Financial Results FY2008

10 Apr 2009

Takashimaya

Statements contained herein regarding cost and revenue projections reflect our judgment based on information currently available, and involve a number of risks and uncertainties. It should be noted that actual results could differ significantly from the cost and revenue projections stated herein due to a variety of factors. Significant factors that could affect actual performance include but are not limited to the economic environment surrounding the department store industry, market trends, and exchange rate fluctuations.

I. Results for FY2008 (the fiscal year ended February 28, 2009)

Consolidated performance

(Yen in Million)

	1 H	YoY	2 H	YoY	Full-year	YoY	Change from Projection
Operating Revenue	488,217	- 3.2% - 16,386	487,899	- 9.3% - 50,208	976,116	- 6.4% - 66,594	- 0.2% - 1,684
SG&A expenses	135,937	- 0.7% - 897	136,668	- 3.9% - 5,515	272,605	- 2.3% - 6,413	----
Operating Income	14,088	- 14.7% - 2,428	10,722	- 49.4% - 10,460	24,810	- 34.2% - 12,889	+ 3.4% + 810
Ordinary Income	16,187	- 18.0% - 3,558	11,816	- 47.1% - 10,508	28,003	- 33.4% - 14,066	+ 3.0% + 804
Net Income	8,788	+ 29.2% + 1,986	2,962	- 75.1% - 8,933	11,750	- 37.2% - 6,947	+ 4.0% + 450

* Projections are those announced on December 26, 2008.

Operating revenue

Compared to FY2007
○ Down 6.4%; reflecting a sharp decline in sales at department stores in Japan.

Compared to projection
○ Down 0.2%; almost in line with projections, even on a consolidated basis, because department stores in Japan achieved projected sales.

Operating income

Compared to FY2007
○ Down ¥12.9 billion (34.2%); attributable to a sharp decline in operating revenue, despite a ¥6.4 billion reduction in SG&A expenses.

Compared to projection
○ Up ¥800 million (3.4%); thanks to the achievement of projected revenue at department stores in Japan and additional cuts in SG&A expenses.

Ordinary income

Compared to FY2007
○ Down ¥14.1 billion (33.4%); reflecting a decline in operating income and a decrease in the gain on disposal of property and equipment in reaction to the previous year's increase associated with the renovation of the Shinjuku store.

Compared to projection
○ Up ¥800 million (3.0%); as a result of improvement in operating income.

Net income

Compared to FY2007
○ Down ¥6.9 billion (37.2%); primarily owing to a decline in ordinary income and further exacerbated by the incurrence of extraordinary expenses, including the write-down of securities.

Compared to projection
○ Up ¥500 million (4.0%); as a result of an improvement in ordinary income.

Performance by Individual Companies (Full-year)

(Yen in Million)

	Operating Revenue	YoY	Operating Income	YoY	Change from Projection
Takashimaya Co., Ltd. & Domestic Department store subsidiaries	852,620	- 6.8% - 61,946	12,695	- 48.8% - 12,099	+ 6.6% + 789
Takashimaya Singapore Ltd.	39,318	- 2.2% - 881	2,986	- 3.9% - 121	+ 1.0% + 31
Toshin Development Co., Ltd	34,701	+ 2.8% + 951	6,797	- 8.9% - 662	- 0.0% - 1
Takashimaya Credit Co., Ltd.	15,124	+ 11.3% + 1,534	1,536	+ 58.8% + 569	+ 6.6% + 95
Takashimaya Space Create Co., Ltd.	24,891	- 23.9% - 7,796	2	- 99.8% - 964	- 98.5% - 132
Others and eliminations	9,462	+ 19.5% + 1,542	794	+ 96.0% + 389	+ 3.7% + 28
Consolidated	976,116	- 6.4% - 66,594	24,810	- 34.2% - 12,889	+ 3.4% + 810

Compared to FY2007

Takashimaya Co., Ltd. & Domestic Department store subsidiaries

Operating income decreased by ¥12.1 billion (48.8%); efforts to pare SG&A expenses were not enough to offset the slump in sales of most merchandise especially high-end items such as clothing and jewelry caused by the economic downturn.

Takashimaya Singapore Ltd.

Operating income fell by ¥100 million (3.9%) in yen terms; on a local currency basis, operating revenue grew by 5.5% and operating income climbed by 3.7%, but, due to the appreciation of the yen, operating revenue declined by ¥900 million (2.2%) in yen terms.

Toshin Development Co., Ltd.

Operating income sank by ¥700 million (8.9%); although operating revenue increased by 1 billion (2.8%) with the opening of a new building of Kashiwa Takashimaya Station Mall in October last year, this was not enough to offset the higher management costs of new properties and other negative factors.

Takashimaya Credit Co., Ltd.

Operating income increased by ¥600 million (58.8%); indicative of strong growth of ¥1.5 billion (11.3%) in operating revenue, which was largely attributable to a rise in card handling fees as a result of an increase in the number of new cardholders.

Takashimaya Space Create Co., Ltd.

Operating income dropped by ¥1 billion (99.8%); reflecting a decline of ¥7.8 billion (23.9%) in operating revenue owing to a decrease in orders in reaction again the previous year's increase associated with the Shinjuku renovation and a slowdown in orders.

Non-consolidated performance

(Yen in Million)

	1 H	YoY	2 H	YoY	Full-Year	YoY	Change from Projection
Operating Revenue	391,884	- 4.2% - 17,252	393,942	- 9.2% - 39,947	785,826	- 6.8% - 57,199	+ 0.0% + 226
Gross Margin	26.95%	- 0.28	26.52%	- 0.44	26.73%	- 0.36	- 0.01
SG&A expenses	102,428	- 3.1% - 3,224	102,959	- 4.4% - 4,691	205,387	- 3.7% - 7,915	- 0.4% - 772
Operating Income	6,877	- 29.6% - 2,894	5,185	- 60.4% - 7,900	12,062	- 47.2% - 10,793	+ 6.7% + 762
Ordinary Income	8,659	- 30.3% - 3,761	4,780	- 61.3% - 7,577	13,439	- 45.8% - 11,339	+ 8.4% + 1,039
Net Income	4,849	+ 25.3% + 978	△ 1,307	- 119.2% - 8,100	3,542	- 66.8% - 7,122	+ 1.2% + 42

Compared to FY2007

Operating revenue

Down ¥57.2 billion (6.8%); reflecting a dramatic slump in counter sales of merchandise, especially high-end items and double-digit declines in both corporate business and mail order sales business.

Gross profit margin

Down 0.36 percentage points; attributable to a change in the sales mix, with an decrease in the share of merchandise with a high gross profit margin such as clothing and an increase in the share of merchandise with a low gross profit margin such as food.

SG&A expenses

Down ¥7.9 billion (3.7%); reflecting measures to reduce general expenses, especially personnel-related expenses and promotional expenses.

Operating income

Down ¥10.8 billion (47.2%); additional cuts to SG&A expenses were not enough to offset sharp decline in operating revenue and fall in gross profit margin.

Ordinary income

Down ¥11.3 billion (45.8%); reflecting decline in operating income and a decrease in the gain on disposal of property and equipment in reaction to the previous year's increase associated with the renovation of the Shinjuku store.

Net income

Down ¥7.1 billion (66.8%); primarily owing to decline in ordinary income and further exacerbated by the incurrence of extraordinary expenses including the write-down of securities.

Comments

○Writedown of securities

Due to falling share prices, a write-down of securities of ¥3.2 billion was recorded as extraordinary expenses.

○Background and details of increase in interest-bearing debt

Consolidated interest-bearing debt increased by ¥17.5 billion from the end of the previous fiscal year. The increase is largely attributable to the raising of funds for the purpose of acquiring 10% of the outstanding shares of H_2O Retailing Corp.

Non-Consolidated SG&A Expenses

(Yen in Million)

	FY2008	FY2007	YoY	Projection	Change from Projection
Personnel-related expenses	77,454	79,468	△2.5% △ 2,014	77,652	△0.3% △ 198
General affairs expenses	- 54	387	---- △ 441	191	---- △ 245
Advertising expenses	29,245	33,545	△12.8% △ 4,300	29,565	△1.1% △ 320
Transport expenses and other	64,702	66,162	△2.2% △ 1,460	64,513	+0.3% +189
Accounting-related expenses	34,039	33,740	+0.9% +299	34,239	△0.6% △ 200
T o t a l	205,387	213,303	△3.7% △ 7,916	206,159	△0.4% △ 772

Compared to FY2007

Personnel-related expenses

Down ¥2 billion overall; retirement benefit expenses increased by ¥700 million, reflecting the recording of extra retirement bonus as SG&A expenses (recorded as extraordinary expenses in previous fiscal years), but salary, bonus and welfare program expenses fell by ¥2.6 billion owing to the decrease in the number of personnel.

General affairs expenses

Down ¥400 million; primarily owing to cuts in travel expenses and entertainment expenses.

Advertising expenses

Down ¥4.3 billion overall; general promotional expenses decreased by ¥3.6 billion as a result of improvement in efficiency and points expenses also fell by ¥700 million.

Transport expenses and other

Down ¥1.5 billion overall; cutbacks such as a ¥1.3 billion reduction in fees and commissions and a ¥500 million reduction in repair costs offset the ¥600 million increase in depreciation and amortization resulting from investments for growth.

Accounting-related expenses

Up ¥300 million overall; attributable to the incurrence of fixed assets tax, etc. as a result of the acquisition of equity in the land and building of the Shinjuku store.

State of Progress of Marketing Reforms

○ FY2003-FY2004 Reduced general expenses by ¥28 billion on a non-consolidated basis.

○ Over the two and a half year period from the second half of FY2006 to the end of FY2008, the company implemented a second round of marketing reforms aimed at cutting general expenses by a further ¥9 billion and exceeded this target, slashing expenses by ¥11.9 billion.

(Yen in Billion)

	FY2006	FY2007	FY2008	T o t a l
Total SG&A deduction	-1.2	-5.2	-5.5	-11.9
SG&A to Sales ratio (Non-Consolidated)	26.3%	25.6%	26.5%	---

Comparison with competitors

While our consolidated operating margin is in no way inferior to that of our competitors, given the downward trend in department store sales, an improvement in the ratio of SG&A expenses to net sales remains an important issue.

FY2008	Takashimaya	Mitsukoshi Isetan HD	J F R	H2O retailing
Operating income ratio	2.5%	1.1%	2.3%	2.7%

II. Projections for FY2009 (fiscal year ending February 28, 2010)

Consolidated Cost and Revenue Projections

(Yen in Million)

	1 H	YoY	Full-Year	YoY
Operating Revenue	436,800	- 10.5% - 51,417	896,000	- 8.2% - 80,116
SG&A expenses	129,800	- 4.5% - 6,137	262,300	- 3.8% - 10,306
Operating Income	6,600	- 53.2% - 7,488	15,000	- 39.5% - 9,810
Ordinary Income	8,000	- 50.6% - 8,187	17,000	- 39.3% - 11,003
Net Income	3,000	- 65.9% - 5,788	7,500	- 36.2% - 4,250

Operating revenue

Decrease of 8.2% year on year on a consolidated basis; largely attributable to a decline in sales at department stores in Japan.

SG&A expenses

Reduction of 3.8% year on year on a consolidated basis; reflecting plans for cutbacks of ¥13.2 billion at department stores in Japan.

Operating income

Decline of 39.5% year on year; an anticipated decline in income resulting from decreased revenue especially at department stores in Japan will offset the effect of cuts to SG&A expenses and other cost reforms.

Ordinary income

Decrease of 39.3% year on year; in addition to a decline in operating income, other income (expenses) is expected to worsen, including decreases in equity in the gains of affiliated companies and gains on disposal of property and equipment.

Net income

Decline of 36.2% year on year, despite an improvement in extraordinary item, including a decrease in the write-down of securities recorded the previous fiscal year.

Cost and Revenue Projections of Individual Companies (Full-Year)

(Yen in Million)

	Operating Revenue	YoY	Operating Income	YoY
Takashimaya Co., Ltd. & Domestic Department store subsidiaries	771,056	- 9.6% - 81,564	3,200	- 74.8% - 9,495
Takashimaya Singapore Ltd.	41,081	+ 4.5% + 1,763	2,873	- 3.8% - 113
Toshin Development Co., Ltd	36,125	+ 4.1% + 1,424	6,760	- 0.5% - 37
Takashimaya Credit Co., Ltd.	15,803	+ 4.5% + 679	2,014	+ 31.1% + 478
Takashimaya Space Create Co., Ltd.	23,500	- 5.6% - 1,391	348	---- + 346
Others and eliminations	8,435	- 10.9% - 1,027	△ 195	---- - 989
Consolidated	896,000	- 8.2% - 80,116	15,000	- 39.5% - 9,810

Takashimaya Co., Ltd. & Domestic department store subsidiaries

○ Sales are expected to be disappointing. Plans to minimize decline in income by introducing structural reforms and working to generate income by boosting selling power and reducing general expenses.

Takashimaya Singapore Ltd.

○ Increased operating revenue projected thanks to marketing efforts in a difficult consumer environment reflecting the slowdown of Singapore ' s economic growth rate.

○ Decreased operating income forecast in view of the possibility of an increase in rent expense, among other factors.

Toshin Development Co., Ltd.

○ Increased operating revenue projected due to a revision of rent income from Takashima Singapore S.C. and the full-year contribution of the new building of Kashiwa Takashimaya Station Mall.

○ A slight decline in operating forecasts as a result of an increase in rent expenses in Singapore and higher general expenses associated with preparations for the 40th anniversary of the opening of Tamagawa Takashimaya S.C.

Takashimaya Credit Co., Ltd.

○ Growth in operating revenue projected as a result of the acquisition of new cardholders and the introduction of measures to promote credit card use.

○ Increased operating income anticipated, reflecting the rationalization of operations and other improvements towards a low cost structure.

Takashimaya Space Create Co., Ltd.

○ A fall in operating revenue forecast based on the premise that orders will remain sluggish.

○ A rise in operating income projected as a result of comprehensive cost management and the reduction of general expenses.

Non-Consolidated Cost and Revenue Projections

（ Yen in Million ）

	1 H	YoY	Full-Year	YoY
Operating Revenue	346,900	- 11.5% - 44,984	710,800	- 9.5% - 75,026
Gross Margin	26.79%	- 0.16	26.62%	- 0.11
SG&A expenses	95,784	- 6.5% - 6,644	193,619	- 5.7% - 11,768
Operating Income	800	- 88.4% - 6,077	2,900	- 76.0% - 9,162
Ordinary Income	2,400	- 72.3% - 6,259	3,900	- 71.0% - 9,539
Net Income	300	- 93.8% - 4,549	400	- 88.7% - 3,142

Operating revenue

Decline of 9.5% year on year; the consumer environment is expected to remain difficult, and the effect of the renovation of the Yokohama store and the introduction of marketing measures such as the expansion of merchandise communicating Takashimaya ’ s identity will prove insufficient.

Gross profit margin

Down 0.11 percentage points year on year; assuming a continued change in the sales mix, including a decrease in the share of merchandise with a high gross profit margin such as clothes.

SG&A expenses

A reduction of 5.7% year on year with the execution of cost reforms focusing on personnel-related expenses, promotional expenses, transport expenses and other.

Operating income

A decrease of 76.0% year on year; efforts to pare SG&A expenses will not be enough to offset the impact of a decline in operating revenue.

Ordinary income

A decline of 71.0% year on year; attributable to a decline in operating income and other factors such as decrease in the gain on the donation of fixed assets.

Net income

Fall of 88.7% year on year; An improvement in extraordinary income (expense) due to the absence of the write-down of securities recorded the previous fiscal year will not be enough to offset the large decline in ordinary income.

Non-consolidated SG&A Expense Projections

(Yen in Million)

	Full-Year	Year-on-year	
Personnel-related expenses	72,732	- 4,722	- 6.1%
General affairs expenses	- 359	- 305	―――
Advertising expenses	26,852	- 2,393	- 8.2%
Transport expenses and other	60,208	- 4,493	- 6.9%
Accounting-related expenses	34,185	+ 146	+ 0.4%
T o t a l	193,619	- 11,768	- 5.7%

Personnel-related expenses

Down ¥4.7 billion overall; actuarial losses will increase by ¥700 million year on year, but these will be offset by a reduction in the number of personnel and overtime pay, etc.

General affairs expenses

Reduction in total general affairs expenses attributable to treatment of management instruction charge income from affiliated companies as deposits.

Promotional expenses

Down ¥2.4 billion year on year; attributable to a review of general promotion expenses, despite an anticipated slight increase in points/vouchers expenses.

Transport expenses and other

Reduction of ¥4.5 billion yen year on year; as a result of radical cutbacks, including fees and commissions, utilities and consumables, despite an increase in depreciation and amortization as a result of investment in accordance with the long-term business plan.

Accounting-related expenses

Increase of ¥100 million year on year, due to higher land rent as a result of the expansion of the Osaka store, among other factors.

Impact of Changes in Accounting Principle

Significant policies applied from FY2009

○ Application of the lower of cost or market rule as the standard method of valuing inventory

Uniform use of lower of cost or market method, whereby if the market value of the ending inventory is lower than its historical cost, then the inventory must be written down to reflect its current value.

◇ Prior-year write-downs in accordance with the lower of cost or market method of around ¥500 million on a non-consolidated basis and around ¥600 million on a consolidated basis will be recorded as extraordinary expenses in FY2009.

◇ Starting from the write-down incurred in FY2009, the difference between prior-year write-downs and current write-downs will be treated as an increase or decrease in income from merchandise, but is estimated at tens of millions of yen a year, and the impact will be minimal.

○ Recording of lease assets on the balance sheet

Previously, lease transactions for office automation equipment, etc. were accounted for based on methods applicable to ordinary rental transactions. New transactions commenced on or after March 1, 2008 in or after FY2009 will be accounted for based on methods applicable to purchase transactions (recorded on the balance sheet), with lease assets recognized as fixed assets.

◇ Since lease fee payments under agreements entered February 28, 2008 in or before FY2008 (around ¥1.1 billion on a consolidated basis and around ¥400 million on a non-consolidated basis) will be treated as lease payments based on the previous method, there will be no impact on income.

◇ Properties (worth ¥3 million or more) under lease agreements entered on or after March 1, 2008 in or after FY2009 will be recorded on the balance sheet as lease assets.

◇ Lease fee payments will be treated as “depreciation and amortization.” The impact on the balance sheet will be insignificant.

III. Structural Reforms and Strategies for Growth

- Two threats and two opportunities -

○ Two threats

The department store industry today faces two threats:
◇ A global economic recession triggered by the financial crisis
◇ A sweeping transformation of the consumption structure in this new era

The transformation of the consumption structure is accelerating, as recession throws structural changes in society, such as an aging population and diversifying values, into sharper relief than ever before.

<u>Any company that assumes a continuation of the conventional structure of consumption will struggle to survive.</u>

○ Two opportunities

The Company sees the challenges in the current operating environment as providing it with two opportunities, and is resolved to conduct a fundamental shakeup of its management culture.

1. Rediscover weaknesses that become apparent only in challenging times and introduce structural reforms.
2. View the current situation as an opportunity to invest and gain a foothold for future growth.

Management Strategies for the Future

○ Structural reforms (1 above)
◇ Use the radical changes in the operating environment as momentum for transforming the Company and commit as an organization to carrying out three reforms: marketing reforms, cost reforms, and Group reforms.

○ Strategies for growth (2 above)
◇ Secure a revenue base for the future through focused investments in large stores.
◇ New challenges: Store openings in Shanghai, China and elsewhere.

1. Marketing strategies in fiscal 2009

Outline of structural reforms

Marketing reforms

Start to demonstrate effect of optimizing sales and marketing

- Boosting sales strength to fulfill customer expectations as the starting point for all work -

○ Strengthening of sales floor management

◇ View customer opinions and information from suppliers and other sources outside the Company as valuable data for conducting reforms, and actively encourage sales floor staff to make proposals and take action.

◇ Instill a common awareness that "all employees are sales staff" and introduce an appraisal system that puts a premium on results.

○ Strengthening of merchandise appeal

◇ Merchandise appeal is never more important than at times of dramatic changes in the operating environment. Merchandising development that is fine-tuned to market conditions is essential.

◇ Draw on experience and use information systems to manage information on individual merchandise, etc. to stay one step ahead of customer needs.

○ Strengthening of customer relationship management (CRM)

◇ Increase the number of cardholders to develop regular customers and gain a more accurate understanding of customer needs.

◇ Further integrate CRM into day-to-day work, based on the recognition that understanding

◇ customer needs through customer service and dialog and improving the ability to propose merchandise based on merchandise strategy boosts sales.

Cost reforms

○ Refine our focus even further to develop a robust management culture.

○ Conduct reform with nothing sacred, including reviewing advertising expenses, streamlining the organization of stores, and making significant workforce reductions at head office to achieve the reforms.

Group reforms

○ Group companies collaborate with marketing improvements and help reduce costs in the core department store business.

○ Reexamine each company’s function and efficiency, and integrate and reorganize Group companies where necessary. Focus on generating consolidated revenues through the combined strength of Group companies in the current fiscal year.

Continue to improve the efficiency of reforms through initiatives towards alliance and integration with H2O Retailing.

Key Points in the Marketing Strategy for the Current Fiscal Year

Priorities in fiscal 2009

Demonstrating the effect of optimizing sales and marketing

- ○ Optimizing sales and marketing by strengthening sales floor management, strengthening merchandise appeal and strengthening CRM is essential as fundamental capabilities for adapting to the dramatically changing environment.
- ○ In fiscal 2009, the Company will re-embrace the basic rule that "sales are the starting point for all work," and all employees from sales floor staff to back office staff will unite as members of a sales team to demonstrate the effect of optimizing sales and marketing more quickly.

The Company proposes the following strategies to demonstrate maximum effect at minimum cost.

Merchandise strategy

- ○ Introduce common measures that exploit economies of scale as well as measures carefully tailored to the characteristics of each store, with a view to increasing sales.
- ○ Step up efforts to develop new merchandise which stays ahead of the changing times and social change.

Sales promotion strategy

- ○ Use advertising expenses effectively on mass marketing and personal marketing to attract more customers.
- ○ Introduce carefully considered sales strategies for fashion goods according to the season cycle of merchandise.
- ○ Improve information transmission capacity to new customer Groups through the introduction of new media.

Organizational customer strategy

- ○ Focus on marketing to loyal organizational customers who account for more than 50% of total sales.

Online business strategy

- ○ Improve and reorganize/integrate three sites linked to real stores: Online Shopping, Fashion Mall, and Mail Order Business Net Shopping. (March 2010)

Main Points in the Merchandise Strategy

- Offer merchandise selection that is perfectly in-sync with customer expectations -

1. Reformulation of price policy

Achieve optimum balance in light of merchandise characteristics and regional characteristics.

○ Nice price

Extend to almost all lines of merchandise from fashion to food.Achieve high quality & low price through collaboration with suppliers and bulk orders.

2. Development of regional merchandise policies

Strive for merchandise development and a merchandise selection that stimulates customer needs in a specific region and revitalize regional markets.

3. Expansion of merchandise that proposes lifestyle ideas

Propose merchandise and experiences compatible with new lifestyles suited to the changing times.

○ "I Love the Earth" Campaign

Propose eco-friendly merchandise that is fun and easy to incorporate into day-to-day life under the slogan "Living with Nature" during Environment Month in June.

○ Social contribution gifts

Include "Donation to Charity of Your Choice" in catalog gift collection
– first initiative as a department store voluntary plan.
To be introduced from mid-year gift season in 2009.

○ Experience gifts for Mothers' Day and Fathers' Day

Experience gifts compatible with customer lifestyles and values that are shifting from material things to experiences

4. Initiatives aimed at communicating Takashimaya’s identity

Develop merchandise that demonstrates individuality to further strengthen the Takashimaya brand.

Merchandise communicating identity

○ Buyer Recommends

Communicate identity of merchandise selection by marketing merchandise developed through the buyer merchandise proposal program and merchandise strongly recommended by buyers such as pre-release merchandise exclusive to Takashimaya under the slogan "Buyer Recommends".

バイヤーがおすすめする商品です。
BuyerRecommends
バイヤー リコメンズ

○ VOICE FILE

Brand of original products that Takashimaya can recommend with confidence because they have been jointly developed with suppliers on the basis of customer opinions to give shape to customer opinions.

○ STYLE & EDIT（Ladies’ clothing and ladies’ sundries）

Independent selection boutique that offers top-selling brands from Japan and overseas and provides comprehensive fashion proposals encompassing everything from clothing to sundry goods.

○ CS Case Study (Gentlemen’s clothing and gentlemen’s sundries)

Independent selection boutique for discerning gentlemen who are "up to date" while at the same time traditional.

Events communicating identity

○ Cultural events

Regularly host exhibitions that showcase Japan’s tradition and culture such as the Ikebana Exhibition by the Sogetsu School, the Nihon Ikebana Geijutsu Exhibition and the Tokyo Tea Ceremony Society’s Centennial Edo-Tokyo Tea Ceremony.

○ Takashimaya Art Department Centennial

Three years events for 100 anniversary of art department.

○ Takashimaya Archives

Reappraise the works of art and diverse cultural-historical records including art works and historical records of lifestyle and culture from a department store perspective kept in the Takashimaya Archives and strongly project Takashimaya’s cultural image.

Organizational Customer Strategy

○ Further increase sales share of purchases made with Takashimaya ' s credit card lines to above current level of around 50% (see table below) by acquiring new card holders and using card usage information etc., to develop regular customers.

○ Expand sales by improving the accuracy of purchasing data and encouraging in-store browsing.

○ Propose new merchandise and services through collaboration with influential partner stores to enhance customer satisfaction not only with over-the-counter sales but also with the Takashimaya cardholder lifestyle in general.

○ Rebuild information system for understanding the profile and purchasing history of each corporate customer and develop sales approach tailored to their wishes.

	FY2008 1H	FY2008 2H
Percentage of total sales accounted for by in-house card sales	50.0%	50.2%
Number of in-house card accounts	2.38mil.	2.45mil.

Rate of increase/decrease of in-house card sales	FY2008 2H	FY2008
Takashimaya Card Gold	+4.4%	+8.8%
Takashimaya Card	-8.3%	-7.3%
Takashimaya Saison Card	-9.4%	-5.3%
Total in-house cards	**-3.7%**	**-1.2%**
All-stores	-9.2%	-6.8%

○ Initiatives to acquire new cardholders

◇ Launched card in partnership with American Express last autumn.

◇ Offer airport lounge service to Takashimaya Card Gold holders.

◇ Expand and improve special offers and information provided exclusively to Takashimaya card holders.

Online business strategy

○ Launched the "Takashimaya Online Shopping" site in 2004 and "revamped" the site to coincide with the opening of the renovated Shinjuku Store in April 2007.

○ Launched the "Takashimaya Fashion Mall" site specializing in ladies' fashion in September 2008.

Initiatives in fiscal 2009

○ Expansion of Fashion Mall sales

◇ Expansion of merchandise selection

◇ Opening of OUTLET SHOP

○ Integration with mail order business

Plan to integrate mail order and online business information systems and also examining merger with mail order business in the future.

2. Long-Term Business Plans of the Takashimaya Group

Period covered by the long-term business plan

Each year the Company formulates a long-term business plan detailing targets five years into the future.

- Current long-term business plan Five-year period from Fiscal 2009 to Fiscal 2013 Approach of long-term business plan.

Approach of long-term business plan

Basic approach

With the size of the department store market expected to continue shrinking as the recession accentuates and accelerates the transformation of the consumption structure, in the next five years the Company will aim to

○ **maintain consolidated operating revenues at the current level**

○ **generate operating income of ¥30 billion**

The period of the long-term business plan is broadly divided into two halves

○ First half: **View the current environment as two opportunities**
- ◇ Conduct structural reforms
- ◇ Prepare investments for growth (asset reshuffle)

○ Second half: **Establish strong management base and create department stores that enjoy strong customer support**

Targets and basic strategies

Numerical targets for Fiscal 2013

	FY2013 target	FY2009 projection	FY2008 result
Operating revenue	**¥900 billion**	¥896 billion	¥976 billion
Operating income	**¥30 billion**	¥15 billion	¥25 billion
Operating margin	**3.3%**	1.7%	2.5%
ROE	**5.6%**	2.7%	4.2%
Interest-bearing debt	**¥110 billion**	¥105 billion	¥102 billion

Basic strategies

○ **Structural reforms**
- ◇ Marketing reforms
- ◇ Cost reforms
- ◇ Group reforms

○ **Investments for growth**
- ◇ Build revenue base by focusing investment on large stores
- ◇ Invest in new growth areas such as business development and overseas strategy

Creation of new main building for Osaka Store

1. Policy — The Company and the Nankai Electric Railway Group will work with Toshin Development to completely refurbish and significantly expand the sales area of the Osaka Store, establishing this store as Osaka's leading department store and the cornerstone of Namba.

2. Outline — Spring 2010 First phase (Expanded area) Opening
Spring 2011 Grand Opening
Selling space 78,000㎡ (of which, extra selling space 22,000㎡)
Total investment ¥45 billion Projected sales increase ¥32 billion

3. Marketing measures in the current fiscal year
Introduce sales promotion measures to capture customers in Western Osaka for whom customer convenience will increase with the opening of Hanshin Namba Line (March 20) and the opening of kidZania Koshien (March 27).

Tokyo Store redevelopment plan

Develop premiere complex commercial facility that combines commerce, business facilities, culture and parking facilities at the heart of Tokyo's Nihombashi district and help revitalize the area into a bustling district by increasing the attraction power of the Tokyo Store

Construction start	FY2011
Planned opening	2015
Investment	¥30-35 billion

Yokohama Store renovation (refurbishment)

1. Policy — Focusing on 2009, the 50th anniversary of the opening of the Yokohama Store and the 150th anniversary of the opening of the Port of Yokohama, the Company will renovate the store over five years (total investment ¥15 billion) to ensure the store's position as the area's leading department store.

2. Outline of first phase
Plan to open the first phase this spring to mark the 50th anniversary of the opening of the Yokohama Store and the 150th anniversary of the Port Opening.
◇ Ground-level "Grand Floor" (open April 22)
Created Grand Floor
with a "spacious" and "high quality" feel
◇ Eighth-floor "Restaurant Floor" (Open May 27)
Significant expansion in area
from 1,300㎡ to 3,000㎡ and
in number of restaurants from 8 to 18


Conceptualized drawing of Restaurant Floor

3. Future directions
Proceed based on initial plan, watching trends in sales (including impact of construction work) and adapting flexibly.

New Initiatives

Store opening in Shanghai

- ○ As one of the strategies for growth under the long-term plan, the Company has decided to open a new store in Shanghai City in China, where there is enormous potential for growth in the future, and plans to open the new store in 2012.
- ○ When opening the store, the Company will demonstrate the comprehensive capabilities of the Takashimaya Group, harnessing its brand power and merchandise appeal and also drawing on management resources accumulated at its subsidiary Takashimaya Singapore and Toshin Development's expertise in constructing shopping malls. When opening the store, the Company will demonstrate.

Conceptualized drawing on completion

Outline of shop opening plan

Date of opening Planned for 2012
Total investment Around ¥4 billion
Selling space Around 40,000㎡
(one floor underground and seven floors above ground)
Product mix Full line-up from food and clothing to household goods

Partnership with $H_2$0 Retailing

Business alliance

○ Business Alliance Committee

◇ Business Alliance Committee mainly comprised of directors from both companies is convened every month to facilitate integration.

○Subcommittees and Councils

◇ Focus on pursuing greater efficiency

◇ Members of both companies, at every level from executive officers to staff, participate in eight subcommittees, including "Merchandise" "Work Flow""Card Policy""Synergy" and "Personnel" and eleven councils that examine issues in further detail.

○New policies

◇ Plan to gradually introduce new measures and joint measures that have been proposed by the above subcommittees and councils.

Capital tie-up

○ Completed a capital tie-up in which each company acquired 10% of the issued shares of the other by the end of February 2009.

○ As a result of this capital tie-up, H_2O Retailing became Takashimaya's largest shareholder and Takashimaya became H_2O Retailing's third largest shareholder.