# Financial Results for the First Half of the Fiscal Year ending February 28, 2007

October 10, 2006

Entrance Stage

Dining Garden Kyokairo

Kyoto Store

Takashimaya

**Forward-Looking Statements**

This presentation is based on current expectations and assumptions of future events as well as information available to the Takashimaya Group's management at the time this release was prepared. Although the Group believes its expectations and assumptions are reasonable, actual results and trends in the Group's performance could differ materially from those expressed or implied by figures or statements presented in this release because of various risks and uncertainties, including but not limited to economic conditions, market trends and foreign exchange fluctuations.

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# Ⅰ Financial Results for the First Half of the Fiscal Year ending February 28, 2007

## Consolidated Results

### Revenue and Earnings Growth Achieved

(In Millions of Yen)

| | First Half | YoY Value Change | % Change *Adjusted | vs. Planned |
|---|---|---|---|---|
| Total sales and operating revenue | 512,054 | +15,003 | +3.0 *+1.9* | -1,746 |
| Gross profit margin | 27.07% | -0.42 | | -0.05 |
| SG&A expenses | 139,350 | +2,016 | +1.5 | -224 |
| Operating income | 14,821 | +437 | +3.0 | +21 |
| Ordinary income | 17,518 | +811 | +4.9 | +618 |
| Net income | 9,741 | +1,878 | +23.9 | +1,341 |

*Adjusted for a change in accounting period for consolidated subsidiaries.

**< Total sales and operating revenue >**

Total sales and operating revenue increased JPY15.0bn or 3.0% YoY (up 1.9% YoY adjusted for the change in accounting period at consolidated subsidiaries). The Takashimaya parent and domestic department store subsidiaries recorded a revenue increase of 2.0% YoY. Among consolidated subsidiaries, Toshin Development Co., Ltd., Takashimaya Credit Co., Ltd. and Takashimaya (Singapore) Ltd. showed favorable performance. On a consolidated basis, total sales and operating revenue were Y1.7bn less than planned due to sales shortfall at the parent company.

**<Operating Income>**

Operating income increased 3.0% YoY and met target. While the parent Takashimaya recorded earnings declines due to less than planned sales and other factors, good earnings growth was seen in the earnings of Group subsidiaries. In particular, Good Live Co., Ltd. turned profitable after recording a deficit of Y300 mn in the first half of the previous fiscal year, as it had adopted a scheme specializing in the food wholesale business.

**<Ordinary Income>**

Ordinary income grew 4.9% YoY and exceeded target by Y600 mn because of an improved financial balance reflecting an increase in dividends received and a decrease in interest paid, among others.

**<Net Income>**

Net income increased 23.9% YoY and beat target by Y1.3bn because of a noticeable improvement in extraordinary items, such as higher gains from the sale of fixed assets and lower losses related to structural reforms.

## Financial Results by Company (Operating Income)

(In Millions of Yen)

| | First Half | YoY Value Change | % Change | vs. Planned |
|---|---|---|---|---|
| Takashimaya (parent) | 8,175 | -900 | -9.9 | -1,125 |
| Domestic department store subsidiaries | 873 | +305 | +53.5 | -27 |
| Subtotal | 9,049 | -595 | -6.2 | -1,151 |
| Toshin Development | 2,998 | +241 | +8.7 | +105 |
| Takashimaya Credit | 1,206 | +191 | +18.8 | +119 |
| Takashimaya Singapore | 1,102 | +359 | +48.3 | +219 |
| Good Live | 157 | +459 | - | +84 |
| Takashimaya Space Create | 152 | -121 | -44.4 | -106 |
| RTC (restaurant business) | 0 | +20 | - | -59 |
| Other subsidiaries and eliminations | 157 | -115 | -42.3 | +810 |
| **Consolidated operating income** | 14,821 | +437 | +3.0 | +21 |

## Breakdown of Extraordinary Items (Consolidated)

(In Millions of Yen)

| | First Half | Details |
|---|---|---|
| Extraordinary Profit | 2,226 | |
| Gains on the sale of property and equipment, net | 1,318 | Delivery depot, etc. |
| Proceeds from the sale of investment securities | 579 | Affiliate stock |
| Others | 329 | |
| Extraordinary Losses | 2,504 | |
| Loss on the disposal of property and equipment, restoration expenses | 1,388 | Renovation related |
| Early retirement incentives | 827 | |
| Others | 289 | |

## Non-Consolidated Results

(In Millions of Yen)

| | First Half | YoY Value Change | % Change *Adjusted | vs. Planned |
|---|---|---|---|---|
| Net sales | 405,542 | +6,196 | +1.6 *+2.0* | -2,858 |
| Gross profit margin | 27.47% | -0.13 | | -0.07 |
| SG&A expenses | 109,082 | +2,358 | +2.2 | +442 |
| Operating income | 8,175 | -900 | -9.9 | -1,125 |
| Ordinary income | 9,920 | -484 | -4.7 | -680 |
| Net income | 6,171 | +3,335 | +117.6 | +971 |

*Adjusted for a change in accounting period for consolidated subsidiaries.

**<Net sales>** Net sales increased Y6.1bn or 1.6% YoY. However, this was Y2.8bn below planned due to sluggish growth in sales of women's clothing, jewelry and luxury goods from the second quarter caused by adverse weather conditions and weak stock prices.
**<Operating Income>** Operating income decreased Y900 mn or 9.9% YoY to Y8.1bn. This was mainly attributable to a shortfall in sales, in addition to lower gross profit margin and higher SG&A expenses.
**<Ordinary Income>** The scale of decline in ordinary income was smaller than that in operating income due to an improvement in the financial balance.
**<Net Income>** Net income grew significantly mainly due to an improvement in extraordinary items, reflecting higher gains from the sale of fixed assets and lower provision for bad debts, among others.

## Department Store Sales by Store (excluding corporate and catalog sales)

(Unit: %)

| Store | Sales | Customer Traffic | Store | Sales | Customer Traffic |
|---|---|---|---|---|---|
| Osaka | -2.0 | -5.4 | Tokyo | +2.6 | +0.7 |
| Kyoto | +1.5 | -0.1 | Yokohama | +3.8 | +0.7 |
| Sakai | -0.6 | -0.9 | Konandai | +3.9 | +5.1 |
| Senboku | +0.8 | +1.4 | Shinjuku | +0.5 | -5.7 |
| Okayama | +1.8 | -0.4 | Tamagawa | +4.2 | -1.2 |
| Gifu | +25.9 | +33.5 | Tachikawa | -0.3 | -2.1 |
| Yonago | +1.3 | +0.8 | Omiya | -0.6 | -2.0 |
| Western total | +1.1 | -1.1 | Kashiwa | +1.0 | -4.4 |
| | | | Takasaki | +2.1 | -2.6 |
| | | | Eastern total | +2.4 | -1.7 |
| | | | Total | +1.9 | -1.5 |

*The Wakayama store is included in the Osaka store numbers, while the Rakusai store is included in the Kyoto store numbers.

The number of stores recording sales growth increased from 8 in the previous fiscal year to 12, demonstrating a sustained growth trend. While the Osaka store showed poor performance, renovated stores fared well, such as the Gifu and Konandai stores.
Customer traffic for all department stores declined by 1.5% YoY. However, the pace of decline is slowing, as the number of stores recording increased store traffic rose from two stores in the first half of the previous fiscal year to six stores.

## Wide Area Business Sales Trends

(In Millions of Yen)

| | First Half | YoY Value Change | % Change | vs. Planned |
|---|---|---|---|---|
| Corporate business | 18,512 | +410 | +2.3 | △888 |
| Catalog sales business | 10,701 | +653 | +6.5 | +401 |

## Gross Profit Margin Breakdown
### (Parent and Domestic Department Store Subsidiaries)

(Unit: %)

| | First Half | Previous First Half | YoY Value Change |
|---|---|---|---|
| Department store business (parent-only) | 27.80 | 27.96 | -0.16 |
| Corporate business | 12.54 | 12.77 | -0.23 |
| Catalog business | 41.50 | 40.76 | +0.74 |
| Total Parent-Only | 27.47 | 27.59 | -0.13 |
| Parent and Domestic Subsidiaries Total | 27.35 | 27.48 | -0.13 |
| Total Department Store Business (including domestic subsidiaries) | 27.65 | 27.81 | **-0.16** |

**(Please refer to the following slide)**

**The department store** gross margin (including domestic department store subsidiaries) declined by 0.16 percentage point YoY to 27.65%, mainly due to favorable sales of low margin products, which lowered the overall average gross margin.

**The corporate business** gross margin declined by 0.23 percentage point to 12.54%, reflecting the absence of high-margin corporate uniform orders in the first half of the previous fiscal year.

**The catalog business** gross margin improved by 0.74 percentage point to 41.50%, reflecting an improvement in terms of trade that boosted the gross margin, and expanded sales of high-margin core products such as women's apparel.

## Factors Behind the 0.16 Percentage Point Decline in the Department Store Gross Margin
### (incl. domestic department store subsidiaries)

| | | |
|---|---|---|
| Improvement in terms of trade due to the purchasing effect | +0.11 | % |
| Fewer product defects as a result of a thorough quality control | +0.01 | |
| Impact of increased out-of-store sales that offer a special discount | -0.03 | |
| Favorable sales of lower margin products | -0.25 | |
| Food products +3.5%, Selected apparel & accessories +2.6%, Jewelry +4.8% | | |
| Total | **-0.16** | **%** |



Takashimaya

## Consolidated Forecast for the Full Fiscal Year ending February 28, 2007

New Historical Highs Foreseen for Ordinary Income and Net Income

(In Millions of Yen)

| | Full Fiscal Year | YoY Value Change | % Change *Adjusted | vs. Planned |
|---|---|---|---|---|
| Total sales and operating revenue | 1,051,600 | +20,449 | +2.0 *+1.4* | -3,500 |
| Gross profit margin | 27.31% | -0.01 | | +0.12 |
| SG&A expenses | 281,358 | +2,098 | +0.8 | -151 |
| Operating income | 36,000 | +3,244 | +9.9 | +400 |
| Ordinary income | 40,000 | +3,247 | +8.8 | +1,000 |
| Net income | 25,600 | +4,407 | +20.8 | +4,000 |

*Adjusted for a change in accounting period for consolidated subsidiaries.

**<Total Sales and Operating Revenue>** Total sales and operating revenue for the year ending February 28, 2007 are estimated to increase Y20.4bn or 2.0% YoY. For the second half, the Group expects revenue growth of 1.0% YoY on higher sales at domestic department store subsidiaries and Takashimaya Space Create, etc., despite a large declines in sales at ATA and Takashimaya Logistics stemming from a change in organizational functions. However, total sales and operating revenue are forecast to miss targets by Y1.8bn in the second half and by Y3.5bn in the full fiscal year.

**<Operating Income and Ordinary Income>** Both operating and ordinary income is now forecast to exceed previous plans, and the Group is aiming for a new historical high in ordinary income. In the second half in particular, double-digit profit growth is projected (operating income: +15.3%, ordinary income: +12.2%), led by revenue growth and the Group's efforts to reduce SG&A expenses mainly through structural operating cost reforms.

**<Net Income>** The Group is projecting a renewed historical high in net income. This reflects substantial profit growth due to recognition of the reversal of bad debt reserves of Y8.5bn that had been set aside by Takashimaya and Toshin Development mainly related to real estate convertible loans for properties in Shinjuku.

## Fiscal Year Operating Income Forecast by Company

(In Millions of Yen)

| | Full Fiscal Year | YoY Value Change | % Change | vs. Planned |
|---|---|---|---|---|
| Takashimaya (parent) | 22,400 | +1,070 | +5.0 | △900 |
| Domestic department store subsidiaries | 2,550 | +1,025 | +67.1 | +350 |
| Subtotal | 24,950 | +2,095 | +9.2 | △550 |
| Toshin Development | 5,715 | +245 | +4.5 | +164 |
| Takashimaya Credit | 2,466 | +110 | +4.6 | +282 |
| Takashimaya Singapore | 2,529 | +520 | +25.9 | +387 |
| Good Live | 307 | +520 | - | +109 |
| Takashimaya Space Create | 502 | △22 | △4.1 | △6 |
| RTC (restaurant business) | 90 | +247 | - | △60 |
| Other subsidiaries and eliminations | △ 559 | △471 | | +74 |
| **Consolidated operating income** | 36,000 | +3,244 | +9.9 | +400 |

## Capital Expenditures Forecast by Company

(In Millions of Yen)

| | Full Fiscal Year | Previous Fiscal Year | YoY Value Change | % Change |
|---|---|---|---|---|
| Takashimaya (parent) | 26,900 | 9,235 | +17,665 | +191.3 |
| Domestic department store subsidiaries | 580 | 1,448 | -868 | -59.9 |
| Subtotal | 27,480 | 10,683 | +16,797 | +157.2 |
| Toshin Development | 7,888 | 3,966 | +3,922 | +98.9 |
| Others and eliminations | 232 | 604 | -372 | - |
| Total Capital Expenditures | 35,600 | 15,253 | +20,347 | +133.4 |

Consolidated capital expenditures are estimated to total Y35.6bn due to an increase in strategic investment under the Long-Term Plan.

**Department store business**

| | |
|---|---|
| Regular investment | Kyoto store Y3.1bn, Yokohama store Y1.4bn, Tokyo store Y1.2bn, etc. |
| Strategic investment | Shinjuku store Y4.8bn, Osaka store new main building Y3.4bn, Renovation of Tokyo store Y5.2bn |

**Group businesses**

| | |
|---|---|
| Toshin Development | Nagareyama Otaka no Mori Shopping Center Y7.8bn |

## Breakdown of Extraordinary Items Forecast (Consolidated)

(In Millions of Yen)

| | Full Fiscal Year | Details |
|---|---|---|
| Extraordinary Profit | 11,596 | |
| Gains on the sale of property and equipment, net | 2,118 | Delivery depot property, etc. |
| Proceeds from the sale of investment securities | 579 | |
| Reversal of allowance for doubtful accounts | 8,570 | Real estate convertible loan |
| Others | 329 | |
| Extraordinary Losses | 8,691 | |
| Loss on the disposal of property and equipment, restoration expenses | 6,402 | Renovation related |
| Early retirement incentives | 1,768 | |
| Others | 521 | |

## Non-Consolidated Forecast for the Full Fiscal Year ending February 28, 2007

Higher Revenue and Earnings Targeted for Two Consecutive Years

(In Millions of Yen)

| | Full Fiscal Year | YoY Value Change | % Change *Adjusted | vs. Planned |
|---|---|---|---|---|
| Net sales | 845,000 | +12,082 | +1.5 *+1.7* | -2,700 |
| Gross profit margin | 27.43% | -0.02 | | 0.00 |
| SG&A expenses | 220,400 | +1,751 | +0.8 | +90 |
| Operating income | 22,400 | +1,070 | +5.0 | -900 |
| Ordinary income | 24,700 | +2,558 | +11.6 | +100 |
| Net income | 17,000 | +6,286 | +58.7 | +3,300 |

*Adjusted for a change in accounting period for consolidated subsidiaries.

**<Net Sales>** Net sales are now forecast to be up 1.4% YoY in the second half (Y200mn higher than planned) and up 1.5% YoY for the full fiscal year.

**<Operating and Ordinary Income>** Operating income is now expected to grow 16.1% YoY in the second half, while a 25.9% YoY increase is foreseen for ordinary income. For the full fiscal year, operating income is forecast to increase 5.0% YoY Y22.4bn, and ordinary income is foreseen rising 11.6% YoY to Y24.7bn.

**<Net Income>** Given that net extraordinary profits are now expected to be greatly improved from previously planned, net income is foreseen growing 37.4% YoY in the second half, and 58.7% YoY for the full fiscal year to Y17.0bn.

## Department Store Business and Wide Area Business Sales Forecast

(In Millions of Yen)

| | Full Fiscal Year | YoY Value Change | % Change | vs. Planned |
|---|---|---|---|---|
| Department store business (parent-only) | 783,500 | +10,443 | +1.4 | -2,340 |
| Corporate business | 37,700 | +1,286 | +3.5 | -910 |
| Catalog business | 23,800 | +354 | +1.5 | +500 |
| Total Parent-Only | 845,000 | +12,082 | +1.5 | -2,700 |
| Parent and Domestic Subsidiaries Total | 918,200 | +15,688 | +1.7 | -2,200 |
| Total Department Store Business (including domestic subsidiaries) | 856,700 | +14,049 | +1.7 | -1,790 |

**<Corporate Business>** Segment sales are foreseen rising by 4.9% YoY in the second half and 3.6% YoY for the full fiscal year, supported by strengthened sales to new corporate clients and an increase in reciprocal goods for Buddhist ceremonies.

**<Catalog Business>** In the second half, the Group will be working to increase sales through expansion of Internet sales and a further review of the content of the catalog, in addition to enhancement of the product lineup with the introduction of a new original brand. Nevertheless, discontinuation of sales through TV shopping channels and other factors are forecast to result in a 2.2% YoY decline in sales in the second half, while a 1.5% YoY increase is seen for the full fiscal year.

## SG&A Expense Forecast
### (Parent and Domestic Department Store Subsidiaries)

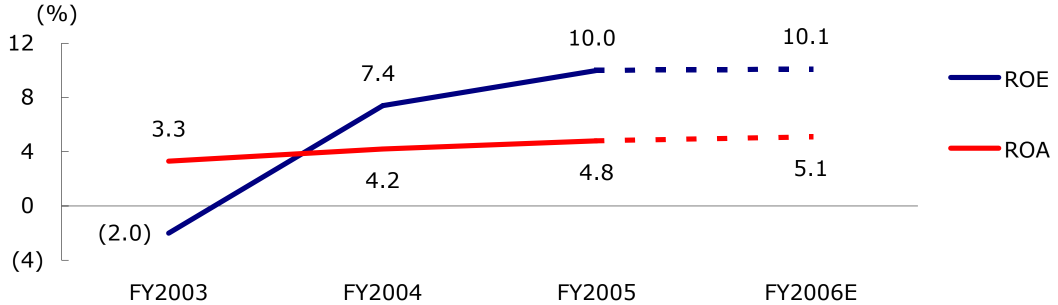
(In Millions of Yen)

| | Full Fiscal Year | YoY Value Change | % Change | vs. Planned |
|---|---|---|---|---|
| Personnel expenses | 86,736 | +1,171 | +1.4 | +299 |
| Administrative expenses | 1,202 | -315 | -20.8 | -201 |
| Advertising expenses | 35,318 | +1,094 | +3.2 | +58 |
| General affairs expenses | 72,290 | -16 | -0.0 | -351 |
| Accounting expenses | 41,671 | -205 | -0.5 | +143 |
| Total | 237,220 | +1,729 | +0.7 | -51 |

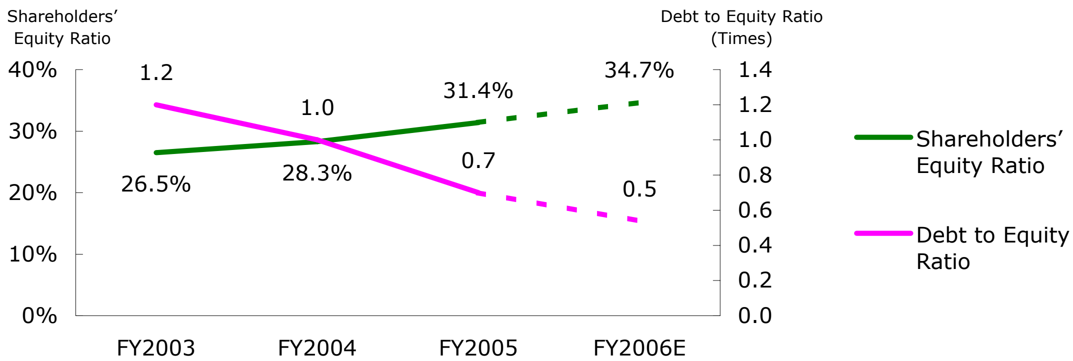
In the second half, the Group is projecting a Y900 mn year-on-year reduction in total SG&A expenses through implementation of thorough reviews of various expenses beginning with operating expense reforms.

For the full fiscal year, administrative, general and accounting expenses are expected to show year-on-year declines. Meanwhile, personnel expenses are expected to increase Y1.1bn year-on-year due to a change in the discount rate used for pension benefit obligations (from 2.7% to 2.0%), and advertising expenses are forecast to rise Y1.1bn year-on-year mainly due to higher card-points advertising expenses resulting from increased utilization of the Takashimaya card. As a result, total SG&A expenses are foreseen rising Y1.7bn year-on-year. However, this rise will be lower than originally planned.

## Trend in Consolidated ROA and ROE




## Trend in Consolidated Shareholders' Equity Ratio and D/E Ratio

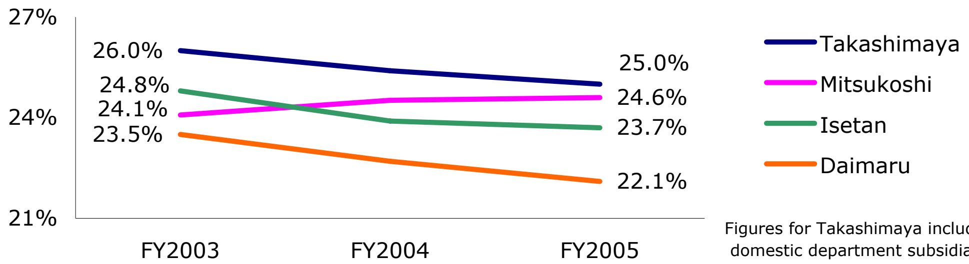


# II Reform of Operating Cost Structure

In order to ensure achievement of its long-term plan, the Group will implement thorough reforms of its operating cost structure for the next two and a half years beginning from the second half of FY2006.

The Group will strengthen its marketing capabilities by using the management resources created through the reforms of operating cost structure.

Operating costs to sales ratio (adjusted for point-related costs)




Figures for Takashimaya include domestic department subsidiaries.

## Highlights of the Initiative

Efforts will be made to improve efficiency from a Group-wide review of operations

The particular focus will be on rationalization of back-office operations

## Specific Measures

I Improve efficiency through rationalization of back-office operations, reorganization of consolidated subsidiaries and a re-vamping of operations.

| | |
|---|---|
| Takashimaya parent | Rationalization of operations in the headquarters and administrative divisions |
| ATA(All Takashimaya Agent) | Reorganization of sales promotion capabilities (from September 2006) |
| Takashimaya Business Services | Further concentration of operations and efficiency improvements |
| Takashimaya Building Maintenance | Cost reduction through standardization of operations and efficiency improvements |
| Takashimaya Logistics Service | Efficiency improvement through a business tie-up with Yamato Transport, and revamping of administrative functions |

II Reduce advertising expenses in the department store business by reorganizing the sales promotion function and implementing structural reforms at advertising company ATA; further improve the efficiency of catalog business advertising by revamping the media strategy.

III Reduce property lease expenses and other costs through more effective use of property holdings and negotiation of rent reviews and contract cancellations.

Operating cost reduction target of Y9bn to be achieved over the two and a half years through FY2008

## Revenue Improvement in the Credit Card Business

The Takashimaya Group and Credit Saison Co., Ltd. have agreed to strengthen strategic cooperation. The main areas that will be strengthened include:

I Joint card marketing
II Development and issuance of a new "Takashimaya Gold Card" for high net worth individuals
III Outsourcing of operations to Credit Saison
IV Strengthening of capital alliance

The Group is working to strengthen the marketing power of its core department store business by issuing the new card through Takashimaya Credit. Specifically, the Group is aiming to acquire 3 million in-house credit card accounts (including the Takashimaya-Saison Card) and raise the share of in-house credit card sales to more than 50% of Takashimaya's total sales.

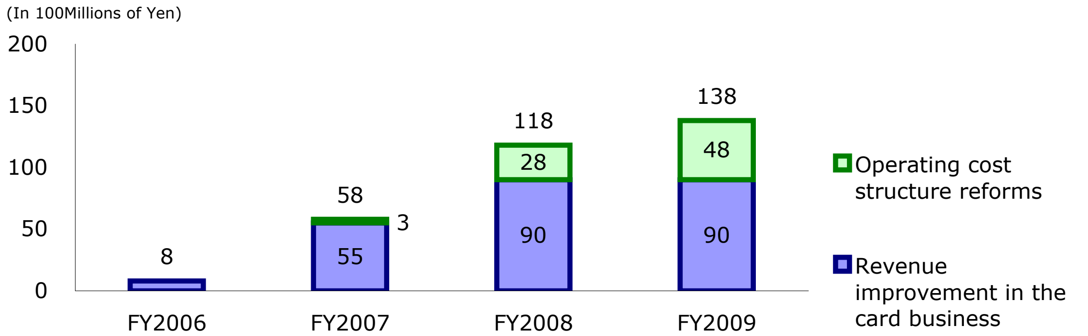
The contribution from these initiatives to consolidated operating income is estimated at approximately Y5.0bn over the next three years (through FY2009), including the increased earnings impact on the department store business.

## Operating Income Contribution Targets by Fiscal Year

(In 100Millions of Yen)

| | FY2006 | FY2007 | FY2008 | FY2009 |
|---|---|---|---|---|
| Operating cost structure reforms | 8 | 47 | 35 | |
| Card business revenue improvements | | 3 | 25 | 20 |
| Total | 8 | 50 | 60 | 20 |

### Cumulative Operating Income Contribution



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# Progress in Planned Large-Scale Investments

## Shinjuku Store "Re-Axis Plan"

Given the extension of the Number 13 subway line to be completed by June 2008 and other factors, the operating environment for the Shinjuku store is expected to undergo a significant change. By taking this opportunity, the Group is planning a full makeover of the Shinjuku store to create a full-line, full-target department store by March 2007.

| | | | | |
|---|---|---|---|---|
| Opening date: | late March 2007 | Increase in Sales | FY2007 | Y10bn |
| Amount invested: | Y13bn | | FY2008 | 5bn |
| | | | Total | Y15bn |

## Shinjuku Store Revenue Structure

The real estate convertible loan for the Shinjuku Store is due at the end of March 2007. As a result, ownership of a portion of the land for the Shinjuku store site (approximately 40% at present) will revert to the Group, significantly improving profitability.

### Positive impact on consolidated operating income and ordinary income (annual)

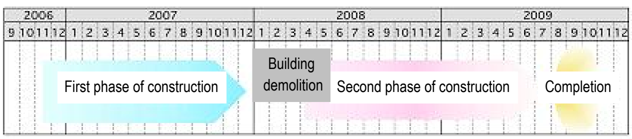
| | |
|---|---|
| Reduction in land lease expenses | Y5.3 bn |
| Increase in depreciation, taxes and insurance | (1.8) |
| **Increase in Consolidated Operating Income** | **Y3.5 bn** |
| Financial balance impact of convertible loan repayment | (1.2) |
| **Increase in Consolidated Ordinary Income** | **Y2.4 bn** |

* As the real estate convertible loan is due at the end of March 2007, the conversion will affect the first eleven months of the Group's financial performance for the fiscal year ending February 2008.

## Overview of New Main Building for Osaka Store

The plan to build a new main building for the Osaka store involves floor space expansion (approximately 22,000 square meters) on the east side of the existing main building. The expanded floor space will be attached to the existing main store and the existing portion of the store will also be renovated to create a "new main store" by combining all buildings into one store. Based on a new SC concept implemented by the Group's Toshin Development developer subsidiary, the new store will offer a high-class image that only Takashimaya can provide.

| | |
|---|---|
| Selling space | 78,000m² (including 22,000m² of expanded floor space, excluding external stores) |
| Total floors | 11 above ground, 2 underground (of which the B1 floor to the 9th floor will be used as store space) |
| Scheduled opening | Fall 2009 |
| Total investment | Y34bn (including Y3bn deposited with Nankai Urban Development Co., Ltd.) |
| Sales increase | Y30bn |




## Nagareyama Otaka no Mori SC (tentative name)


Nagareyama Otaka no Mori SC (tentative name), located in front of the Nagareyama Otaka no Mori station of the Tsukuba Express, is a commercial facility being developed as a local community-focused large-scale SC that plays the role of a hub for daily and cultural activities.

Core tenants: Takashimaya (food) Ito Yokado Co., Ltd.
Kinokuniya Company Ltd. (books) The Loft Co., Ltd.
Toho Co., Ltd. (TOHO Cinemas) Namco Ltd.

Open date: Spring 2007
Store space: 41,220 m²
Total Investment: approximately Y10bn
Total number of tenants: approximately 130

## Kashiwa Takashimaya Station Mall

The Group has started construction of a new wing of the Kashiwa Takashimaya Station Mall to establish a rock solid presence in the Kashiwa area amidst severe competition. It is also planning a full remodeling of the store. The new building and the existing building that is attached to Kashiwa station will be combined in order for shoppers to experience an excursion through an integrated station mall.

The Group's goal is to create a premier quality metropolitan-style SC with a department store as its core, which can provide information dissemination and the ability to attract customers.

Overview of new building construction

Opening date: Fall 2008
Total floor space: 19,167 m²
Number of floors: 12 above and 2 below ground
Investment approximately: Y7bn
(including the acquisition of land for the site)

# IV Marketing Strategies for the Department Store Business

## 1. Points of view to strengthen marketing power

Leverage the Group ' s strengths

Marketing power of six large-scale stores

Revitalize stores and surrounding areas through a " town building concept "

Toshin Development's SC development and management/administration capabilities

## 2. Basic Marketing Policies

<Basic Stance>

"Thorough Implementation of 'The Customer is Number 1' philosophy"

-The credo of serving customers with a smile and heart always in mind-

<Goal>

"Creation of the Premier Store in Each Area"

"Premier" does not refer to a sense of luxury, high prices or gorgeousness, but to a relative competitive advantage vis-à-vis rivals and to a sense of class.

<Priority Policies>

Enhancement of the "selling space strength" from the customer perspective.

The aim is to enhance the level of "Merchandise," "Service," "Ambience" and all other aspects of marketing from the customer perspective.

## Verification of First Half Marketing Policies

**MD Standardization and Differentiation**

### STYLE & EDIT

New "STYLE & EDIT" boutiques offering selected women's apparel and accessories were opened in six large-scale stores from March of this year. These boutiques have been well-received by fashion-conscious customers, and sales have reached Y200mn. Going forward, the Group will be further enhancing the merchandise lineup in response to customer feedback.

**MD Standardization and Methodology Reforms**

### Competitive Bid

The competitive bid system contributed to improvement in sales, gross margin and earnings values for all products where the system was introduced. Initially, there had been concern over a lack of merchandise variety from a paring back of suppliers. However, this has been solved by excluding popular brands from the competitive bid process. Going forward, the Group will be working to increase sales through closer collaboration with selected suppliers. In the first half, profit contribution from the competitive bid system stood at Y500mn.

### Selling Space Cassettes

"Selling space cassettes" using an ordering system for single products were introduced from March of this year in six small- and medium-sized stores. Sales of all merchandise where the "selling space cassette" technique was applied totaled Y1.5bn (up 10.5% year-on-year), showing favorable performance due to greater accuracy of merchandise follow-up. From September, the Group is planning to apply this technique to six more stores including the Tamagawa store, for a total of 12 stores, to enhance the merchandise lineup. For the second half, the Group is projecting sale of Y4.7bn (up 8.2% year-on-year).

### Collaborated Transactions

Aiming for "expanded sales and earnings through better supply of best selling merchandise," collaborated transactions were initiated in the second half of FY2005. These efforts involved 25 companies and 121 brands in the first half of FY2006. Total sales of merchandise subject to this technique were Y30.6bn and up 2.1% year-on-year. The effects of this program have expanded as trading partners have actively participated. Going forward, the Group is aiming to expand the number of brands subject to collaborated transactions.

## Trend in Takashimaya Credit Card Members

Number of New Members Acquired and Sales Surged Following the Second Half of Fiscal 2005

| | No. of accounts acquired in 1H | YoY Change |
|---|---|---|
| Takashimaya Card | 63thousands | +68.6% |
| Takashimaya<Saison> Card | 195thousands | +90.0% |
| Total | 258thousands | +84.1% |

| | No. of Accounts | | YoY Change in Sales |
|---|---|---|---|
| | As of the end of August | YoY Change | |
| Takashimaya Gold Card | 259thousands | -0.8% | +11.2% |
| Takashimaya Card | 1,065thousands | +0.8% | +25.1% |
| Takashimaya<Saison> Card | 540thousands | +112.5% | +387.6% |
| Total | 1,864thousands | +18.6% | +27.7% |

| | 1H FY2005 | 2H FY2005 | 1H FY2006 |
|---|---|---|---|
| In-House Card Share of Total Sales | 34.5% | 40.3% | 43.3% |

In the first half of FY2006, in-house card sales exceeded 50% of total store sales at the Tokyo store and the Konandai store.

## Overview of the Takashimaya Card <Gold>

As a means of strengthening marketing in the department store business, the Group is planning to issue a new in-house credit card “Takashimaya Card <Gold>.”

<Objective of the new card>

-Enhance high net-worth customer retention
-Establish and accelerate CRM
-Strengthen out-of-store sales


<Characteristics of the new card>

1) Open recruitment (acquisition of new high-quality next-generation customers)
2) Progressive reward system
(promotion of in-store purchases, establishment of high quality customer base)
3) Wide variety of member stores (international card that can be used in Japan or overseas)

<Targeted Number of Accounts> 160thousands in the first year

<Card Validity Date> From March 1, 2007

<Card Issuer> Takashimaya Credit Co., Ltd.
(processing outsourced to Credit Saison Co., Ltd.)



Takashimaya

## Trend in Major Renewals in the Second Half

### Kyoto Store Renovation

Renovation was mainly focused on the restaurant emporium, where customer needs were the highest, and the renovated facilities were reopened on September 15. In addition, the renovation of the basement food products floor was also completed, and the external look of the store was also refurbished.

Investment Y2.0bn
Target Sales Increase Y2.2bn/year (Annual FY2005 Sales Y1.1bn)

Dining Garden Kyokairo
(Kyoto Store)

### Semboku Store Renovation

The food floor of the Semboku store was renovated in June of last year, and buildings were reopened after a full renovation in conjunction with the renovation of the Panjyo SC. Going forward, the Group will continue its efforts to gain the support of customers in the region in collaboration with the Panjyo SC.

Investment Y500mn
Targeted Sales Increase Y1.2bn/year
(Semboku store sales in FY2005: Y23.6bn)

Beauty Counter
(Senboku Store)

### Yokohama Store Food Floor Renewal

Opening October 18
Investment Y200mn
Targeted sales increase Y400mn/year (Food sales in FY2005: Y35.8bn)

### Takasaki Store Food Floor Renewal

Opening November 1
Investment Y400mn
Targeted sales increase Y800mn/year (Food sales in FY2005: Y3.2bn)

## The Internet Business

### Initiatives to further expand the Group's Internet business

1) "e Business Promotion Office" newly established in September
--In order to build a new Internet business that addresses various current issues, the Group has concentrated personnel resources with specialist knowledge and know-how as well as related functions into "e Business Promotion Office" to centralize authority and responsibility.

2) The present Online Shop "e-hyakkaten" will be strengthened in the spring of 2007, and a more sophisticated online shop will be opened.
--The Group will engage in full-fledged development of the Internet business.

3) In terms of business strategy, the focus will be on enhancement of merchandising and services as well as expansion of customer base, including new customer development, in order to build a shopping site with **Y10bn** in annual revenues (by FY2009).

### The key initiatives to achieve this goal are:

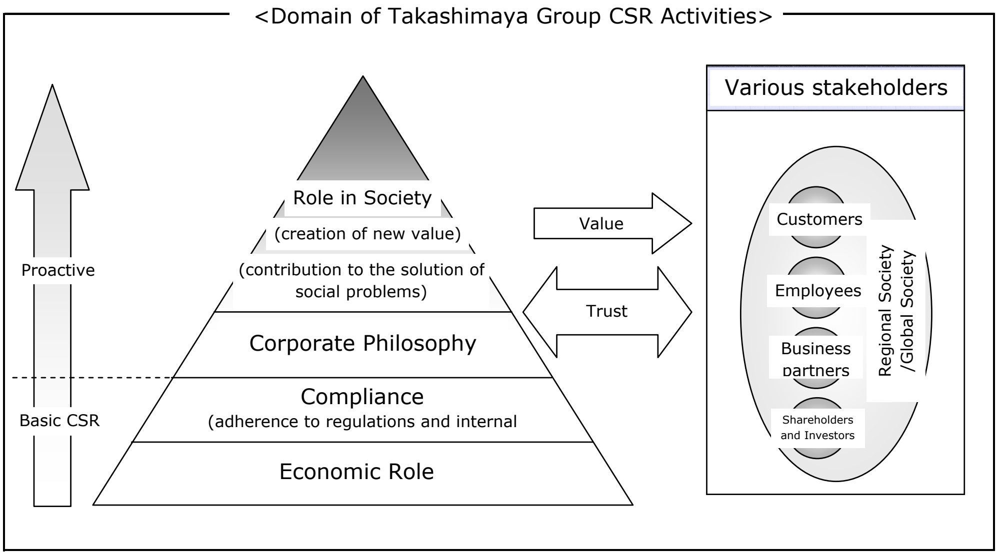
1) Establish a full line, full target online store able to provide a broadly-based lineup of merchandise targeted at various customer segments to create a department store site where anyone can enjoy safe shopping.

2) Introduce the Group's high quality customers to the online store to increase customer retention and establish a stable business base.

3) Work to expand sales and the scale of the business by reaching out to more customer groups to acquire a broad range of new customers.

# V Takashimaya Group CSR Management

The aim is for sustainable development with society through the realization of a "spiritually rich lifestyle."
To achieve this goal, each and every Takashimaya employee conducts his or her activities with consideration and sincerity in order to foster trusting relationships with all stakeholders.




## Pursuit of CSR Activities Appropriate for the Takashimaya Group

Fulfill the Group's "social responsibilities" utilizing the characteristics of its business and management resources.

Fulfilling the Group's "social responsibility" by placing importance on the daily activities of its business while attempting to answer the question, "what can be done for "the betterment of society?"

**Recycling of Men's Suits**

Takashimaya collects old men's suits for recycling.


**Pink Ribbon**

Takashimaya supports the "Pink Ribbon Campaign" that promotes the early detection and treatment of breast cancer.


**Ban Rom Sai**

Takashimaya supports Ban Rom Sai, an orphanage for HIV infected children in Thailand.