant properties.
- 4. Suggestion forms:** In all stores, sales staff collect customer opinions and suggestions.
- 5. Traceable vegetables:** By scanning QR codes with their mobile phones, or by checking online, customers can view the production history of vegetables.
- 6. Rose's Heartbeat Boxes:** These boxes are used to collect customer opinions and requests.



- 7. Staff education:** Quality management staff use display panels and actual products to inform staff about defective goods.
- 8. Rest spaces:** Takashimaya provides comfortable, stress-free rest spaces for its customers.
- 9. Sign language badge:** These badges are worn by qualified sales staff. Many Takashimaya sales people are currently studying sign language.

In Partnership WITH OUR EMPLOYEES

The Takashimaya Group employs 10,225 people, and the policies that we implement can greatly influence society. We are responding to the needs of society by helping to find solutions to a variety of social problems.

Enhancing the Lives of Our Employees

The Takashimaya Group strives to provide good working environments.

One priority has been the reduction of overtime hours through operational improvements. We have also encouraged workers to use their annual paid leave. As a result of these efforts, the average number of working hours per person and year fell to 1,798 hours in fiscal 2005, below the target level of 1,800 hours. We will continue to manage working hours thoroughly.

Under Takashimaya's health management system, all employees undergo yearly health examinations. Employees aged 40 and older receive subsidies toward the cost of comprehensive medical examinations. We will continue to adapt our employee care systems to reflect law changes and changes in the social environment. We are also expanding our comprehensive mental care support.

Our efforts to develop the specialist skills of our employees include systematic deployment, training and assessment. There are various systems to support skill development for career advancement.

Over 150 courses are provided through the Takashimaya Business Course program.

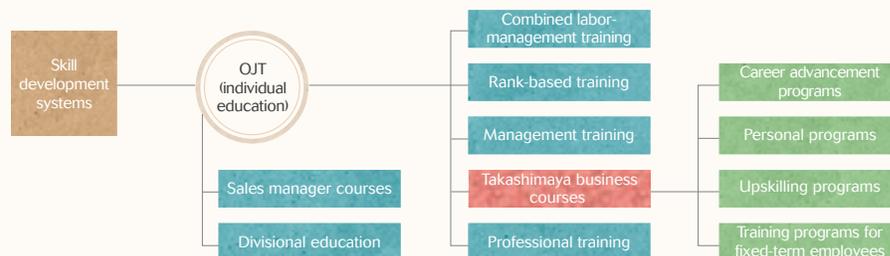
There is also a sales manager training program through which sales managers pass on and share knowledge and skills. Other educational programs include lecture courses and upskilling programs for employees who need to obtain specialist qualifications.

Takashimaya treats male and female employees equally with regard

to employment, salaries, promotion, duties, deployment, retirement and other conditions. Of particular significance is the promotion of female employees to key store positions, such as sales managers and buyers. There are now 1,489 female employees at management level.

Takashimaya is studying and implementing new measures to foster a better work-life balance, which is a key aim of Japan's Law for Measures

Employee training



Percentage of female employees at management level



Sales managers	Buyers	Managers	Other management positions	Assistant managers and above total
67	77	17	1,328	1,489

(As of April 15, 2007)



to Support the Development of the Next Generation. We are also helping to provide opportunities for the older generation, including support for re-employment after retirement.

We introduced parental leave and reemployment systems in 1986, and in 1991 we introduced flexible working hours for parents of young children. In April 2005 these schemes were extended to contract employees. We have also established a care leave system and systems that allow employees with family care obligations to remain in employment by working modified hours for a specified period. In March 2001, a new reemployment system was introduced for retired employees. Following changes to the Law concerning Stabilization of Employment of Older Persons, we launched a new reemployment program for people above 60, including contract employees, in March 2006.

To encourage employees to participate in voluntary activities, there is a voluntary activity leave

system and a leave reserve system that allows employees to use accumulated leave. All Takashimaya employees are members of the Grape Foundation, which supports a variety of social contribution activities, including welfare and care programs.

As part of maintaining good staff-management relations, we are working to foster two-way communication. Here, initiatives include regular meetings at which staff and management can exchange views on business policies. The parties also collaborate on life planning seminars and joint education programs, and on the promotion of productivity committee (SAY) activities.

Solid staff-management relations are also important to good corporate governance. Labor unions play an important role in the monitoring of corporate operations and are helping to maintain and strengthen internal control systems.

Reemployment courses for 60-plus workers

Job types	Course categories for 60-plus workers	Employable	
Sales and marketing	Super sales courses (sales and marketing)	Employees	
	Career courses	Outside marketing courses	Employees
		Sales courses	Employees Contracted employees
		Staff service courses	Employees Contracted employees
Staff services	Support courses	Employees	
	Courses for temporary workers under exclusive contracts	Employees	
	Technical and skill-based career courses	Employees	
Other	Group reemployment support courses	Employees	

Number of users of childcare-related systems

Employment formats	Systems	Current users	Users since introduction of systems
Employees	Maternity leave system	130	1,594
	System for childcare workers	578	1,634
	Reemployment system	24	32
Contracted employees	Maternity leave system	13	18
	System for childcare workers	11	13

Note: These systems allow former employees, who have resigned for various reasons, such as marriage, childbirth, childcare and care of family members, to return to work.

(As of April 15, 2006)

In Partnership WITH OUR SUPPLIERS

We place great importance on good communication with our suppliers, who are vital partners in our efforts to meet the needs of society.

Making Lasting Social Contributions through Fair Trading

The Takashimaya Fair Trading Promotion Committee proposes and adopts measures to resolve various issues. It also provides direction and guidance to ensure full compliance with rules and regulations.

Committee members are stationed in every store to support close cooperation with the committee's secretariat, and there are regular fair trading promotion meetings.

Takashimaya actively educates its employees about fair business practices through training for newly appointed sales managers and

buyers, itinerant seminar programs and outside training programs. To ensure that suppliers are fully informed about agreements, we encourage full documentation of all terms and conditions. We sign basic procurement agreements and basic consignment procurement agreements, and when a supplier participates in advertising activities, a joint advertising tie-up memorandum. We further promote fair trading by basing our standards for the return of unsold goods and the use of temporary employees on the Basic Fair Trading Manual for Department Stores and the Subcontracting Law Manual.

We also collaborate with suppliers on the development of products that

reflect social needs. Examples include apparel to suit the sensitive skin of babies, and ladies' underwear designed to prevent femoral neck fractures.

Takashimaya has started to support small producers by selling Fair Trade goods. We are also expanding our involvement in the planning, development and sales of environment-friendly products, and have, since February 1999, applied our own selection standards at all stages from the procurement of raw materials to manufacturing, distribution, consumption and disposal. Products that meet our criteria at each of these stages are certified as Clean Rose goods.



PHOTO CAPTIONS

- 1. Clothing for newborn babies:** Designed for the sensitive skin of babies, these garments are Voice File products developed in response to customer needs and wishes.
- 2. Manuals:** These fair trading manuals were compiled in collaboration with the Japan Department Stores Association.
- 3. Boneguard:** This range of ladies' underwear was developed to protect women from femoral neck fractures.
- 4. Clean Rose:** The Clean Rose range consists of selected products that meet stringent environmental criteria.





In Partnership WITH OUR INVESTORS

Support from shareholders enables Takashimaya to be a company that offers value to society and has potential for further growth and success. We respond by actively disclosing information to our shareholders in good faith.

Communicating with Shareholders and Investors

Shareholder Receptions

We have held shareholder receptions in Tokyo since fiscal 2001. These events, normally attended by more than 1,000 shareholders, aim at fostering understanding about Takashimaya and provide a forum for shareholders to directly express their views about our management and business activities. Shareholders value this opportunity to talk with Takashimaya executives, including directors and store managers, in a convivial setting.

Contributing to Society through Investment Activities

Socially responsible investment (SRI) funds, which invest in companies with excellent CSR records, have gained significant market presence. Takashimaya is working to attract investment from more of these funds by contributing to society through dynamic CSR activities.

Shareholder Benefits

In response to shareholder requests, we have replaced our shareholder benefit coupons with a new system based

on a plastic card, the Shareholder Benefit Card. Cardholders are entitled to a 7% discount on any purchase of ¥1,000 or more. In addition to purchases at Takashimaya stores, the cards can also be used for COD and mail order purchases. Cardholders also enjoy free admission for up to three people at cultural events held in Takashimaya stores.

Income Distribution Policy

Takashimaya's basic policy on dividends is to maintain dividend stability by strengthening its operating base to support future growth, and to base decisions on a comprehensive assessment of business performance and the business environment. We will continue our efforts to maximize returns to shareholders. Our target payout ratio is 30% at both the consolidated and non-consolidated bases. This policy is reflected in our dividend for the current year, which has been increased by ¥0.5 to ¥9.50 per share, and will be increased to ¥10.0 in fiscal 2007.

We will continue to make effective use of our internal reserves to support strategic investment under our long-term business plan. These reserves are a

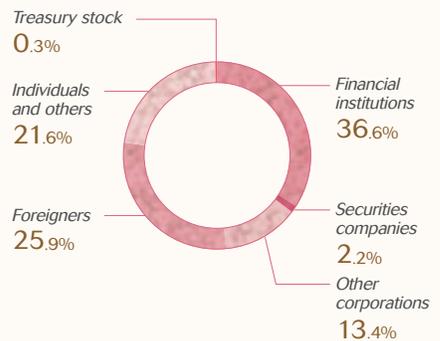
vital source of funds needed to enhance our selling power through store remodeling and other projects, and to strengthen our financial structure.

A new card for Takashimaya's shareholder special benefit plan

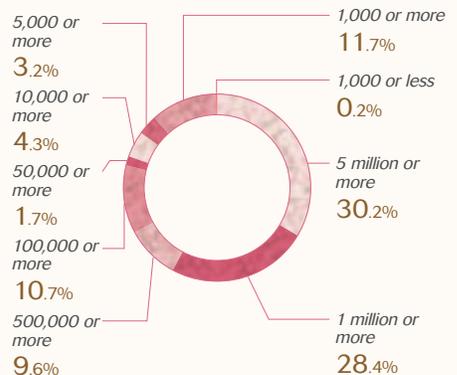


Shareholder Profile

Type of shareholder



Number of shares (As of February 28, 2006)



In Partnership WITH OUR SOCIETY

Takashimaya helps to enrich lives by supporting arts and culture and contributing to the solution of social problems, as well as through its role in community development.



PHOTO CAPTIONS

- 1. Café Suzuki, Kanagawa Prefecture:** The interior design of Café Suzuki in Kanagawa Prefecture, created by Mr. Yukio Hashimoto, won the 16th Takashimaya Art Award.
- 2. Support for the arts:** This statue, named "The meeting of ships" and made by Mr. Makoto Ito, also won the 16th Takashimaya Art Award.
- 3. Inspiring photography:** The 16th Takashimaya Art Award was also given to Ms. Miwa Yanagi for this photo, named "My Grandmothers: YUKA."
- 4. The Love T Collection:** Takashimaya's Love T fashion collection was shown at the Love Bear fashion show at the Yokohama store.
- 5. Pink Ribbon Campaign:** Takashimaya promotes the Pink Ribbon Campaign with banners in all its stores.
- 6. Mini Santa Claus dolls:** Takashimaya donates part of the sales of these dolls to charity every year.

Building a Better Society

Ever since staging an exhibition of 100 contemporary masterpieces in 1909, Takashimaya has contributed to the advancement of art and culture. In 1990, we established the Takashimaya Cultural Foundation to support avant-garde artists and artistic groups.

In 2008, we will mark the 100th anniversary of the establishment of the Art Department by holding the Takashimaya Centennale Art Exhibition. This program will run from March 2007 to February 2010. In addition to works by great masters, the exhibition will also feature avant-garde and up-and-coming artists.

Takashimaya's contributions to the solution of social problems include the Love T Collection program. Launched in 2005, this program donates a percentage of T-shirt sales to support the efforts of the United Nations World Food Program to eradicate famine from the world. In the Christmas of 2005, we also donated part of the proceeds from sales of Mini Santa Claus dolls to landmine clearance programs. In February 2006, we also commenced

activities based on the Pink Ribbon Campaign, which aims at educating the public about the early detection and treatment of breast cancer. Here, activities include distributing leaflets and hosting breast cancer seminars.

We also donate a percentage of cosmetic sales to the Japan Cancer Society.

Takashimaya also contributes to local communities. In 1992, we established the Takashimaya International Scholarship Foundation to assist Asian students studying in Japan. Dayeh Takashimaya in Taipei provides free feeding shows at its in-store aquarium, while in Japan Iyotetsu Takashimaya hosts a Children's Tanabata festival in its eighth-floor Sky-Dome. The Semboku store is working with Itchin Club, a local community group, to restore the natural environment of Sakai City.



In Partnership WITH OUR ENVIRONMENT

We are working with customers and suppliers to achieve harmonious coexistence with the environment by helping to build a recycling society and reduce energy consumption.

Initiatives to Reduce Environmental Loads

Our environmental protection activities include the recycling of fiber products. The menswear collection and recycling program was launched at the Tokyo store in 2002 and has since been extended to a growing number of stores. Items returned to our stores are recycled into automobile interior materials, including thermal insulation and soundproofing materials.

Other initiatives designed to reduce environmental loads include the installation of small-scale wind generation systems at the Takasaki and Yokohama stores to provide part of the power required for lighting. In 2005, the Tamagawa store hosted the Living with Forests—Oak Village exhibition to promote participation in environmental activities. The Yokohama store recycles kitchen waste and expired food products to produce Hamameal, an organic animal feed. This product is fed to the pigs used to produce Aritasanchi Pork.

Takashimaya also provides opportunities for people to experience solutions to environmental problems

first-hand. As part of its educational activities, the Shinjuku store hosts the Children’s Department Store Exploration program. Participants can view a machine that melts polystyrene foam to one-tenth of its original volume, as well as rooftop greening areas. Furthermore, in 2005, the Kyoto store held an environmental exhibition based on audience participation. The exhibition featured 100 ecology-related items, and aimed at encouraging people to start ecology-friendly lifestyles by reducing waste.

PHOTO CAPTIONS

1. **Menswear recycling:** A service counter for the free-of-charge menswear recycling program.
2. **Power from the wind:** Small wind power plants cover part of the energy needs of two Takashimaya stores.
3. **The “Circulation of Trees” fair:** At this fair, which is part of the Tamagawa store’s Living with Forests—Oak Village exhibition, customers can donate to tree-planting projects.
4. **Aritasanchi Pork:** Takashimaya’s organic pork brand, Aritasanchi Pork, utilizes pork feed made from recycled organic waste.
5. **Children’s Department Store Exploration program:** Children study a polystyrene foam-melting machine at the Shinjuku store as part of the program.
6. **Bikkuri Eco Exhibition:** This exhibition shows a hundred ways in which people can help to protect the environment.



Environmental Loads from Business Activities

Environmental activities begin with the monitoring of environmental impacts. Reported below are statistics relating to environmental loads resulting from our business activities.

CO₂ Emissions

Takashimaya is helping to combat global warming by reducing CO₂ emissions through energy conservation.

In fiscal 2005, our CO₂ emissions resulting from energy consumption were 0.6% below the level for fiscal 2004. We will continue to monitor and reduce our total emissions.

CO₂ emissions resulting from energy consumption in fiscal 2005
(Figures in parentheses are year-on-year comparisons.)



Input/output flows



Note: The figures cited in the diagram are actual results for fiscal 2005.



FORGING STRONG BONDS WITH ALL STAKEHOLDERS

Environmental targets and performance in fiscal 2005 and targets for fiscal 2006

Environmental targets for fiscal 2005		Environmental targets	Target for fiscal 2005	Result for fiscal 2005	Achievement level
Energy conservation, water conservation	Reduction of energy use (electric power, gas and other energy forms)	1% reduction per unit (area, operating hours)	0.9977 MJ/m ² -h	1.0004 MJ/m ² -h	△
	Reduction of water use	1% reduction per unit (area, operating hours)	0.000681 m ³ /m ² -h	0.000663 m ³ /m ² -h	◎
	Energy conservation through yearly environmental investment plan	Target energy saving	7,500 thousand MJ	10,850 thousand MJ	◎
	Introduction of ESCO program	2 stores (Shinjuku, Tachikawa)	2 stores	Other stores to be added progressively in fiscal 2006 and beyond	△
Waste reduction and promotion of recycling	Reduction of final disposal volumes	1% reduction per unit	13.82 kg/m ²	13.42 kg/m ²	◎
	Improvement of organic waste recycling ratio	2-point increase in the recycling ratio	56.1%	57.7%	◎
Promotion of resource conservation	Reduced business form use Reduction through use of LOBINES Reduction through e-marketplace use	Addition of new suppliers Addition of new suppliers	100 companies 40 companies	21 companies 126 companies	△
	Reduced use of supplies (wrapping papers, shopping bags, checkout bags, copier paper)	1% reduction in total use	2,672.25 tons	2,689.19 tons	△
Promotion of environment-friendly merchandise and selling methods	Introduction of new Clean Rose merchandise and packaging	Certification of 30 products	30 products	14 products	△
	Menswear recycling	25,000 items	25,000 items	23,273 items	△
Distribution-related measures	Reduction of diesel use	1% reduction per unit (distance traveled)	0.1486 L/km	0.1491 L/km	△
	Reduction of environmental loads through introduction of alternative nominated food delivery agency system	4 stores (Tokyo, Shinjuku, Tamagawa, Tachikawa)	4 stores	1 store (Tokyo)	△
Reinforcing compliance with environmental laws and regulations and environmental risk management	Effective wastewater management	Development of wastewater management system based on upstream and downstream perspectives	Improvement of kitchen management, including grease-trap use, through a review of inspection checklist items and operating methods		
	Effective PCB management	Development of disposal plans for equipment containing PCB	Implementation of survey list application procedures for PCB equipment, etc., covered by early registration and adjustment cooperation discount systems		
	Effective CFC management	Appropriate disposal when equipment that uses specified CFCs is replaced	Internal documentation audits to ensure appropriate disposal of CFCs		
	Effective waste management	Effective management based on agreements and manifests, etc.	Checking for problems through comprehensive inspections under waste disposal contract agreements		
	Reinforcement of emergency response training	Twice-yearly emergency response drills based on a major earthquake scenario	Implementation according to plan in June, confirmation of effectiveness of emergency response procedures (scenario: earthquake of an intensity near 6 on the Japanese shindo scale)		

- Period: March 2005–February 2006
 - Scope: All 18 Takashimaya stores, 3 distribution centers, business headquarters
 - All reductions in environmental target items relative to fiscal 2004
- ◎: Achieved, △: Not achieved



Environmental targets for fiscal 2006		Environmental targets	Target for fiscal 2006
Energy conservation, water conservation	Reduction of energy use	1% reduction per unit (area, operating hours)	0.9904 MJ/m ² -h
	Reduction of water use	1% reduction per unit (area, operating hours)	0.000656 MJ/m ² -h
Waste reduction and promotion of recycling	Reduction of final disposal volumes	1% reduction per unit	13.29 kg/m ²
	Improvement of organic waste recycling ratio	2-point increase in the recycling ratio	59.7%
Promotion of resource conservation	Reduction of business document use by new suppliers	Reduction through use of LOBINES Reduction through e-marketplace use	Reduced 60,000 sets/year Reduced 10,000 copies/year
	Reduced use of supplies (wrapping papers, shopping bags, checkout bags, copier paper)	0.5% reduction in total use	2,009.48 tons 467.56 tons 245.84 tons
Promotion of environment-friendly merchandise and selling methods	Introduction of new Clean Rose merchandise and packaging	Certification of 30 products	30 products
Reinforcing compliance with environmental laws and regulations and environmental risk management	Effective wastewater management	Development of wastewater management system based on upstream and downstream perspectives	
	Effective PCB management	Development of disposal plans for equipment containing PCB	
	Effective CFC management	Appropriate disposal when equipment that uses specified CFCs is replaced	
	Effective waste management	Effective management based on agreements and manifests, etc.	
	Reinforcement of emergency response training	Twice-yearly emergency response drills based on a major earthquake scenario	
Achieving harmonious coexistence with communities through environmental protection activities	Recovery and recycling of waste fiber items, etc.	Recovery and recycling of menswear, expansion of item and store coverage	

Takashimaya environmental accounting

Unit: ¥ million, previous year's figures shown in parentheses

Category of environmental data, environmental campaign activities		Maintenance and management costs for environmental protection activities			Environmental protection benefits
		Investment	Cost	Total	
Energy conservation, water conservation	Reduction of energy use (electric power, gas and other energy forms)	643 (193)	1 (0)	644 (193)	<ul style="list-style-type: none"> We installed small wind power generators (two stores), replaced existing equipment with high-efficiency transformers and gas heating and cooling systems (two stores), replaced fluorescent light inverter stabilizers (four stores), and installed guidance lights based on high-intensity LED lamps (three stores). The resulting energy savings amounted to 10,850,000 MJ. The economic benefits were ¥13 million (compared with ¥3 million in the previous year).
	Reduction of water use	45 (48)	0 (0)	45 (48)	<ul style="list-style-type: none"> Water-saving equipment was installed (one store) and a gray water plumbing facilities were replaced (one store).
Waste reduction and promotion of recycling	Reduction of final disposal volumes	0 (2)	164 (153)	164 (155)	<ul style="list-style-type: none"> Final disposal of waste in incinerators or at landfills amounted to 14,485 tons. The recycling ratio improved by 1.3 points year on year to 49.3%.
	Improvement of organic waste recycling ratio	0 (1)	60 (59)	60 (60)	<ul style="list-style-type: none"> Organic waste processing equipment was installed at three stores to support composting.
Promotion of resource conservation	Reduced use of supplies (wrapping papers, shopping bags, checkout bags, copier paper)	0 (0)	0 (0)	0 (0)	<ul style="list-style-type: none"> "Smart Wrapping" posters produced by the Japan Department Stores Association were displayed in stores during the year-end gift period to encourage appropriate wrapping.
Promotion of environment-friendly merchandise	Introduction of new Clean Rose merchandise and packaging	0 (0)	1 (1)	1 (1)	<ul style="list-style-type: none"> Another 14 items were approved as environment-friendly products under Takashimaya's own Clean Rose system.
Distribution-related measures	Reduction of diesel use	0 (0)	0 (0)	0 (0)	<ul style="list-style-type: none"> Exclusive use of vehicles for distribution purposes was drastically reduced through the expansion of distribution contracting. As a result, diesel use fell from 235,000 liters in the previous year to 178,000 liters.
Reinforcement of environmental risk management	Appropriate disposal of waste	0 (0)	576 (625)	576 (625)	<ul style="list-style-type: none"> Disposal contracting costs for general business waste amounted to ¥454 million. The cost of industrial waste disposal contracting under industrial waste manifests was ¥122 million.
	Compliance with regulatory requirements for facilities and equipment	15 (34)	170 (124)	185 (158)	<ul style="list-style-type: none"> Costs relating to water pollution prevention systems (cleaning and inspection of kitchen facilities, waste removal systems and gray water systems) amounted to ¥89 million. Other cost items included ¥14 million for appropriate disposal of CFCs and ¥4 million for asbestos-related environmental monitoring.
	Compliance with recycling regulations for containers and packaging	0 (0)	44 (34)	44 (34)	<ul style="list-style-type: none"> This amount consists of recycling contracting charges paid in fiscal 2005. Contracting charges relating to checkout bags and other plastic containers and packaging accounted for 91.6%.
	Voluntary pollution prevention costs relating to the prevention of air, water and soil pollution and foul odors	33 (298)	29 (31)	62 (329)	<ul style="list-style-type: none"> Cost items include ¥27 million for the repair and cleaning, etc., of wastewater pipes and other water pollution prevention measures, and ¥10 million for the prevention of asbestos dispersion.
Maintenance and management costs for environmental protection activities	Environmental education for employees	0 (0)	2 (3)	2 (3)	<ul style="list-style-type: none"> This includes the cost of education, such as the production of monthly fliers and lectures by environmental experts, to raise employee awareness of the environment, asbestos dispersion.
	Maintenance and management of environmental management systems	0 (0)	3 (4)	3 (4)	<ul style="list-style-type: none"> This includes operating costs and the cost of periodic inspections in February 2006.
	Labor costs for environmental protection activities	0 (0)	144 (146)	144 (146)	<ul style="list-style-type: none"> This consists of labor costs for ISO officers.
Environmental communication activities	Effective wastewater management	0 (0)	10 (9)	10 (9)	<ul style="list-style-type: none"> This includes production costs for the CSR Report, menswear recycling costs and environmental event costs.
	Community activities, donations	0 (0)	5 (1)	5 (1)	<ul style="list-style-type: none"> A percentage of proceeds from sales of Takashimaya bags is donated to the OISCA Children's Forest Program to support tree-planting activities in the Asia-Pacific region. Old staff uniforms were also recycled.
Cost of repairing environmental damage	Dealing with soil contamination, damage to natural environment, etc.	0 (0)	0 (0)	0 (0)	<ul style="list-style-type: none"> None in fiscal 2005
Total		736 (576)	1,209 (1,190)	1,945 (1,766)	

Takashimaya environmental accounting guidelines

1. Characteristics of Takashimaya's Environmental Accounting

While Takashimaya's environmental accounting system is based on the 2005 edition of the Environment Ministry's Environmental Accounting Guidelines, we have further enhanced our system to comply with ISO 14001 by categorizing and analyzing environment protection costs according to the environmental targets and objectives defined in that system.

2. Period and Scope

- A. Period: March 2005-February 2006 (same as financial accounting period)
 B. Scope: Coverage of ISO 14001 certification for Takashimaya Co., Ltd. (all 18 stores, three distribution centers, business headquarters)

3. Aggregation Standards

A. Environmental protection cost calculation standards

Investment + Costs = Total environmental protection costs

- The full amount of composite costs (cost items that encompass multiple purposes in addition to environmental protection) is listed as environmental protection costs if the principal purpose is deemed to be environmental protection.
- Labor costs are treated as follows (includes ISO officers): Labor costs = Average yearly salary per work skill level × persons × index

B. Environmental benefit calculation standards

- Energy savings are shown as the volume reduction (annualized) corresponding to environmental protection costs incurred during the period.

C. Calculation standards for economic benefits resulting from environmental protection activities

- Energy savings are shown as the amount saved (annualized) as a result of the corresponding environmental protection costs incurred during the period.



BOARD OF DIRECTORS AND OPERATING OFFICERS



President
Koji Suzuki*



Managing Director
Yutaka Yamaguchi



Corporate Auditor
Noboru Hatakeyama



Vice President
Atsunori Ando*



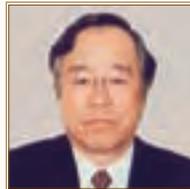
Managing Director
Masaaki Osato



Corporate Auditor
Isao Yamabe



Senior Managing Director
Shigeyuki Tokunaga*



Director
Kaoru Nakajima



Corporate Auditor
Shigeo Takii



Senior Managing Director
Seichi Iioka*



Director
Eiko Oya



Corporate Auditor
Eji Muto



Managing Director
Hideshi Mizuno



Director
Takejiro Sueyoshi



Alternate Auditor
Katsumi Maeda

*Representative Director

Senior Operating Officers

Teruo Nishino
Yasuhiko Matsumoto

Operating Officers

Takahisa Masuda	Takeshi Nishimura	Jitsuya Akehi	Kenji Sukino
Kaoru Omata	Muneki Adachi	Hisao Matsubara	Yukio Uchino
Yutaka Masuyama	Hirofumi Hisasue	Kazuhiko Kojima	Ryoji Ishihara



Miharu Koezuka
General Manager
Public and Investor
Relations Office

(As of May 22, 2007)



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INDEPENDENT
AUDITOR'S REPORT

CONSOLIDATED FIVE-YEAR SUMMARY

Takashimaya Company, Limited and Consolidated Subsidiaries
Years ended February 28/29, 2007, 2006, 2005, 2004 and 2003

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	2007
For the year:						
Sales and other operating revenue	¥1,049,406	¥1,031,150	¥1,026,353	¥1,114,482	¥1,184,236	\$ 8,860,233
Gross profit	273,392	270,335	267,931	234,857	253,297	2,308,274
Selling, general and administrative expenses	281,461	279,259	279,189	248,274	274,696	2,376,401
Operating income	33,861	32,755	28,996	25,361	16,444	285,892
Net income (loss)	25,320	21,192	13,947	(3,610)	3,935	213,779
Cash dividends	2,857	2,542	2,311	2,299	2,287	24,122
Property and equipment investment	32,714	15,254	18,428	27,806	27,417	276,207
Depreciation	12,226	12,896	15,713	17,311	19,072	103,225
At year-end:						
Total assets	782,996	765,487	771,484	798,543	841,145	6,610,908
Interest-bearing debt	116,492	163,068	193,552	214,388	213,275	983,553
Total net assets	286,829	227,787	195,813	183,276	190,248	2,421,724
			Yen			U.S. dollars
Per share data:						
Net income (loss):						
Basic	¥ 77.82	¥ 68.77	¥ 45.25	¥ (11.89)	¥ 12.90	\$ 0.66
Diluted	74.66	65.75	43.23	—	—	0.63
Cash dividends applicable to the year	9.50	9.00	7.50	7.50	7.50	0.08
Net assets (*)	859.37	737.25	634.10	594.45	595.87	7.26
Ratios:						
Ratio of operating income to sales and other operating revenue	3.2%	3.2%	2.8%	2.3%	1.4%	
Ratio of net income (loss) to sales and other operating revenue	2.4	2.1	1.4	(0.3)	0.3	
ROE (*)	9.9	10.0	7.4	(2.0)	2.2	
Net assets ratio (*)	36.2	29.7	25.3	23.0	21.6	
Number of shares outstanding (thousands)	330,001	308,246	308,167	308,230	304,892	

Notes: 1. The U.S. dollar amounts in this report are presented for convenience only and have been converted at the rate of ¥118.44 to \$1.00, the approximate rate prevailing at February 28, 2007.

$$2. \text{ROE} = \frac{\text{Net income}}{\text{Average owners' equity and accumulated gains from revaluation and translation adjustments}} \times 100$$

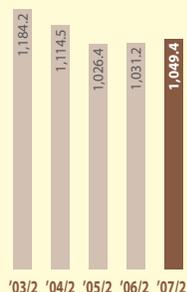
3. The number of shares outstanding excludes treasury stock.

* Net assets per share, ROE and Net assets ratio are calculated from total net assets excluding minority interests in consolidated subsidiaries.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales and other operating revenue

(Billions of yen)



Sales and other operating revenue by business segment

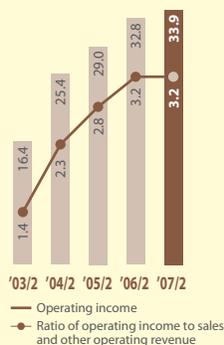
(Billions of yen)



Department Store	941.7
Contract & Design	33.4
Real Estate	24.1
Finance	8.0
Other	42.2

Operating income and Ratio of operating income to sales and other operating revenue

(Billions of yen/%)



OVERVIEW

In the consolidated accounting period ended February 28, 2007, the Japanese economy remained on a gradual recovery trend, underpinned by an increase in capital investment resulting from robust business performance. Consumer spending firmed in an improving employment environment, but still lacked strength.

The department store industry continued to face challenging business conditions. Besides escalating competition across traditional retail format boundaries, the industry was affected by abnormal weather patterns.

The Takashimaya Group continued to strengthen its marketing systems and business structure under its long-term business plan, Strategies for Growth, which was adopted in fiscal 2005. We targeted improvement in all areas, including merchandise, services and environmental performance from the viewpoint of our customers. We especially focused on the enhancement and differentiation of our merchandise, placing increased emphasis on the development of Takashimaya brand goods. Other priorities included improvements in shopper satisfaction and convenience and store environments, especially barrier-free access.

In the credit card business, we expanded our partnership with Credit Saison Co., Ltd. We also restructured our Group businesses to expand consolidated income through improvement in our income and expenditure structure, including the reduction of costs and interest-bearing liabilities.

OPERATING REVENUE AND OPERATING INCOME

These efforts were reflected in higher revenue and income for the second consecutive year. Consolidated operating revenue increased by 1.8% year on year to ¥1,049.4 billion, and consolidated operating income by 3.4% to ¥33.9 billion.

SEGMENT INFORMATION

Department Store

Our priority in this segment was to expand earning power through improved merchandising. Strategies included development of merchandise based on customer wishes and needs, collaborative development of powerful brands based on our Group resources, and collaborative merchandising with small and medium retailers.

In the area of online shopping, we worked to increase sales by expanding our range of merchandise, and by remodeling our website to enhance user convenience.

These measures were reflected in yearly growth in sales from the domestic department store business. Corporate business sales also increased year on year thanks to aggressive marketing. Buoyant economic trends

in Singapore helped Takashimaya Singapore Ltd. to achieve substantial year-on-year growth in both sales and operating income.

Operating revenue in this segment increased by 1.5% year on year to ¥941.7 billion. Operating income was 0.6% higher at ¥23.3 billion.

Contract & Design

Takashimaya Space Create Co., Ltd. won increased orders for projects in commercial facilities and hotels, and its operating revenue exceeded the previous year's level. However, profit margins were eroded by intense competition. There was a year-on-year decline in operating income.

Total operating revenue from this segment increased by 24.1% year on year to ¥33.4 billion. Operating income was 9.0% lower at ¥0.5 billion.

Real Estate

Toshin Development Co., Ltd. recorded growth in its rental revenue. Earnings also benefited from the opening of the new shopping center. Both revenue and income rose year on year.

Total operating revenue from this segment amounted to ¥24.1 billion, a year-on-year increase of 5.9%. Operating income increased by 11.6% to ¥6.3 billion.

Finance

Takashimaya Credit Co., Ltd. recorded a year-on-year increase in turnover. However, operating income was lower because of increased expenses, including advertising to attract more customers to the new Takashimaya Card «Gold» launched in March 2007.

As a result, operating revenue from this segment were 9.5% lower year on year at ¥8.0 billion. Operating income declined by 11.8% to ¥2.1 billion.

Other

In the mail-order business, sales were below the previous year's level because of mild winter weather and other factors.

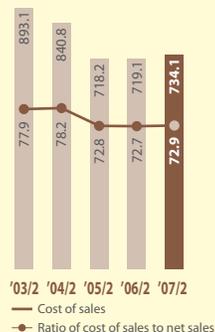
The Takashimaya Group's insurance agency business was previously spread among three Group companies, including Takashimaya Credit Co., Ltd. In February 2007, we integrated this business under Takashimaya Insurance & Telecom Co., Ltd.

Good Live Co., Ltd., recorded encouraging performance trends in its core food wholesaling and trade business. Both operating revenue and operating income exceeded target levels.

Total operating revenue from this segment were 5.0% below the previous year's level at ¥42.2 billion. Operating income was 69.6% higher at ¥2.1 billion.

Cost of sales and Ratio of cost of sales to net sales

(Billions of yen/%)



SG&A expenses and Ratio of SG&A expenses to sales and other operating revenue

(Billions of yen/%)



Net income (loss) and Net income (loss) per share (basic)

(Billions of yen/Yen)



COSTS, EXPENSES AND NET INCOME

The cost of sales increased by 2.1% year on year to ¥734.1 billion, and the cost of sales to net sales ratio was up by 0.2% at 72.9%.

Selling, general and administrative expenses rose 0.8% year on year to ¥281.5 billion. Labor costs and general expenses declined, but steady business expansion was reflected in increases in advertising, administrative and accounting expenses. Total operating expenses increased by 1.7% year on year to ¥1,015.5 billion. As a result, operating income was 3.4% higher at ¥33.9 billion.

At ¥9.1 billion, other income (net) was substantially higher than the previous year's result of ¥1.2 billion. This was mainly the result of an ¥8.6 billion reversal of the reserve for doubtful accounts mainly relating to a real estate conversion loan for the Shinjuku store.

There was a substantial year-on-year increase in income before income taxes and minority interests, which was 26.5% higher at ¥42.9 billion. Net income increased by 19.5% to a new record of ¥25.3 billion.

FINANCIAL POSITION

Total assets at year-end amounted to ¥783.0 billion, a year-on-year increase of ¥17.5 billion. This was mainly the result of an ¥8.1 billion increase in tangible fixed assets, reflecting higher figures for construction in progress and other items brought by aggressive investment, and a ¥4.7 billion increase in intangible fixed assets, mainly because of increase in land lease rights.

Liabilities amounted to ¥496.2 billion, ¥41.5 billion lower year on year. The lower figure was primarily the result of reductions in bonds and long-term loans. Interest-bearing debt was reduced by ¥46.6 billion to ¥116.5 billion.

Net assets increased by ¥59.0 billion year on year to ¥286.8 billion. This increase resulted from a public offering and private placement of new shares. Net assets ratio improved by 6.5% over the previous year's level to 36.2%.

STOCK

The number of shares issued and outstanding increased by 21,802,705 in the year under review, bringing the total as of February 28, 2007 to 330,827,625. On this basis, net income per share was ¥77.82, a year-on-year increase of ¥9.05. Return on equity was 9.9%. Net assets per share increased by ¥122.12 year on year to ¥859.37.

CASH FLOWS

Net cash provided by operating activities was ¥10 million below the previous year's figure at ¥28.8 billion. The main factors influencing this result were a decline in income resulting from the reduction of claim liquidation, an increase in net income before income taxes and minority

claims, and an increase in income from the repayment of guarantee deposits.

Net cash used for investing activities increased by ¥3.2 billion over the previous year's level to ¥10.1 billion. Key factors included a ¥12.9 billion increase in expenditure for the acquisition of tangible and intangible fixed assets, which amounted to ¥29.5 billion, and a ¥9.0 billion increase in proceeds from the sale of marketable securities and investment securities, which amounted to ¥11.1 billion.

Net cash used in financing activities declined by ¥16.7 billion year on year to ¥15.8 billion. The main reasons for this decline were a ¥30.1 billion increase in capital resulting from a public offering and private placement of new shares, and a ¥14.4 billion reduction in the amount procured in long-term loans, which totaled ¥4.0 billion.

Cash and cash equivalents at year-end amounted to ¥55.0 billion, a year-on-year increase of ¥3.4 billion.

DIVIDENDS

In the guidance published on December 26, 2006, we estimated that the final dividend for the year ending February 2007 would be ¥4.50. This was subsequently changed to ¥5.00, increasing the total dividend for the current year by ¥0.50 to ¥9.50. The total dividend for the year to February 2008 will be ¥10.00, consisting of interim and final dividends of ¥5.00 each.

BUSINESS RISKS AND OTHER RISKS

The following risk factors could affect the business performance, financial position and other aspects of the Takashimaya Group's activities, and influence the decisions of investors:

(a) Economic and seasonal factors

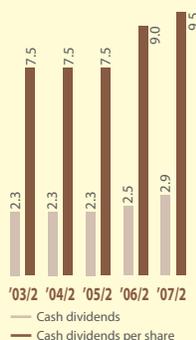
The Takashimaya Group's core activity is the operation of department stores in Japan. Trends in economic performance and consumer spending in Japan and overseas, as well as abnormal weather patterns, such as a cool summer or mild winter, could have a major impact on this business. These factors could adversely affect the business performance and financial position of the Takashimaya Group.

(b) The competitive environment

Five major department stores in central Tokyo account for the bulk of the Takashimaya Group's sales and other operating revenue. All of these stores are located adjacent to major stores operated by competitors. In addition to the ongoing refurbishment and expansion of these stores, commercial facilities based on new urban formats are continually being opened. These and other factors are reflected in an increasingly intense competitive environment. In regional and suburban markets, there is

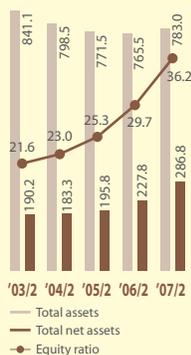
Cash dividends and Cash dividends per share

(Billions of yen/Yen)



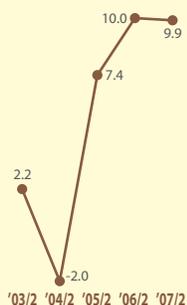
Total assets, Total net assets and Net assets ratio

(Billions of yen/%)



Return on equity (ROE)

(%)



escalating competition among retailers and across retail format categories, partly because of the opening of large-scale roadside shopping malls. These changes in the competitive environment could have a significant impact on the business performance and financial position of the Takashimaya Group.

(c) Natural disasters, accidents

The Takashimaya Group's main sources of income are the operation of department stores and rental income from specialty store buildings in the real estate segment. Natural disasters, such as earthquakes, floods and typhoons, or fires and other accidents could have a negative impact on the business performance of the Takashimaya Group. Though we implement exhaustive fire prevention measures and evacuation drills as required under the Fire Service Law, a fire in a store could result in restrictions under the Fire Service Law, compensation claims, the loss of human resources if employees are affected by the fire, and damage to fixed assets, such as buildings, and inventory assets. These factors could have a negative impact on the business performance and financial position of the Takashimaya Group.

(d) Trading in merchandise

As an organization whose core activity is the operation of department stores, the Takashimaya Group sells merchandise to consumers. We take all possible care to ensure the suitability and safety of our products, but if we sell defective items, such as faulty goods or products that cause food poisoning or other problems, we may incur costs resulting from official restrictions, product liability or liability for damages. There would also be damage to the reputation of the Takashimaya Group and a decline in sales resulting from increased uncertainty about our merchandise. These factors could have a negative impact on the business performance and financial position of the Takashimaya Group.

(e) Laws and regulations

In its business activities, the Takashimaya Group takes all possible care to comply with the Large-scale Retail Stores Location Law and the Antimonopoly Law, as well as laws, regulations and other requirements relating to food safety management, consumer protection, taxation, the environment and recycling. If a violation of any of these laws and regulations occurs, restrictions could be placed on the business activities of the Takashimaya Group, or we could face additional compliance costs. These laws and regulations could have a negative impact on the business performance and financial position of the Takashimaya Group.

(f) Customer information management

The Takashimaya Group holds a variety of customer information, including information concerning house-card customers. We have established internal management systems under which customer information is rigorously controlled. However, if customer information is leaked because of an unforeseeable incident, we could incur costs relating to compensation payments to individual customers, as well as a decline in sales resulting from damage to the Takashimaya Group's reputation. These factors could adversely affect the business performance and financial position of the Takashimaya Group.

(g) System risks

The Takashimaya Group uses various computer systems, especially in its department store business. These are centrally managed in a security center operated by outside contractors. The center is designed to withstand earthquakes (up to intensity 7 on the Japanese shindo scale) and is equipped with safety systems, including backup power supplies and communication lines, in-house power generators and measures to prevent unauthorized entry. However, if a natural disaster or system failure that exceeds anticipated scenarios results in the disruption of communication lines and/or the interruption of systems, there would be serious implications for the business activities of the Takashimaya Group. These factors could have a negative impact on the business performance and financial position of the Takashimaya Group.

CONSOLIDATED BALANCE SHEETS

Takashimaya Company, Limited and Consolidated Subsidiaries
Years ended February 28, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current assets:			
Cash and deposits (Notes 3 and 10)	¥ 55,010	¥ 52,593	\$ 464,455
Marketable securities (Notes 4 and 10)	600	900	5,066
Notes and accounts receivable:			
Trade	72,089	62,300	608,654
Non-consolidated subsidiaries and affiliated companies	534	416	4,509
Other (Note 9)	6,836	7,521	57,716
Less: Allowance for doubtful accounts	(612)	(699)	(5,167)
	78,847	69,538	665,712
Inventories (Note 5)	41,494	41,148	350,338
Deferred tax assets (Note 11)	6,211	3,922	52,440
Other current assets (Note 9)	76,696	22,788	647,551
Total current assets	258,858	190,889	2,185,562
Investments and advances:			
Investment securities (Notes 4 and 10)	70,886	77,631	598,497
Investments in and advances to:			
Non-consolidated subsidiaries and affiliated companies	29,276	26,374	247,180
Other (Note 9)	89,152	91,209	752,719
Less: Allowance for doubtful accounts	(3,078)	(12,028)	(25,988)
	115,350	105,555	973,911
Total investments and advances	186,236	183,186	1,572,408
Property and equipment:			
Land (Notes 6, 9 and 15)	142,230	143,359	1,200,861
Buildings and structures (Notes 6 and 9)	273,640	270,142	2,310,368
Equipment and fixtures (Note 6)	30,035	30,533	253,588
Construction in progress	15,357	6,972	129,661
	461,262	451,006	3,894,478
Less: Accumulated depreciation	(179,868)	(177,665)	(1,518,642)
Total property and equipment	281,394	273,341	2,375,836
Leasehold and other deposits (Notes 7 and 10)	36,876	99,912	311,348
Consolidation difference	1,145	1,241	9,667
Deferred tax assets (Note 11)	3,738	6,932	31,560
Other assets	14,749	9,986	124,527
Total Assets	¥ 782,996	¥ 765,487	\$ 6,610,908

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current liabilities:			
Short-term bank loans (Note 8)	¥ 5,800	¥ 5,850	\$ 48,970
Current portion of long-term debt (Note 8)	55,099	45,923	465,206
Notes and accounts payable:			
Trade	95,750	94,035	808,426
Non-consolidated subsidiaries and affiliated companies	3,271	2,823	27,618
Other	15,913	12,220	134,355
	114,934	109,078	970,399
Accrued income taxes (Note 11)	9,959	5,623	84,085
Accrued expenses	9,039	10,113	76,317
Allowance for directors' and corporate auditors' bonuses	92	99	777
Gift certificates outstanding	44,638	43,762	376,883
Advances received	67,877	62,600	573,092
Employees' saving deposits	16,374	16,415	138,247
Allowance for Point Gift Certificates	3,732	3,195	31,510
Allowance for loss on disposal of property and equipment	2,379	—	20,086
Other current liabilities	11,135	24,682	94,013
Total current liabilities	341,058	327,340	2,879,585
Long-term debt (Note 8)	55,593	111,295	469,377
Deposits from tenants	31,353	31,333	264,716
Allowance for employees' retirement benefits (Note 13)	56,824	57,369	479,770
Allowance for directors' and corporate auditors' retirement benefits	606	537	5,117
Deferred tax liabilities (Note 11)	124	146	1,047
Deferred tax liabilities related to land revaluation (Note 15)	10,184	7,620	85,984
Long-term accounts payable	13	1,580	110
Other long-term liabilities	412	480	3,478
Total liabilities	496,167	537,700	4,189,184
Contingent liabilities (Note 12)			
Net assets			
Owners' equity (Note 14):			
Common stock:			
Authorized: 600,000 thousand shares			
Issued: 330,827,625 shares in 2007			
and 309,024,920 shares in 2006	56,025	39,162	473,024
Capital surplus	45,077	28,227	380,589
Retained earnings	145,975	127,264	1,232,481
Less: Treasury stock, at cost, 827,002 shares in 2007			
779,022 shares in 2006	(425)	(345)	(3,588)
Total owners' equity	246,652	194,308	2,082,506
Accumulated gains from revaluation and translation adjustments			
Unrealized gains on available-for-sale securities, net of taxes	25,631	27,180	216,405
Unrealized losses on hedging derivatives, net of taxes	(1)	—	(9)
Land revaluation difference, net of taxes (Note 15)	8,506	4,754	71,817
Foreign currency translation adjustments	2,803	1,013	23,666
Total accumulated gains from revaluation			
and translation adjustments	36,939	32,947	311,879
Minority interests in consolidated subsidiaries	3,238	532	27,339
Total net assets	286,829	227,787	2,421,724
Total liabilities and net assets	¥ 782,996	¥ 765,487	\$ 6,610,908

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

Takashimaya Company, Limited and Consolidated Subsidiaries
Years ended February 28, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Sales and other operating revenue (Note 19):			
Net sales	¥ 1,007,476	¥ 989,471	\$ 8,506,214
Other operating revenue	41,930	41,679	354,019
	1,049,406	1,031,150	8,860,233
Operating expenses (Note 19):			
Cost of sales	734,084	719,136	6,197,940
Selling, general and administrative expenses	281,461	279,259	2,376,401
	1,015,545	998,395	8,574,341
Operating income (Note 19)	33,861	32,755	285,892
Other income (expenses):			
Interest and dividend income	3,549	2,760	29,965
Interest expenses	(2,852)	(3,645)	(24,080)
Reversal for doubtful accounts	8,613	—	72,720
(Loss) gain on sale and disposal of property and equipment, net	(1,243)	1,422	(10,495)
Gain on sale of securities, net	580	17	4,897
Gain on sale of consolidated subsidiaries	1,671	—	14,108
One-time write-off of bonus gift certificates	(1,120)	—	(9,456)
Extra retirement bonus	(2,579)	—	(21,775)
Provision for loss on disposal of property and equipment	(2,379)	—	(20,086)
Loss on restructuring charges (Note 20)	—	(4,384)	—
Gain on liquidation of gift certificates outstanding, net	1,653	1,505	13,956
Write-down of securities	—	(12)	—
Equity in gain of affiliated companies	2,152	2,325	18,170
Loss on impairment of property and equipment (Note 6)	(44)	(24)	(371)
Loss on valuation of the participation right on the telephone	—	(21)	—
Other, net	1,075	1,253	9,076
	9,076	1,196	76,629
Income before income taxes and minority interests	42,937	33,951	362,521
Income taxes (Note 11):			
Current	12,819	8,587	108,232
Deferred	4,666	4,034	39,395
	17,485	12,621	147,627
	25,452	21,330	214,894
Minority interests in earnings of consolidated subsidiaries	(132)	(138)	(1,115)
Net income	¥ 25,320	¥ 21,192	\$ 213,779

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Takashimaya Company, Limited and Consolidated Subsidiaries
Years ended February 28, 2007 and 2006

	Millions of yen					
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total owners' equity
Balance, February 28, 2005	308,884,382	39,086	28,149	109,728	(258)	176,705
Increase due to conversion of convertible bonds	140,538	76	76			152
Cash dividends paid				(2,542)		(2,542)
Net income for the fiscal year				21,192		21,192
Gain on sales of treasury stock and increase in treasury stock, net			2		(87)	(85)
Reversal of revaluation reserve for land				(1,228)		(1,228)
Increase due to changes in equity interest in consolidated subsidiaries				114		114
Net changes during the year						—
Balance, February 28, 2006	309,024,920	39,162	28,227	127,264	(345)	194,308
Issuance of common stock under public offering	18,400,000	15,033	15,022			30,055
Increase due to conversion of convertible bonds	3,402,705	1,830	1,825			3,655
Cash dividends paid				(2,857)		(2,857)
Net income for the fiscal year				25,320		25,320
Gain on sales of treasury stock and increase in treasury stock, net			3		(80)	(77)
Reversal of revaluation reserve for land				(3,752)		(3,752)
Net changes during the year						—
Balance, February 28, 2007	330,827,625	56,025	45,077	145,975	(425)	246,652

	Millions of yen						
	Unrealized gains on available-for- sale 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, February 28, 2005	13,262	—	6,121	(680)	18,703	405	195,813
Increase due to conversion of convertible bonds							152
Cash dividends paid							(2,542)
Net income for the fiscal year							21,192
Gain on sales of treasury stock and increase in treasury stock, net							(85)
Reversal of revaluation reserve for land							(1,228)
Increase due to changes in equity interest in consolidated subsidiaries							114
Net changes during the year	13,918	—	(1,367)	1,693	14,244	127	14,371
Balance, February 28, 2006	27,180	—	4,754	1,013	32,947	532	227,787
Issuance of common stock under public offering							30,055
Increase due to conversion of convertible bonds							3,655
Cash dividends paid							(2,857)
Net income for the fiscal year							25,320
Gain on sales of treasury stock and increase in treasury stock, net							(77)
Reversal of revaluation reserve for land							(3,752)
Net changes during the year	(1,549)	(1)	3,752	1,790	3,992	2,706	6,698
Balance, February 28, 2007	25,631	(1)	8,506	2,803	36,939	3,238	286,829

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total owners' equity
Balance, February 28, 2006	330,648	238,323	1,074,502	(2,913)	1,640,560
Issuance of common stock under public offering	126,925	126,832			253,757
Increase due to conversion of convertible bonds	15,451	15,409			30,860
Cash dividends paid			(24,122)		(24,122)
Net income for the fiscal year			213,779		213,779
Gain on sales of treasury stock and increase in treasury stock, net		25		(675)	(650)
Reversal of revaluation reserve for land			(31,678)		(31,678)
Net changes during the year					—
Balance, February 28, 2007	473,024	380,589	1,232,481	(3,588)	2,082,506

	Thousands of U.S. dollars (Note 1)						
	Unrealized gains on available-for-sale 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, February 28, 2006	229,483	—	40,138	8,553	278,174	4,492	1,923,226
Issuance of common stock under public offering					—		253,757
Increase due to conversion of convertible bonds					—		30,860
Cash dividends paid					—		(24,122)
Net income for the fiscal year					—		213,779
Gain on sales of treasury stock and increase in treasury stock, net					—		(650)
Reversal of revaluation reserve for land					—		(31,678)
Net changes during the year	(13,078)	(9)	31,679	15,113	33,705	22,847	56,552
Balance, February 28, 2007	216,405	(9)	71,817	23,666	311,879	27,339	2,421,724

CONSOLIDATED STATEMENTS OF CASH FLOWS

Takashimaya Company, Limited and Consolidated Subsidiaries
 Years ended February 28, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 42,937	¥ 33,951	\$ 362,521
Depreciation	12,226	12,896	103,225
Loss on impairment of property and equipment	44	24	371
Amortization of consolidation difference	95	95	802
Decrease in allowance for doubtful accounts	(9,037)	(388)	(76,300)
(Decrease) increase in allowance for directors' and corporate auditors' bonuses	(7)	9	(59)
Decrease in allowance for employees' retirement benefits	(545)	(2,323)	(4,601)
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	69	(35)	583
Increase in allowance for Point Gift Certificates	528	231	4,458
Increase in allowance for loss on disposal of property and equipment	2,379	—	20,086
Interest and dividend income	(3,549)	(2,760)	(29,965)
Interest expenses	2,852	3,645	24,080
Equity in gain of affiliated companies	(2,152)	(2,325)	(18,170)
Gain on sale of property and equipment, net	(3,567)	(4,464)	(30,116)
Loss on disposal of property and equipment	3,018	1,884	25,481
Devaluation of property and equipment	—	21	—
Gain on sale of securities, net	(833)	(17)	(7,033)
Gain on sale of consolidated subsidiaries	(1,418)	—	(11,972)
Write-down of securities	2	3	17
(Increase) decrease in notes and accounts receivable	(9,989)	1,503	(84,338)
(Increase) decrease in inventories	(284)	3,066	(2,398)
Increase (decrease) in notes and accounts payable	1,921	(900)	16,219
Other	2,000	(5,545)	16,886
Subtotal	36,690	38,571	309,777
Interest and dividend income received	4,166	3,207	35,174
Interest expenses paid	(3,746)	(3,803)	(31,628)
Income taxes paid	(8,348)	(9,203)	(70,483)
Net cash provided by operating activities	28,762	28,772	242,840
Cash flows from investing activities:			
Purchase of time deposits	(61)	(1,004)	(515)
Repayment of time deposits	61	56	515
Purchase of securities	(2,025)	(2,598)	(17,097)
Proceeds from sale of securities	11,057	2,025	93,355
Purchase of property and equipment	(29,544)	(16,643)	(249,443)
Proceeds from sale of property and equipment	7,813	14,715	65,966
Increase in long-term advances	(30)	(4,938)	(253)
Proceeds from collection of long-term advances	1,059	1,059	8,941
Other	1,594	463	13,458
Net cash used in investing activities	(10,076)	(6,865)	(85,073)
Cash flows from financing activities:			
Net increase (net decrease) in short-term bank loans	(50)	1,110	(422)
Proceeds from long-term bank loans	4,000	18,400	33,772
Payment of long-term bank loans	(38,907)	(34,418)	(328,495)
Redemption of bonds	(8,000)	(15,000)	(67,545)
Proceeds from sale of treasury stock	4	2	34
Cash dividends paid	(2,857)	(2,542)	(24,122)
Issuance of new shares	30,055	—	253,757
Other	(94)	(97)	(793)
Net cash used in financing activities	(15,849)	(32,545)	(133,814)
Effect of exchange rate changes	528	469	4,458
Net increase (net decrease) in cash and cash equivalents	3,365	(10,169)	28,411
Cash and cash equivalents at beginning of year	51,596	61,255	435,630
Cash and cash equivalents of newly consolidated subsidiaries	—	510	—
Cash and cash equivalents at end of year (Note 3)	¥ 54,961	¥ 51,596	\$ 464,041

See accompanying notes.

Note 1

Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Takashimaya Company, Limited (hereafter, the “Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of changes in net assets for

2006) from the consolidated financial statements of the Company, prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at February 28, 2007, which was ¥118.44 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Note 2

Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (hereafter, the “Companies”).

Investments in certain significant affiliated companies are accounted for by the equity method after the elimination of unrealized intercompany profits. Investments in the remaining non-consolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements. Such investments are, therefore, carried at cost, adjusted for any substantial and non-recoverable diminution in value, and income from those non-consolidated subsidiaries and affiliated companies is recognized only when the Companies receive dividends therefrom.

In accordance with the accounting standards for consolidation, the Company’s subsidiaries include companies over which substantial control is exerted through either majority ownership of voting stock and/or by other means. Also, the Company’s affiliated companies include companies over which the Company has the ability to exercise significant influence.

All significant intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The differences between the cost and underlying net equity of investments in consolidated subsidiaries

are amortized on a straight-line basis over 20 years with the exception of minor differences, which are charged or credited to income in the period of acquisition.

Hotel Seagull Takashimaya Co., Ltd. was liquidated in June 2006 and excluded from a consolidated subsidiary. TL Corporation Co., Ltd. was renamed as Takashimaya Logistics Co., Ltd., and KANTO TELEPHONE COMMUNICATION CENTER, INC. took over the telephone communication operations of equity-method affiliate KANSAI TELEPHONE COMMUNICATION CENTER, INC. and was renamed as Takashimaya Telephone Communication Center, Inc. In February 2007, the Company’s mail-order sales operations and Takashimaya Credit Co., Ltd.’s insurance agency business were transferred to and consolidated in Takashimaya Telephone Communication Center, Inc. and the company was renamed as Takashimaya Insurance & Telecom Co., Ltd.

All the Company’s non-consolidated subsidiaries are of a limited scale in terms of total assets, net sales, profit, retained earnings and other indicators, and taken together they do not have a significant impact on the consolidated financial statements.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rate at the balance sheet date, and translation gains and losses are charged to income.

The balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for owners’ equity accounts,

which are translated at the historical rates. Statements of operations of consolidated overseas subsidiaries are translated at average rates.

(c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents include cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase.

(d) Securities

No trading securities are held by the Companies. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets section in the balance sheets. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market values are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market values are stated at moving-average cost.

(e) Derivatives and hedging transactions

Derivative financial instruments are stated at fair value and changes in the fair value as gains or losses are charged to income unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

- (1) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
 - (i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is

recognized in the statement of income in the period which includes the inception date, and

- (ii) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

- (2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Companies use forward foreign currency contracts, currency swaps and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange and increases in the interest rate.

The related hedged items are trade receivables, trade payables, loans payable and interest on foreign currency bonds.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided principally for amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to specific items and possible losses on collection calculated by applying a percentage based on collection experience to the remaining items.

(g) Inventories

Inventories are valued at cost determined by the following methods:

Merchandise:	principally retail method and specific identification method
Products:	principally first-in, first-out method
Work in process:	principally first-in, first-out method
Raw materials:	principally first-in, first-out method
Supplies:	first-in, first-out method

(h) Property and equipment

Property and equipment are stated at cost and depreciated by using mainly the straight-line method over the estimated useful lives of the assets as prescribed by Japanese tax laws. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. The cost of

property and equipment sold or disposed of and the accumulated depreciation thereon are deducted from the related accounts, and the net gain or loss is credited or charged to income.

(i) Impairment of Fixed Assets

Calculation of the impairment of fixed assets is based on reasonable and supportable assumptions and projection of the grouping of assets and recoverable value, with due consideration for the specific conditions of each company. The recoverable amount of assets is calculated based on net selling price.

(j) Software

The Companies amortize capitalized software using the straight-line method over its estimated useful life (five years).

(k) Allowance for Point Gift Certificates

The Company provides its customers with credit points when they make purchases using the Takashimaya Card and, upon request, issues gift certificates (Point Gift Certificates) to those customers who have earned sufficient points.

The Company provides an allowance for the estimated future costs of the issuance of the certificates based on the number of credit points outstanding at each fiscal year-end.

(l) Allowance for loss on disposal of property and equipment

In the fiscal year under review the Company has set aside a reasonable estimate of losses it expects to incur in association with the future disposal of buildings, etc. and related demolition costs due to large-scale sales floor remodeling and construction.

(m) One-time write-off of bonus gift certificates

Consolidated subsidiaries have, as a one-time write-off, expensed an amount equivalent to the bonus certificate portion of gift certificates collected in the past. The bonus certificate is a credit that the customer receives after paying 12 months worth of deposits into Takashimaya's gift certificate reserve.

(n) Allowance for directors' and corporate auditors' bonuses

An allowance for directors' and corporate auditors' bonuses is provided for the estimated amounts which the Company is obligated to pay to directors and corporate auditors subject to the resolution of the general shareholders' meeting subsequent to the fiscal year-end.

(o) Allowance for employees' retirement benefits

The Companies provide an allowance for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The unrecognized prior service cost obligations are recognized as expenses and recorded in equal amounts mainly 10 years from their recognition, which is less than the average remaining years of employment of the employees.

Actuarial gains or losses incurred during the year are amortized by using the straight-line method over a certain period of time (mainly 10 years), which is less than the average remaining years of employment of the employees, commencing from the succeeding fiscal year.

(p) Allowance for directors' and corporate auditors' retirement benefits

An allowance for directors' and corporate auditors' retirement benefits of the Company was provided based on the Company's pertinent rules and is calculated as the estimated amount which would be payable if all officers were to retire at the balance sheet date.

The payments are subject to approval of the shareholders' meeting.

(q) Accounting for leases

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

(r) Income taxes

Income taxes consist of corporation, inhabitants' and enterprise taxes.

The Companies recognize the tax effects of temporary differences between the financial statements' carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the income before income taxes and minority interests included in the statements of income of each of the Companies. The assets and liabilities approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(s) Per share information

Net income per share is based on the weighted average number of shares of common stock outstanding during each year and diluted net income per share reflects the potential dilution that could occur if it were converted into common stock.

Cash dividends per share represent interim dividends declared by the Board of Directors in each year and year-end dividends approved by the shareholders at the annual meeting held subsequent to the end of the fiscal year.

(t) Accounting Standards for Presentation of Net Assets in the Balance Sheet

Effective for the year ended February 28, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards, the “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the Implementation Guidance for the “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the “New Accounting Standards”).

Under the New Accounting Standards, the balance sheets comprises the assets, liabilities and net assets sections. Previously, the balance sheets comprised the assets, liabilities, minority interests and shareholders’ equity sections. Due to the adoption of the New Accounting Standards, the following items are presented differently compared to the previous presentation rules. The net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains (losses) on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests are included in net assets under the New Accounting Standards. Under the previous presentation rules, minority interests were presented between non-current liabilities and shareholders’ equity.

The consolidated balance sheets as of February 28, 2006 has been restated to conform to the 2007 presentation. The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended February 28, 2007 and 2006.

If the previous accounting standards were to be applied, net assets at February 28, 2007 would be ¥283,592 million.

(u) Accounting Standards for Statement of Changes in Net Assets

Effective for the year ended February 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards, the “Accounting Standard for Statement of Changes in Net Assets”

(Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the Implementation Guidance for the “Accounting Standard for Statement of Changes in Net Assets” (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the “New Accounting Standards”).

Accordingly, the Company prepared the statements of changes in net assets for the year ended February 28, 2007. In addition, the Company voluntarily prepared the consolidated statements of changes in net assets for 2006 in accordance with the New Accounting Standards.

Previously, consolidated statements of shareholders’ equity were prepared for purposes of inclusion in the consolidated financial statements although such statements were not required under the Japanese GAAP.

(v) Reclassification and restatement

Certain prior year amounts have been reclassified and restated to conform to the current year presentation. Also, as described in Note 2 (t) and Note 2 (u), the balance sheets for 2006 has been restated to conform to the new presentation rules of 2007. Also, in lieu of the consolidated statements of shareholders’ equity for the year ended February 28, 2006 which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statements of changes in net assets for the year ended February 28, 2006 as well as for the year ended February 28, 2007.

This reclassification and restatement had no impact on previously reported results of operations.

Note 3

**Cash and Cash
Equivalents**

(a) Cash and cash equivalents at February 28, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and deposits	¥ 55,010	¥ 52,593	\$ 464,455
Time deposits with maturities exceeding three months	(49)	(997)	(414)
	¥ 54,961	¥ 51,596	\$ 464,041

(b) Significant non-cash transactions
Conversion of convertible bonds

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Increase in capital stock by conversion of convertible bonds	¥ 1,830	¥ —	\$ 15,451
Increase in capital surplus by conversion of convertible bonds	1,825	—	15,409
Decrease in convertible bonds by conversion of convertible bonds	3,619	—	30,556

Note 4

Securities

(a) The following tables summarize the acquisition costs, book values and fair values of securities with available fair values as of February 28, 2007 and 2006:

(1) Held-to-maturity debt securities:

Securities with available fair values exceeding book values:

Type	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Government bonds	¥ 10,612	¥ 10,741	¥ 129	¥ 9,509	¥ 9,622	¥ 113	\$ 89,598	\$ 90,687	\$ 1,089

(2) Available-for-sale securities:

Securities with book values exceeding acquisition costs:

Type	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 17,308	¥ 59,270	¥ 41,962	¥ 17,470	¥ 62,379	¥ 44,909	\$ 146,133	\$ 500,422	\$ 354,289
Government bonds	20	20	—	—	—	—	169	169	—
Total	¥ 17,328	¥ 59,290	¥ 41,962	¥ 17,470	¥ 62,379	¥ 44,909	\$ 146,302	\$ 500,591	\$ 354,289

Other securities:

Type	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 515	¥ 437	¥ (78)	¥ 462	¥ 432	¥ (30)	\$ 4,348	\$ 3,690	\$ (658)
Government bonds	—	—	—	19	19	—	—	—	—
Total	¥ 515	¥ 437	¥ (78)	¥ 481	¥ 451	¥ (30)	\$ 4,348	\$ 3,690	\$ (658)

The total sales for available-for-sale securities sold in the years ended February 28, 2007 and 2006 amounted to ¥5,751 million (\$48,556 thousand) and ¥25 million, respectively. The related gains amounted to ¥580 million (\$4,897 thousand) and ¥17 million in the years ended February 28, 2007 and 2006, respectively.

(b) The following tables summarize the book values of securities with no available fair values as of February 28, 2007 and 2006:

(1) Equity securities of subsidiaries and affiliates:

Type	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Subsidiaries	¥ 2,718	¥ 2,718	\$ 22,948
Affiliates	26,558	23,656	224,232
Total	¥ 29,276	¥ 26,374	\$ 247,180

(2) Available-for-sale securities:

Type	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Unlisted securities	¥ 1,147	¥ 6,192	\$ 9,684

(c) Held-to-maturity debt securities and available-for-sale securities with maturities are as follows:

(1) Held-to-maturity debt securities:

Type	Millions of yen				Thousands of U.S. dollars			
	2007				2007			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Government bonds	¥ 600	¥ 3,001	¥ 7,011	¥ —	\$ 5,066	\$ 25,338	\$ 59,195	\$ —

Type	Millions of yen			
	2006			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Government bonds	¥ 900	¥ 3,601	¥ 5,008	¥ —

(2) Available-for-sale securities:

Type	Millions of yen				Thousands of U.S. dollars			
	2007				2007			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Government bonds	¥ —	¥ 20	¥ —	¥ —	\$ —	\$ 169	\$ —	\$ —

Type	Millions of yen			
	2006			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Government bonds	¥ —	¥ 19	¥ —	¥ —

Inventories at February 28, 2007 and 2006 consisted of the following:

Note 5

Inventories

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	Merchandise	¥ 38,345	¥ 37,052
Products	236	282	1,993
Work in process	2,346	3,249	19,808
Raw materials	174	181	1,469
Supplies	393	384	3,318
	¥ 41,494	¥ 41,148	\$ 350,338

The Companies recorded impairment losses on the following asset groups for the years ended February 28, 2007 and 2006:

Note 6

Impairment of Property and Equipment

Location	Use	Classification	Millions of yen		Thousands of U.S. dollars
			2007	2006	2007
			¥ 44	¥ —	\$ 371
Hotel Seagull Takashimaya Co., Ltd.	System operation	Other	—	24	—
			¥ 44	¥ 24	\$ 371

Each retail store is primarily considered as the lowest cash-generating unit. The book values of the cash-generating units which would incur operating losses continuously were reduced to the recoverable amount.

The amounts written down of ¥44 million (\$371 thousand) in the year ended February 28, 2007 and ¥24 million in the year ended February 28, 2006 were recorded as a loss on impairment of property and equipment. The recoverable amounts from those asset groups are based mainly on the net selling price. The net selling price is appraised as the amount of the inheritance tax evaluation in terms of land prices based on the accessibility method.

Note 7**Leasehold and Other Deposits**

The Companies conduct a substantial portion of their retail business through leased properties. The terms of the relevant leases for stores are generally from 10 to 20 years with options for renewal, subject to renegotiation of rental fees every 2 or 5 years. In connection with such leases, lessors require, under certain circumstances, large deposits relative to the amount of annual lease rental payments, and such deposits bear no interest or interest only at nominal rates.

Note 8**Short-term Bank Loans and Long-term Debt**

Short-term bank loans outstanding were generally represented by bank overdrafts and notes issued by the Companies to banks bearing interest at average rates of 0.89% and 0.79% at February 28, 2007 and 2006, respectively.

Long-term debt at February 28, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
2.09% bonds due 2006	¥ —	¥ 5,000	\$ —
0.48% bonds due 2007	—	3,000	—
1.0% bonds due 2008	10,000	10,000	84,431
0.0% convertible bonds due 2010	11,231	14,850	94,824
Loans from banks, insurance companies and others due serially to 2016:			
Secured (bearing interest at rates from 1.35% to 4.85% at February 28, 2007)	55,687	58,985	470,171
Unsecured (bearing interest at rates from 0.93% to 2.22% at February 28, 2007)	33,774	65,383	285,157
	110,692	157,218	934,583
Less: Current portion of long-term debt	(55,099)	(45,923)	(465,206)
	¥ 55,593	¥ 111,295	\$ 469,377

The current conversion price of 0.0% convertible bonds issued by the Company is ¥1,074 (\$9.07). At February 28, 2007, the convertible bonds were convertible into approximately 10,560 thousand shares of common stock.

The aggregate annual maturities of long-term debt at February 28, 2007 are summarized below:

Years ending February 28/29	Millions of yen	Thousands of U.S. dollars
2008	¥ 55,099	\$ 465,206
2009	10,457	88,289
2010	17,881	150,971
2011	16,993	143,473
2012	6,483	54,737
2013 and thereafter	3,779	31,907
	¥ 110,692	\$ 934,583

Note 9

The assets pledged as collateral for debts mainly from banks and certain other obligations at February 28, 2007 were as follows:

Pledged Assets

	Millions of yen	Thousands of U.S. dollars
Other current assets	¥ 60,588	\$ 511,550
Investment in and advances to — other	45,646	385,394
Land	20,687	174,662
Buildings and structures	9,720	82,067
	¥ 136,641	\$ 1,153,673

Note 10

The deposited assets required by the Installment Sales Law at February 28, 2007 were as follows:

Deposited Assets

	Millions of yen	Thousands of U.S. dollars
Cash and deposits	¥ 890	\$ 7,514
Investment securities	10,432	88,078
Leasehold and other deposits	10	85
	¥ 11,332	\$ 95,677

Note 11**Income Taxes**

The Companies are subject to a number of taxes based on income. The aggregate statutory tax rate in Japan was approximately 40.6% for the year ended February 28, 2006.

The following table summarizes the significant differences between the statutory effective tax rate and the Companies' effective tax rate for financial statement purposes for the year ended February 28, 2006.

The difference between the statutory tax rate and the Company's income tax burden following application of tax effect accounting for the year ended February 28, 2007 is within 5% of the statutory tax rate, so this section has been omitted.

	2006
Statutory tax rate	40.6%
Permanent differences (including entertainment)	1.1
Per capita inhabitants' tax	0.4
Decrease in valuation allowance	(3.4)
Equity in gain of affiliated companies	(2.8)
Tax effect due to liquidation of consolidated subsidiaries	(0.5)
Others	1.8
Effective tax rate	37.2%

Significant components of the Companies' deferred tax assets and liabilities as of February 28, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets (current):			
Accrued enterprise tax	¥ 747	¥ 571	\$ 6,307
Undeductible allowance for doubtful accounts	198	—	1,672
Accrued bonuses	393	496	3,318
Tax effect due to liquidation of consolidated subsidiaries	—	173	—
Tax loss carryforward	742	175	6,265
Undeductible write-down of inventories	144	194	1,216
Allowance for Point Gift Certificates	2,007	1,257	16,945
Allowance for disposal of property and equipment	966	—	8,156
Accrued severance	84	77	709
Accrued defined contribution plan liabilities	513	486	4,331
Others	488	895	4,120
Gross deferred tax assets	6,282	4,324	53,039
Less: Valuation allowance	(7)	(378)	(59)
Total deferred tax assets	6,275	3,946	52,980
Net of deferred tax liabilities	(64)	(24)	(540)
Net deferred tax assets	¥ 6,211	¥ 3,922	\$ 52,440
Deferred tax liabilities (current):			
Adjustments of allowance for doubtful accounts	¥ 64	¥ —	\$ 540
Others	—	24	—
Total deferred tax liabilities	64	24	540
Net of deferred tax assets	(64)	(24)	(540)
Net deferred tax liabilities	¥ —	¥ —	\$ —
Deferred tax assets (noncurrent):			
Unrealized intercompany profits	¥ 590	¥ 557	\$ 4,981
Undeductible allowance for employees' retirement benefits	22,931	22,114	193,610
Undeductible write-down of securities	2,354	2,349	19,875
Undeductible amortization of software costs	982	1,033	8,291
Loss on impairment of property and equipment	1,000	1,133	8,443
Tax loss carryforward	2,030	1,699	17,139
Undeductible write-down of memberships	273	308	2,305
Undeductible allowance for doubtful accounts	811	4,364	6,847
Devaluation of property and equipment resulting from spin-off	1,391	1,439	11,744
Accrued defined contribution plan liabilities	—	613	—
Others	720	779	6,079
Gross deferred tax assets	33,082	36,388	279,314
Less: Valuation allowance	(3,012)	(2,769)	(25,430)
Total deferred tax assets	30,070	33,619	253,884
Net of deferred tax liabilities	(26,332)	(26,687)	(222,324)
Net deferred tax assets	¥ 3,738	¥ 6,932	\$ 31,560
Deferred tax liabilities (noncurrent):			
Reserve for deferred capital gains of property	¥ 9,261	¥ 8,512	\$ 78,191
Adjustments of allowance for doubtful accounts	71	11	599
Unrealized holding gains on securities	17,006	18,173	143,584
Others	118	137	997
Gross deferred tax liabilities	26,456	26,833	223,371
Net of deferred tax assets	(26,332)	(26,687)	(222,324)
Net deferred tax liabilities	¥ 124	¥ 146	\$ 1,047

Note 12

The Company and certain consolidated subsidiaries were contingently liable for loan guarantees made for employees and others of ¥1,673 million (\$14,125 thousand) at February 28, 2007.

Contingent Liabilities**Note 13****Allowance for Employees' Retirement Benefits**

The Companies have defined benefit pension plans, i.e., corporate pension plans, tax-qualified pension plans, lump-sum retirement plans and defined contribution pension plans, covering substantially all their employees, who are entitled to lump-sum payments and/or pension payments, the amounts of which are determined by reference to their basic salaries. Premium retirement payments may be granted to employees according to the conditions under which the termination occurs.

The allowance for employees' retirement benefits as of February 28, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligations	¥ 125,081	¥ 128,138	\$ 1,056,070
Plan assets at fair value	(61,013)	(60,641)	(515,138)
Projected benefit obligations in excess of plan assets	64,068	67,497	540,932
Unrecognized prior service costs	5,731	6,495	48,387
Unrecognized actuarial differences	(12,975)	(16,623)	(109,549)
Allowance for employees' retirement benefits	¥ 56,824	¥ 57,369	\$ 479,770

Note: Certain of the consolidated subsidiaries have adopted the conventional method in calculating their retirement benefit obligations as set forth in the accounting standard for employees' retirement benefits.

Employees' retirement benefit costs for the years ended February 28, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service costs	¥ 4,001	¥ 3,630	\$ 33,781
Interest cost on projected benefit obligations	2,536	3,145	21,412
Expected return on plan assets	(1,401)	(1,329)	(11,829)
Amortization of prior service costs	(763)	(764)	(6,442)
Amortization of actuarial differences	2,147	1,239	18,127
Premium retirement payment	2,579	3,206	21,775
Defined contribution pension costs and others	1,009	1,041	8,519
Employees' retirement benefit costs	¥ 10,108	¥ 10,168	\$ 85,343

Assumptions used in the calculation of the above information were as follows:

	2007	2006
Discount rate	2.0%	2.0%
Expected return on plan assets	Mainly 2.3%	Mainly 2.3%
Method of attributing the projected retirement benefits to periods of service	Straight-line basis	Straight-line basis
Amortization of unrecognized prior service costs	Mainly 10 years	Mainly 10 years
Amortization of unrecognized actuarial differences	Mainly 10 years	Mainly 10 years

Note 14**Net Assets**

As described in Note 2 (t), net assets comprises three subsections, which are the owners' equity, accumulated gains from revaluation and translation adjustments and minority interests.

Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve may be transferred to retained earnings by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting held on May 22, 2007, the shareholders resolved cash dividends amounting to ¥1,650 million (\$13,931 thousand). Such appropriations have not been accrued in the consolidated financial statements as of February 28, 2007, and are recognized in the period in which they were resolved.

Note 15**Land Revaluation**

In accordance with the Law Concerning Revaluation of Land, land used for business owned by the Company and two consolidated subsidiaries was revalued. The unrealized gain, net of deferred tax, was excluded from earnings and reported as “Excess of land revaluation” in shareholders’ equity, and the relevant deferred tax was included as “Deferred tax liabilities related to land revaluation” in liabilities.

Related information is shown as follows:

Date of revaluation:	
The Company	December 31, 2000 and February 28, 2001
A consolidated subsidiary	February 28, 2001
A consolidated subsidiary	March 31, 2002

Note 16**Leases****Finance leases**

(1) Lessees’ accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at February 28, 2007 and 2006 which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition costs:			
Equipment and fixtures	¥ 10,357	¥ 11,535	\$ 87,445
Accumulated depreciation:			
Equipment and fixtures	7,810	8,013	65,941
Accumulated impairment loss:			
Equipment and fixtures	26	134	219
Net book value:			
Equipment and fixtures	¥ 2,521	¥ 3,388	\$ 21,285

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,772 million (\$14,961 thousand) and ¥2,061 million for the years ended February 28, 2007 and 2006, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to February 28, 2007 for finance leases accounted for as operating leases are summarized as follows:

Years ending February 28/29	Millions of yen	Thousands of U.S. dollars
2008	¥ 1,073	\$ 9,059
2009 and thereafter	1,460	12,327
Total	¥ 2,533	\$ 21,386

(2) Lessors' accounting

Lease income relating to finance leases accounted for as operating leases amounted to ¥316 million for the year ended February 28, 2006.

There was no future minimum lease income for finance leases accounted for as operating leases subsequent to February 28, 2006.

(3) Operating leases

Future minimum lease payments subsequent to February 28, 2007 for noncancelable operating leases are summarized as follows:

Years ending February 28/29	Millions of yen	Thousands of U.S. dollars
2008	¥ 13,940	\$ 117,696
2009 and thereafter	116,898	986,981
Total	¥ 130,838	\$ 1,104,677

Note 17

**Derivative
Transactions**

There was no derivative transaction as of February 28, 2007 and 2006 for which hedge accounting has not been applied.

Note 18

Per Share Information

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended February 28, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Basic net income per share			
Income (numerator):			
Net income	¥ 25,320	¥ 21,192	\$ 213,779
Amounts not belonging to common stock (bonuses to directors from retained earnings)	—	—	—
Net income available to common stockholders	25,320	21,192	213,779
Shares, thousands (denominator):			
Weighted average number of shares	325,360	308,183	—
Basic EPS (yen and U.S. dollars)	¥ 77.82	¥ 68.77	\$ 0.66
Diluted net income per share			
Income (numerator):			
Net income	¥ 25,320	¥ 21,192	\$ 213,779
Amounts not belonging to common stock (bonuses to directors from retained earnings)	—	—	—
Net income available to common stockholders	25,320	21,192	213,779
Effect of dilutive securities — convertible bonds	(2)	(14)	(17)
Adjusted net income	25,318	21,178	213,762
Shares, thousands (denominator):			
Weighted average number of shares	325,360	308,183	—
Assumed conversion of convertible bonds	13,760	13,913	—
Adjusted weighed average number of shares	339,120	322,096	—
Diluted EPS (yen and U.S. dollars)	¥ 74.66	¥ 65.75	\$ 0.63

Net assets per share as of February 28, 2007 and 2006 were calculated as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net assets per share			
Net assets (numerator):			
Total net assets	¥ 286,829	¥ 227,787	\$ 2,421,724
Minority interests in consolidated subsidiaries	(3,238)	(532)	(27,339)
Adjusted net assets	283,591	227,255	2,394,385
Common stock, thousands (denominator):			
Issued number of shares	330,828	309,025	—
Treasury stock	(827)	(779)	—
Outstanding number of shares	330,001	308,246	—
Net assets per share (yen and U.S. dollars)	¥ 859.37	¥ 737.25	\$ 7.26

Note 19

Segment Information

(a) Business segment information

Business segment information for the years ended February 28, 2007 and 2006 was as follows:

		Millions of yen							
		Department Store	Contract & Design	Real Estate	Finance	Other	Total	Elimination and corporate	Consolidated
Year ended February 28, 2007									
Sales and other operating revenue:									
	Outside customers	¥941,692	¥ 33,389	¥ 24,089	¥ 7,987	¥ 42,249	¥1,049,406	¥ —	¥1,049,406
	Intersegment	6,315	5,389	5,605	4,255	49,453	71,017	(71,017)	—
	Total	948,007	38,778	29,694	12,242	91,702	1,120,423	(71,017)	1,049,406
	Operating expenses	924,664	38,303	23,378	10,157	89,616	1,086,118	(70,573)	1,015,545
	Operating income	¥ 23,343	¥ 475	¥ 6,316	¥ 2,085	¥ 2,086	¥ 34,305	¥ (444)	¥ 33,861
	Assets	¥539,447	¥ 19,597	¥ 81,735	¥ 66,087	¥ 19,602	¥ 726,468	¥ 56,528	¥ 782,996
	Depreciation	9,353	92	2,361	107	79	11,992	234	12,226
	Loss on impairment	—	—	—	—	44	44	—	44
	Capital expenditure	25,032	239	8,280	—	59	33,610	(896)	32,714

		Millions of yen							
		Department Store	Contract & Design	Real Estate	Finance	Other	Total	Elimination and corporate	Consolidated
Year ended February 28, 2006									
Sales and other operating revenue:									
	Outside customers	¥ 928,182	¥ 26,906	¥ 22,752	¥ 8,822	¥ 44,488	¥ 1,031,150	¥ —	¥ 1,031,150
	Intersegment	6,497	3,994	5,492	4,131	66,116	86,230	(86,230)	—
	Total	934,679	30,900	28,244	12,953	110,604	1,117,380	(86,230)	1,031,150
	Operating expenses	911,478	30,379	22,582	10,590	109,374	1,084,403	(86,008)	998,395
	Operating income	¥ 23,201	¥ 521	¥ 5,662	¥ 2,363	¥ 1,230	¥ 32,977	¥ (222)	¥ 32,755
	Assets	¥ 529,149	¥ 19,314	¥ 81,482	¥ 47,097	¥ 21,015	¥ 698,057	¥ 67,430	¥ 765,487
	Depreciation	9,410	46	2,269	911	99	12,735	161	12,896
	Loss on impairment	—	—	—	—	24	24	—	24
	Capital expenditure	11,251	26	4,045	68	129	15,519	(265)	15,254

Thousands of U.S. dollars								
	Department Store	Contract & Design	Real Estate	Finance	Other	Total	Elimination and corporate	Consolidated
Year ended February 28, 2007								
Sales and other operating revenue:								
Outside customers	\$7,950,794	\$281,906	\$203,386	\$ 67,435	\$356,712	\$8,860,233	\$ —	\$8,860,233
Intersegment	53,318	45,500	47,324	35,925	417,536	599,603	(599,603)	—
Total	8,004,112	327,406	250,710	103,360	774,248	9,459,836	(599,603)	8,860,233
Operating expenses	7,807,025	323,396	197,382	85,756	756,636	9,170,195	(595,854)	8,574,341
Operating income	\$ 197,087	\$ 4,010	\$ 53,328	\$ 17,604	\$ 17,612	\$ 289,641	\$ (3,749)	\$ 285,892
Assets	\$4,554,601	\$165,459	\$690,096	\$557,979	\$165,502	\$6,133,637	\$ 477,271	\$6,610,908
Depreciation	78,968	777	19,934	903	667	101,249	1,976	103,225
Loss on impairment	—	—	—	—	371	371	—	371
Capital expenditure	211,347	2,018	69,909	—	498	283,772	(7,565)	276,207

(b) Geographic segment information

Geographic segment information is not disclosed, due to sales and other operating revenue and total assets of overseas subsidiaries not being material compared to consolidated sales and other operating revenue and consolidated total assets, respectively.

(c) Information for overseas sales

Information for overseas sales is not disclosed, due to overseas sales and other operating revenue not being material compared to consolidated sales and other operating revenue.

Note 20

Significant transactions and balances with related parties as of and for the years ended February 28, 2007 and 2006 were as follows:

Related Parties

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
SAGAMI RAILWAY Co., Ltd. (Masahiro Hoshino, representative director and chairman, is our director):			
Sales	¥ 9	¥ —	\$ 76
Notes and accounts receivable	0	—	0
Kanagawa Kaihatsu Kanko Co., Ltd. (Naotaka Saeki, a representative director and president, is our auditor):			
Sales	¥ 11	¥ —	\$ 93
Notes and accounts receivable	1	—	8
Other assets	21	—	177

1) Neither of the above have voting rights.

2) Commodities sold to SAGAMI RAILWAY Co., Ltd. by Takashimaya Group are generally seen as intended for third parties. The transaction conditions are the same as those used with other, non-related companies.

- 3) Sales and investment between Kanagawa Kaihatsu Kanko Co., Ltd. and Takashimaya Group are generally seen as intended for third parties. The transaction conditions are the same as those used with other, non-related companies.

Note 21

Loss on restructuring charges for the year ended February 28, 2006 was as follows:

Loss on Restructuring Charges

	Millions of yen	
	2006	
Premium retirement payment	¥	3,206
Devaluation of property and equipment resulting from spin-off		—
Devaluation of inventory		524
Others		654
	¥	4,384

Note 22

Cash dividends

On May 22, 2007, the shareholders of the Company approved the following appropriations:

Subsequent Event

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.0 (\$0.04) per share)	¥ 1,650	\$ 13,931

Independent Auditors' Report

To the Shareholders and Board of Directors of
Takashimaya Company, Limited:

We have audited the accompanying consolidated balance sheets of Takashimaya Company, Limited and consolidated subsidiaries as of February 28, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Takashimaya Company, Limited and consolidated subsidiaries as of February 28, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
May 22, 2007

INVESTOR INFORMATION

(As of February 28, 2007)

Year of Foundation

1831

Takashimaya Company, Limited

1-5, Namba 5-chome, Chuo-ku, Osaka 542-8510, Japan
Tel: 81-6-6631-1101

Ordinary General Meeting of Shareholders

The Ordinary General Meeting of Shareholders was held in late May in Osaka.

Japanese Stock Exchange Listings

Tokyo and Osaka

Independent Accountants

KPMG AZSA & Co.
Tokyo, Japan

Paid-in Capital

¥56,025 million

Number of Shares Outstanding

330,827,625 shares

Number of Shareholders

29,966

Transfer Agent of Common Shares Handling Office

Mitsubishi UFJ Trust and Banking Corporation

Rating Information

Domestic Rating	Term	Rating
JCR	Long-term	A
	Short-term	J-1
R&I	Long-term	A-
	Short-term	a-1

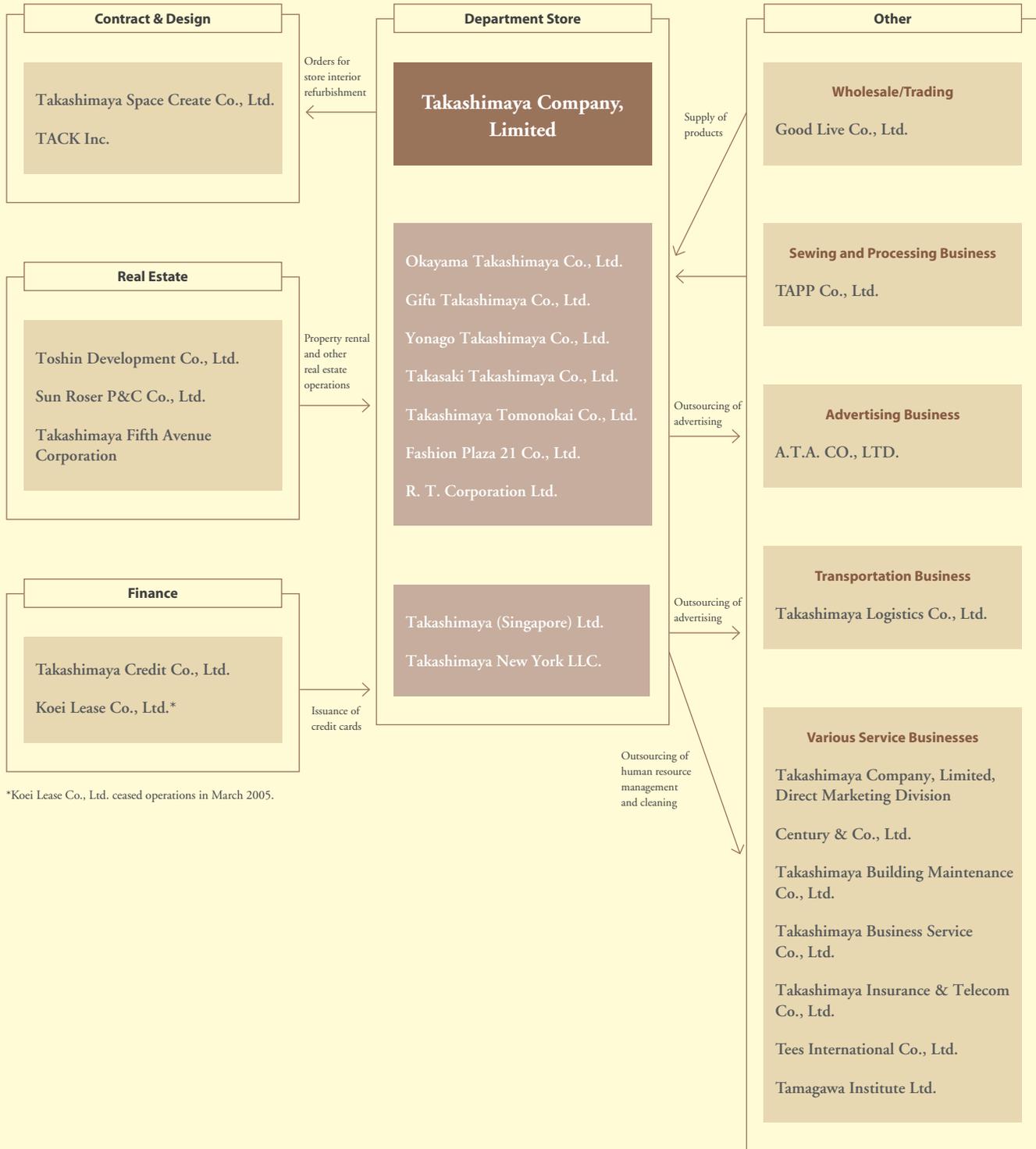


Takashimaya on the Internet

Takashimaya's website offers a wealth of corporate information:

<http://www.takashimaya.co.jp/corp/english/index.html>

CONSOLIDATED SUBSIDIARIES



*Koei Lease Co., Ltd. ceased operations in March 2005.

TAKASHIMAYA GROUP NETWORK



Kyoto store



Osaka store



JR Nagoya Takashimaya store



Tokyo store



Shinjuku store



Yokohama store



Singapore Takashimaya store



New York Takashimaya store



Dayeh Takashimaya store

Domestic Department Stores

Osaka

1-5, Namba 5-chome, Chuo-ku, Osaka 542-8510

Sakai

59, Miyukidori, Mikunigaoka, Sakai 590-0028

Wakayama

3-6, Higashikuramaecho, Wakayama 640-8203

Kyoto

52, Shinmachi Nishiiru, Kawaramachi Shijodori, Shimogyo-ku, Kyoto 600-8520

Rakusai

5-5, Oharano-Higashisakaidanicho 2-chome, Nishikyo-ku, Kyoto 610-1143

Tokyo

4-1, Nihombashi 2-chome, Chuo-ku, Tokyo 103-8265

Yokohama

6-31, Minamisaiwai 1-chome, Nishi-ku, Yokohama 220-8601

Konandai

1-3, Konandai 3-chome, Konan-ku, Yokohama 234-8501

Shinjuku

24-2, Sendagaya 5-chome, Shibuya-ku, Tokyo 151-8580

Semboku

3-1, Chayamadai 1-cho, Sakai 590-0115

Tamagawa

17-1, Tamagawa 3-chome, Setagaya-ku, Tokyo 158-8701

Tachikawa

39-3, Akebonocho 2-chome, Tachikawa 190-8507

Omiya

1-32, Daimoncho, Omiya 330-8511

Kashiwa

3-16, Suehirocho, Kashiwa 277-8666

Okayama

6-40, Honmachi, Okayama 700-8520

Gifu

25, Hinodemachi 2-chome, Gifu 500-8525

Yonago

1-30, Kakubancho 1-chome, Yonago 683-0812

Takasaki

45, Asahicho, Takasaki 370-8565

JR Nagoya Takashimaya

1-4, Meieki 1-chome, Nakamura-ku, Nagoya 450-6001

Iyotetsu Takashimaya

1-1, Minatocho 5-chome, Matsuyama 790-8587

Overseas Stores

Singapore Takashimaya

391A Orchard Road, #10-01, Singapore 238873

Dayeh Takashimaya

No. 55, Sec. 2, Chung Cheng Road, Shih Lin Dis., Taipei, Republic of China

New York Takashimaya

693 Fifth Avenue, New York, NY 10022, U.S.A.

Paris Takashimaya Service Desk

Au Printemps, 64 Boulevard Haussmann, 75009 Paris, France

Takashimaya Company, Limited
1-5, Namba 5-chome, Chuo-ku, Osaka 542-8510, Japan
URL: <http://www.takashimaya.co.jp/>

