

Retail Business Plan



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Retail Networks Co., Ltd.

Presenter

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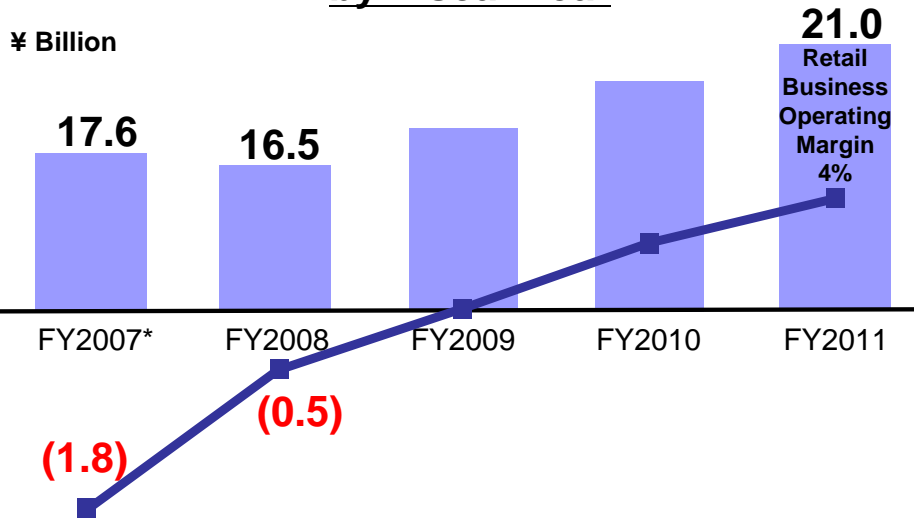
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Business Plan

Retail Business Segment Revenues and Profit by Fiscal Year



* Includes extraordinary loss for FY2007; all other years are operating income (loss) only.



This graph shows the revenues and profits of the retail business.

Year ending March 31, 2007 (FY2007)

We expect a loss of 1.8 billion yen for the fiscal year ending March 31, 2007. Two-thirds of that is an operating loss. The remaining third consists of extraordinary losses, including head office downsizing expenses and the costs of closing unprofitable stores.

Year ending March 31, 2008 (FY2008)

Revenues in fiscal 2008 are seemed to be lower than the previous fiscal year. However, excluding unprofitable stores that will be closed, the decline in revenues is expected to bottom out. Revenues should start increasing in the second half, and then move onto a growth track.

Year ending March 31, 2011 (FY2011)

Four years from now, in fiscal 2011, we plan to achieve revenues of 21 billion yen and an operating margin of 4 percent.

Outline of Measures

1. Capitalize on Disney Brand appeal

2. Design store-based operations

3. Reform organizational culture and restructure management cycle

4. Drastically reduce costs

5. Implement growth strategy



1. Capitalize on Disney Brand Appeal

We will clearly distinguish our stores from others by capitalizing on the strength of the brand with merchandise and sales floors that offer the appeal of Disney's world view.

2. Design Store-based Operations

All employees will look more closely at stores in performing their work to conduct more customer-focused merchandise development and head office operations. We will also simplify our divisional organization and transform its structure into one that supports stores.

3. Reform Organizational Culture and Restructure Management Cycle

We will change to an organization with a clear locus of responsibility. Decisions will be made on the spot after being discussed by everyone on an equal basis, and the matters decided will be followed through to completion.

4. Drastically Reduce Costs

We will focus mainly on measures such as head office downsizing, distribution cost reform and reduction of store rents. We will not make cost reductions that would lower the motivation of store cast members.

5. Implement Growth Strategy

After implementing the measures above, we will consider opening new stores and new types of stores.

Measures in the Second Half of FY2007 (1)

Establish focused merchandising

- Center product mix and sales floor design on cross-category programs
- Develop products for collaborative Disney/Oriental Land Company (OLC) programs and guest-based programs
- Reorganize merchandising functions and processes to establish product mix management approach

Design store-based retail operations

- Clarify responsibility for store management
- Simplify and transform organization to support stores
- Reform store operations and strengthen selling power of each store



Next I will explain the measures we have already started implementing since the end of last year.

Establish Focused Merchandising

- We are changing the sales floor design from one centered on categories such as stationery and sweets to a program-centered design. Specifically, we will develop merchandise linked to Tokyo Disney Resort event programs and Disney movies and TV contents, and take thorough measures, including upgrading fixtures, to create merchandise displays that have an impact.
- In sales promotions, we cooperate with the OLC Group and Disney Group in implementing promotional events linked with Tokyo Disney Resort events and Disney movies.

Design Store-based Retail Operations

- In regard to sales, customer satisfaction and personnel development, we have shifted to a system in which store managers thinking as owners come up with concrete plans for staff allocation and sales promotion and take responsibility for implementing them.
- We simplified our organization to reduce management layers between the president and store managers from four levels to two.

Measures in the Second Half of FY2007 (2)

Reform organizational culture, management cycle

- Clarify responsibility by consolidating organization and reviewing assignment of senior level staff
- Establish a framework for and vigorously promote two-way communication
- Revise conferring bodies to quickly implement measures that improve daily results and establish a cycle that incorporates management intentions

Overhaul the cost structure

- Trim head office staff
- Reduce distribution costs, store rents and other expenses
- Close unprofitable stores

Effect of current FY measures

- Reduce year-on-year drop in revenues
- Forecast FY revenues of ¥17.6 billion and loss of ¥1.8 billion*

* Includes extraordinary loss for FY2007.

Disney store

Reform Organizational Culture

We will promote better efficiency and organizational reform by consolidating the four on-site divisions into two: The Merchandise Division, which handles matters such as merchandise development and sales promotion, and the Store Division, whose responsibilities include store development and store operations.

Management Cycle

We hold weekly conferences where regional managers summarize what happened in their regions and can speak directly with senior management and product development managers. We consider and decide upon improvement measures at these conferences to implement a fast-turning performance improvement cycle.

Overhaul the Cost Structure

In addition to reducing distribution costs and store rents, we are trimming head office staff and conducting appropriate staff allocation. Closures of two unprofitable stores in fiscal 2007 and we are considering closing two additional stores in fiscal 2008.

We expect these measures to ultimately yield cost savings of 0.4 - 0.5 billion yen.

Measures for FY2008 (1)

Thorough in-store reform

- Transform into a culture of exchanging opinions and following through on decisions
- Instill commitment to numerical targets and a results-oriented approach

Focused merchandising and sales promotion

- Establish program-centered sales floors to present the world view of the products
- Strengthen Disney/OLC collaborative products and sales promotions
- Strengthen measures targeting “Fantamiliar**” members

* A members' program that allows real-time understanding of customer needs from guest purchasing histories for use in marketing strategies.



I will now talk about our measures for fiscal 2008 and beyond.

Thorough In-store Reform

Management take the initiative in carrying out the instill commitment that all employees have numerical targets and achieve them or take responsibility for their results.

Focused Merchandising and Sales Promotion

We are developing and increasing the proportion of merchandise based on collaborative programs between the OLC Group and Disney Group and programs that match target guests.

As a program for target guests, we are promoting development of merchandise for adults, who expressed many desires in a customer survey. Based on the theme “one module, one message,” we will attract guests with merchandise displays that have unified color tones and programs, on easy-to-understand, high-impact sales floors.

Strengthen Measures Targeting “Fantamiliar” (Loyal Customer Program) Members

We are taking measures to strengthen new member acquisition in fiscal 2008.

Measures for FY2008 (2)

Lower cost of revenues ratio for merchandise

- Rebuild partnerships with vendors
- Cooperate in OLC vendor policy
- Reduce the number of SKUs by securing strong-selling products
- Increase proportion of items with high gross profit margins

Strengthen quality control

- Change product quality control framework

Begin working for new growth

- Strengthen e-commerce
- Renovate existing stores and open new ones



Lower Cost of Revenues Ratio for Merchandise

All of the OLC Group will conduct negotiations with vendors to reduce the cost of revenues ratio in fiscal 2008.

*SKU (Stock Keeping Unit): An identifier assigned to each variation of an item of merchandise

Strengthen Quality Control

In January 2007 we hired a specialist in charge of quality control. We are considering making the Quality Control Group an independent unit that directly reports to the president.

Begin Working for New Growth

The e-commerce business is performing well, with 20 to 30 percent annual growth. In addition to further strengthening e-commerce, we will collaborate with Disney to develop a new store format.

Medium-term Plan

- Retail business performance targets for FY2011 (FY ending March 31, 2011)
 - Revenues: ¥21 billion
 - Operating margin: 4%

- Improve store profitability by renovating existing stores and closing unprofitable ones

- Build a network of over 60 stores through relocation and new openings

- Consider opening stores with new formats




Revenues include the ten new stores that we considering opening in the future. However, we are considering the opening of new-format stores, as well as increasing stores with the current style.

We will also implement relocations to respond flexibly to environmental changes in each store's trading area.

Measures and Targets to be Achieved by FY2011

	Revenues	Gross Profit	SG&A Expenses
Measures	<ul style="list-style-type: none"> Center product mix and sales floor design on programs Strengthen collaborative planning with Disney/OLC Launch products that match target guests Strengthen quality control framework Improve selling power of each store Strengthen “Fantamiliar” measures Expand e-commerce Renovate/relocate existing stores and open new ones 	<ul style="list-style-type: none"> Rebuild partnerships with vendors Cooperate in OLC vendor policy Reduce number of SKUs by establishing a line of strong-selling products Improve gross profit margin by strategically managing product mix Improve ordering precision 	<ul style="list-style-type: none"> Thorough budget control Lower store rents Reduce distribution costs Reduce head office costs Close unprofitable stores Reduce store expenses through operational reform
Targets	Revenues +¥3.4 billion *	Gross profit margin +7 pts.*	SG&A expense ratio -3 pts.*
	Retail business profit margin + 14 pts.*		

* Compared with FY2007. 

With these measures, we plan to increase revenues by 3.4 billion yen, increase the gross profit margin by 7 points (reduce the cost of revenues ratio by 7 points), and reduce the SG&A expense ratio by 3 points in the fiscal year ending March 2011, compared with the fiscal year ending March 2007. By doing so, we plan to increase the retail business profit margin by 14 points and achieve revenues of 21 billion yen and an operating margin of 4 percent.