



Isetan

Annual Report 2006



www.isetan.co.jp

Fiscal 2005 Topics

From April 2005 to July 2006

Commenced Remodeling of Main Store

Isetan has started remodeling its Shinjuku store ahead of the opening of the Tokyo Metro No. 13 line in March 2008. The first stage of the remodeling got underway in August 2005 with construction to even out the floor on the food hall floor to create a comfortable environment with enhanced accessibility. Construction on the women's sundries on the first floor of the main building has also started.

▶ Please refer to p. 17, 20 & 31 for related information.

Remodeled Urawa Store Opened in March 2006

To mark 25 years in business, the Urawa store was given the largest-scale renovations in its history. In gratitude to loyal customers and to ensure continued patronage, efforts were made to create "my own store" environment in which people can enjoy shopping at a more leisurely pace. Elsewhere, a general service counter was set up to enhance sales services.

▶ Please refer to p.72 for related information.

Jinan Isetan Opened in September 2005

Isetan's fourth store in China, Jinan Isetan, was opened in Jinan, Shandong. This is the first Japanese department store to open in the region and is based on a concept to propose new lifestyles to the people of Jinan. Isetan plans to open new stores in Chengdu, Sichuan in the spring of 2007 and in Shenyang, Liaoning at the end of 2007.

▶ Please refer to p.75 for related information.

Fiscal 2005 Financial Results Announced in May 2006

With regard to consolidated financial results for fiscal 2005, record highs were posted in all financial indicators - net sales, operating income, recurring income and net income. This marks the second consecutive year of sales and profit gains. In non-consolidated, fiscal 2005 was the first time in 14 years that net sales at the Shinjuku store and 6 other branches (total 7 stores) increased over the previous year.

▶ Please refer to p.46~70 for detailed information.



Construction to even out the floor on the food hall has been progressing smoothly since August 2005



Women's bag shop opened in September 2006



Many people braved the heavy rain to visit the store on its grand opening on March 1, 2006.



Meeting area (fourth floor)



General service counter



On September 24, 2005 opening day was crowded with around 50,000 visitors

General Manager Main Store (Shinjuku) Matsui (right) hands the donation to Tadateru Konoé (left), president of the Japanese Red Cross Society



Celebrating 120 Years in Business with a Charity T-shirt Exhibition “Bonds with Designers”

In line with the theme of Isetan’s 120th anniversary celebrations, “strengthen bonds with all those connected to the company,” messages and illustrations of support were gathered with the cooperation of 51 fashion designers working around the world for victims of the many natural disasters that have struck in recent years. T-shirts with the messages imprinted on them were then sold over a limited period.

Orders were accepted for the t-shirts on Isetan’s homepage from May 19 and an exhibition of the t-shirts was held on the first floor of the main building of the Shinjuku store from May 31. Thanks to the support and cooperation of many customers, a total of 8,656 t-shirts were ordered, exceeding expectations. As a result, we were able to donate ¥19.6 million to victims of the earthquake in Java through the Japanese Red Cross Society on July 7, 2006.

Completed “I Garden” Space to Enjoy Beautiful Flowers

On June 1, 2006, Isetan opened a garden on the rooftop of the main building of its Shinjuku store. Customers can relax on the lawn or stroll along the garden path in this urban oasis and enjoy the transient nature of the seasons and the flowers blowing in the breeze. The space is also barrier free so that everyone has the chance to visit. It also supports the beautification of the city while the environmentally friendly design is embodied in efforts to counter the heat-island effect.

The mayor of Shinjuku and the president of Shimizu Corporation, who helped with the project, visited the space on the opening day for the opening ceremony.

▶ Please refer to p.34 for detailed information.

Introduced Dividends Linked to Performance

Moving on one step from our basic policy of providing stable dividends to shareholders, we introduced a performance-based dividend policy in fiscal 2005 aimed at increasing returns to all shareholders. The annual dividend for the fiscal year was ¥14 per share compared with ¥12 in the previous year.

▶ Please refer to p.27 for detailed information.



Panels signed by the designers were exhibited at the venue



Vista from the moon-viewing platform inside the garden



Commemorative plants were planted by Hiroko Nakayama, mayor of Shinjuku (left), Nobukazu Muto, president of Isetan (middle) and Tetsuya Nomura, president of Shimizu Corporation. (right) at the opening ceremony



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Isetan

Annual Report 2006

Editorial Policy

The Isetan Annual Report 2006 was produced according to the following policies.

- The report analyzes our current business activities from the perspective of corporate value - a key element of The Isetan Way, which is expressed through all Isetan Group action. Besides our operational side, it also introduces Isetan's various social and environmental activities.
- Operational Topics of fiscal 2005 have been included at the start of the report. More detailed information on the activities of each group company is given throughout the report.
- Activities since our founding based on our corporate slogan, "Isetan gives new meaning to fashion," have been compiled in the section "120 Years of Isetan Fashion" at the end of the report.
- Independent evaluation has been included in the report since fiscal 2005 to boost its transparency, objectivity and reliability.

The reporting period is fiscal 2005 (from April 1, 2005 to March 31, 2006).

(Certain sections also include activities before or after this period up until July 2006)

The report covers Isetan and its 39 consolidated subsidiaries.

■ **The contents of the report can also be viewed on our Website at:**

http://www.isetan.co.jp/icm2/jsp/isetan/company/activity_eg.jsp

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Message from the President

**We are celebrating our 120th anniversary this year.
Together with our customers, we continue to create a better
tomorrow through fashion that brightens our life.**



Since our founding in 1886, the Isetan Group has continued to create new fashion primarily through our department store business. This year, 2006, we are celebrating our 120th year in the fashion industry. We have consistently implemented the philosophy “The customer always comes first” since the day of our foundation, irrespective of changing times.

Besides those who shop at Isetan, we regard our employees, shareholders, suppliers and local communities as customers. Hence, we are keen to keep meeting the demands of these customers through our business activities.

We always pay careful attention to the opinion of our customers and use this to uncover potential desires. We can therefore provide high quality products and services developed from a customer-centered perspective that exceed the expectations of our customers. Our mission is to continue going beyond mere satisfaction to inspire those that shop at our stores. Herein lies the true value of Isetan.

Despite being a reasonable distance from the train station, around 30 million customers visit our main store in Shinjuku every year. This great customer traffic is a product of our tireless consideration of how best we can attract customers and keep them coming to the store - and not just once, but two or three times.

In celebration of our 120th year, we have again found and cherished great value in our tradition and ties that we call “Kizuna” with all those connected to the company. It is our joy to continue bringing satisfaction and inspiration to our customers and it is with a sense of pride that we continue to take on new challenges in the coming era.

Implementing The Isetan Way

The foundations of everything that we do here at Isetan can be traced back to our corporate philosophy, or as we call it, The Isetan Way. Although it was formulated in 1994, the basic tenets of this philosophy have remained unchanged since the day of our foundation. Soon, we will cross the milestone of 120 years in business, so in essence, The Isetan Way has long been ingrained into our very DNA. Our corporate vision forms an integral part of this philosophy, in which we state that “only by sharing with others - our feelings, our ideas, and our joy - can we create new and better lifestyles for tomorrow.” This is what we at the Isetan Group strive towards in order to be an enterprise trusted by everyone.

Isetan places top priority on fostering relationships of trust with customers. We believe that feeling together and creating together affords us the opportunity to move forward together in the same direction as our customers towards a better future. Isetan has a deep respect for our employees who provide services to our customers. Our people are our greatest asset. Each and every staff member works in harmony, while we also endeavor to create an environment in which they can fulfill their individual abilities. We aim to build long-term relationships with our shareholders that are founded in trust by always conducting wholesome and sound business activities. We are always fair with our suppliers and other business partners, and as such, have maintained strong and long-lasting relationships with them. A key element to this is the creation of win-win, or mutually beneficial, associations. The department store business cannot survive without the support of the local community. We are aware of the need to fulfill our responsibility as a good corporate citizen and to contribute to the development of the region.

In the year under review, we worked towards the beautification of the urban environment with the creation of a rooftop garden in which customers can relax and enjoy the soothing surroundings. The space also helps mitigate the heat-island effect. To preserve finite resources and protect the environment, we are committed to our continued efforts to promote energy conservation, waste recycling and simplified packaging. Also, as a department store operator, we are and will be actively engaged in development of environmentally conscious products and further improvement of the environment.

Social Contribution through Fashion

Isetan started off as a store offering fashionable kimonos and obi sashes. Now, we are intent on giving new meaning to fashion. We have always had the courage to try something new and different in an innovative way. Over the years, we have created new markets through the establishment of teenager shops, baby shops and Japan’s first annex that exclusively carries men’s fashion items. We have also contributed to a reform in ladies wear sizes, including the establishment of Japanese size and the development of specially sized clothes sections, such as Lady Clover (large sizes) and Strawberry (petite sizes). Furthermore, we have also been pioneers at introducing the latest fashions from around the world into Japan.

Even in modern times where we are surrounded by an excess of material goods, Isetan describes fashion as a fresh new insight, which we can express in every facet of life. Through our fashion ideas, we hope to bring richness and fulfillment to people’s lives.

As the overall economy in this country expands, customers are increasingly looking for something that provides them psychological satisfaction, At Isetan, we are committed to creating new and better lifestyles for tomorrow and working to enhance every aspect of people’s lives. Through these endeavors, we aim to be a retail group chosen as “my own store” by each and every customer.

A Word on this Report

This report analyzes our current business activities from the perspective of corporate value. Besides our operational side, it also introduces Isetan’s various social and environmental activities. Going forward, we will aim to be recognized as a truly valuable member of society.

Let me express my warmest gratitude for your patronage for the last 120 years in business and ask for your continued guidance and support.



Nobukazu Muto
President & CEO
Isetan Company Limited

The Isetan Way

Four Pillars of Our Corporate Philosophy

With an eye to the future, the Isetan Group formulated our corporate philosophy in 1994 based on the traditions, ethos and code of conduct that have been with us since our founding. This philosophy has been permeated and put into practice throughout the entire organization since 2002.

Four Pillars

The Isetan Way is underpinned by four key pillars rooted in the philosophy of putting the customer first.

- Our Corporate Objective**
- Our Corporate Slogan**
- Our Corporate Vision**
- Our Corporate Stance**

Propping up these four elements is the concept of always putting the customer first, and this ideal is consistent in all activities across the entire Isetan Group.

Each Isetan Group employee believes in the essential worth of our corporate philosophy, and the boundless energy required to realize its principles provides us with a source of inspiration. The “Company’s Promise Campaign” as well as all other corporate activities offer an insight into our corporate philosophy, while propelling us forward towards fulfilling the central tenets of our beliefs.

The spirit of The Isetan Way is expressed through business plans at the group, company and operational levels, and in a variety of ways in daily business activities.



The Isetan Way

Our Corporate Objective

Isetan strives to do business with the highest integrity and in a sincere spirit of service.

Our customers are our livelihood. They embody our traditions. And they hold the key to our future. We should make sure the store is at its best when they come, and we should greet each and every one with a cheery “Welcome to Isetan. How can we help you?” As they leave, we should say “Thank you for shopping with us. Please come again.” Then take a moment to reflect about how we served them, and ask ourselves how we can serve future customers even better.

Our Corporate Slogan

Isetan gives new meaning to fashion.

At Isetan, we define fashion as fresh new insight, which we can express in every facet of life. At Isetan, we nurture the spirit of fashion that lives in each of us and express it in all that we do. This aesthetic spirit is the breath of fresh air that can add a new sense of excitement to each and every day.

Positioning of the Four Pillars

Our Corporate Objective

This expresses the **moral confines** of our business activities. It forms the basis of all that is right at Isetan and remains an unchanging attitude of mind at the company.

Our Corporate Slogan

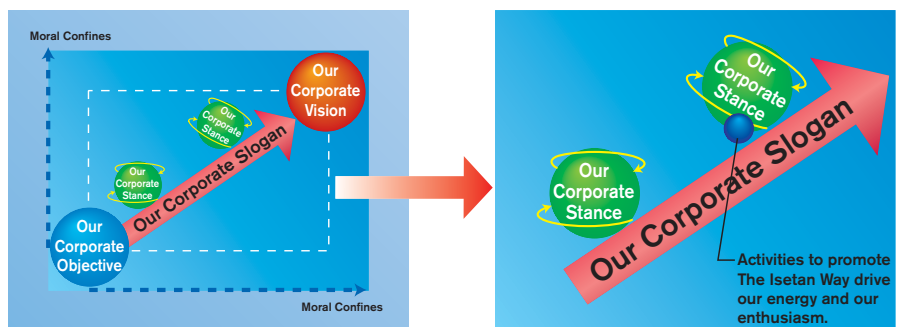
This is a declaration of the **direction our business aims for** based on the moral confines of our corporate objective.

Our Corporate Vision

This expresses the **ultimate goal** of the Isetan Group to be achieved through our business activities.

Our Corporate Stance

This represents our **approach to daily business activities** towards the realization of our goal.



Our Corporate Vision

Only by sharing with others — our feelings, our ideas, and our joy— can we create new and better lifestyles for tomorrow.

At Isetan, we have something to share with everyone.

- With our customers, we share empathy and technology.
- With our fellow employees, we share the desire to create an enjoyable work place.
- With our investors, we share the rewards of business well done.
- With our suppliers, we share mutual growth and prosperity.
- With our communities, we share our responsibilities as good corporate citizens.
- And with everyone, we hope to share trust and respect.

Our Corporate Stance

The Customer always comes first.

We must accomplish several things if we are to truly put the customer first.

- We should strive for complete customer satisfaction by offering nothing but the very best in products and services.
- We should strive to create a robust company by putting our all into every task.
- We should strive for the courage to try something new, to demand more than the status quo.
- We each should strive to be responsible persons with high standards of ethics and a spirit of service.
- And we should strive to protect our precious environment by carefully conserving it for future generations.

Our Mindset

Every day can be a new adventure.

- If we have the courage to try something new;
- If we say what we feel;
- If we nurture the freedom of spirit that fosters creativity;
- If we develop our appreciation for beauty of form and color that comes with each new season;
- And most of all, if we each take pride in our company — Isetan;

Each new day can be the greatest adventure of our lives.

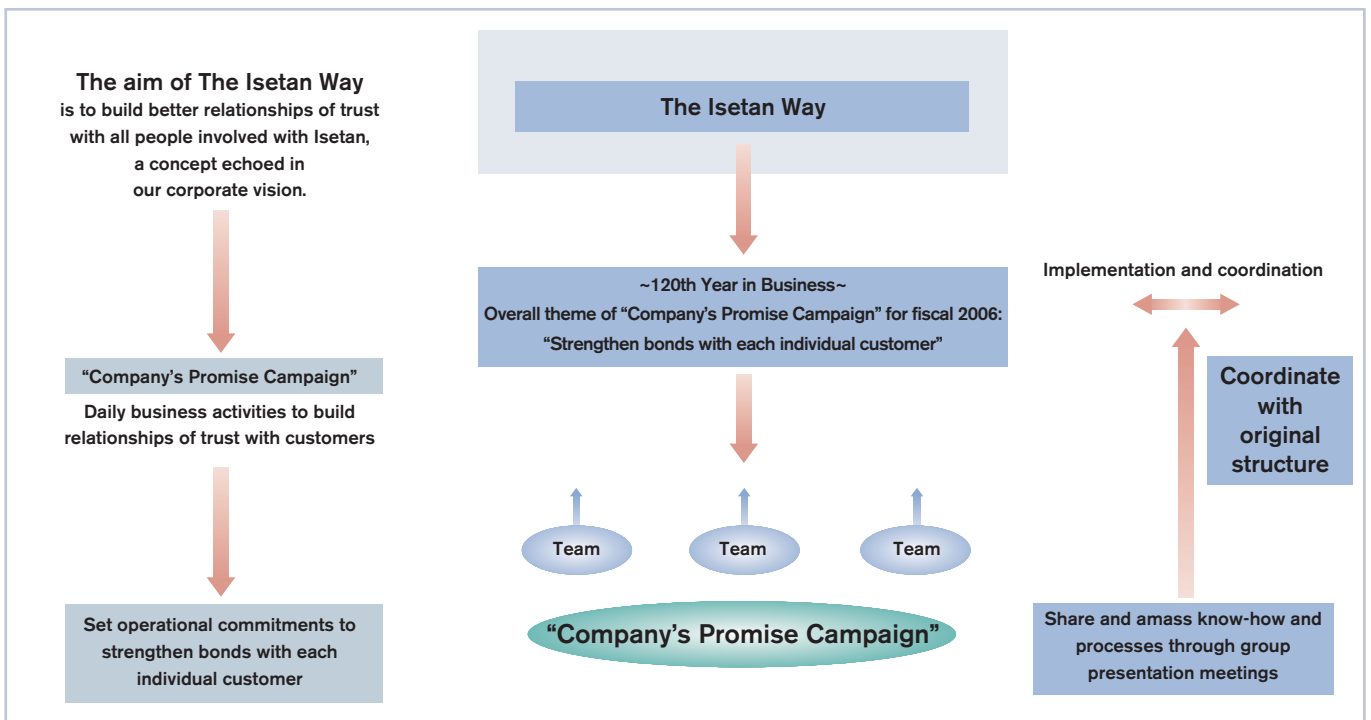
“Company’s Promise Campaign”

“Company’s Promise Campaign”

This program is designed to implement the Isetan corporate philosophy, as we call it “The Isetan Way,” through daily business activities and thereby build relationships of trust with customers. First started in fiscal 1994 across the entire Isetan Group, the program promotes highly effective initiatives in accord with operations in order to become a company of value for everyone with an interest in the company, including customers, employees, shareholders and business partners.

A total of around 600 teams set operational commitments based on individual department themes. The program helps to delineate business processes and also incorporates a system to track progress and to determine the results achieved.

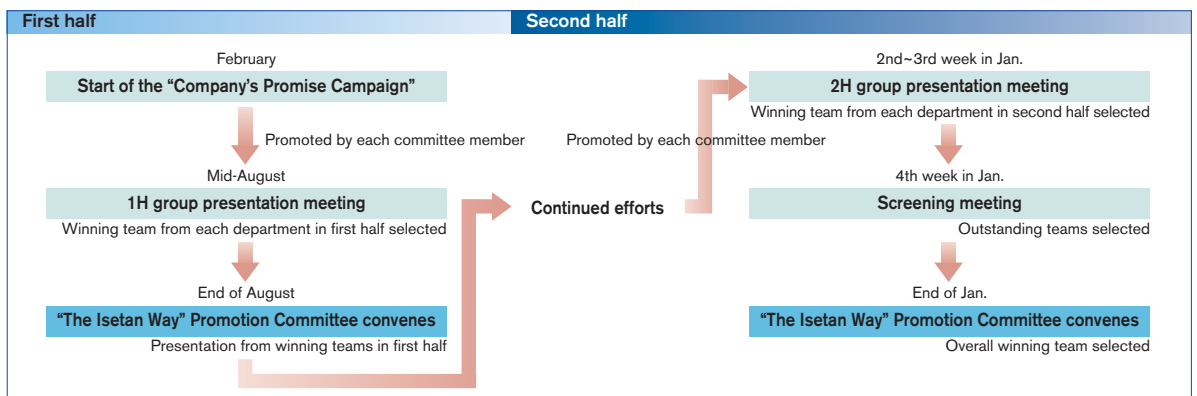
In fiscal 2006, we seek to provide the ultimate in service that goes one step beyond our efforts thus far with the objective of deepening bonds with each individual customer.



“The Isetan Way” Promotion Committee

This committee oversees the “Company’s Promise Campaign” and various other activities designed to implement Isetan’s corporate philosophy. It is chaired by the president and members are selected from across the Isetan Group to ensure that a deep understanding of the philosophy and a strong belief in these ideas thoroughly permeate Isetan’s corporate culture and organization.

Fiscal 2006 Schedule



Outstanding Team of Fiscal 2005

The Isetan Way Promotion Committee meeting is held twice a year to share information and knowledge and to announce the results of each outstanding team. The most outstanding team is then selected at the meeting at the end of January as a roundup of the “Company’s Promise Campaign” for fiscal 2005.

Fiscal 2005 “Company’s Promise Campaign” Most Outstanding Team Mamina Co., Ltd. Anna Sui Umeda Est store

We Propose Inspiring Gifts for Customer Satisfaction

Demand for gifts at our shop is really high, so we aim to make sure that all employees are skilled at wrapping and proposing gifts that will bring joy and a sense of excitement to the customer. That has been our promise over the years.

In particular, we are proud of our special gift box wrapping and our unique Christmas wrapping. We always look to devise new ways of wrapping that reflect customer wants, and this inevitably leads to higher satisfaction for our customer. We also work hard to make sure the customer isn’t kept waiting. To boost our wrapping skills, we have specified different roles for each person, with seniors offering friendly advice to juniors. We have also produced a wrapping manual, which is now used as an information tool at all Anna Sui stores. Numbered tickets are used to make sure the gift is returned to the correct customer. We now also turn the receipt over for items that are being wrapped and hand the receipt over with the product name showing so the customer can confirm it as his or her purchase. These efforts have enabled us to almost totally eliminate mistakes when returning gifts.

These achievements are the result of all employees putting their heads together and making a unified commitment to improvements. Going forward, we aim to further boost our skills to bring an even higher level of satisfaction to customers.



Group presentation meeting on valued customers and outside sales in the first half of fiscal 2005



The outstanding team for fiscal 2005: Mamina Co., Ltd. Anna Sui Umeda Est store



Management Plan

Isetan Group's New Consolidated Business Vision

Summary of Three-Year Value Creation Plan

Period: FY2003~2005 (April 2003~March 2006)

Core objectives:

- (1) Restructure in-house systems and the operational flow from the customer's view point
- (2) Deepen structural reform (Achieve reform transcending the organizational framework)
- (3) Implement a strategy to expand department store operations

Consolidated	Target	FY2005 Result
Net sales	¥640.0 billion	¥760.0 billion
Operating income	¥25.0 billion	¥30.0 billion
ROA	5.7%	6.3%

Non-consolidated	Target	FY2005 Result
Net sales	¥440.0 billion	¥444.2 billion
Operating income	¥15.0 billion	¥20.0 billion
ROA	4.7%	6.1%

We achieved the goals set under each of the aforementioned core objectives. These included: streamlining structure; reforming the pension system; selling certain subsidiaries; integrating foodstuff gifts; opening Kokura Isetan; combining systems with Izutsuya; completing revitalization of Iwataya; and concluding business alliance agreements with Meitetsu Department Store and Marui Imai.

We surpassed targets in the key financial indicators of operating income and ROA on both a consolidated and non-consolidated basis.

Overall Picture of New Consolidated Business Vision

In order to continue as a corporate group renowned for its flexibility, creativity and sensitivity to changes in the environment in any era, we have formulated a new long-term vision. This vision has as its core the concepts personified in the Isetan Group Business Vision, which was established in 2000. The vision is to elucidate the following: Isetan Group strengths to drive business expansion and growth; what kind of shape the Group's core department store operations should take up until 2015; and how we can ensure continuous development.

Isetan Group Direction Until 2015



To become a retail group chosen as "my own store" of each and every customer and sustainably achieve high-profit and high-growth through creating new lifestyles for tomorrow and meeting the individual needs of customers through supporting all aspects of their life.

A company that meets the individual needs of identifiable customers

A company that provides intangible as well as tangible value

A company that exceeds expectations with unrivalled value

To be a business group that can generate consolidated operating income of ¥50 billion over a sustained period.

**Operational Strategy to Achieve
What We Aim For**

(1) Rebuild relationships of trust with customers

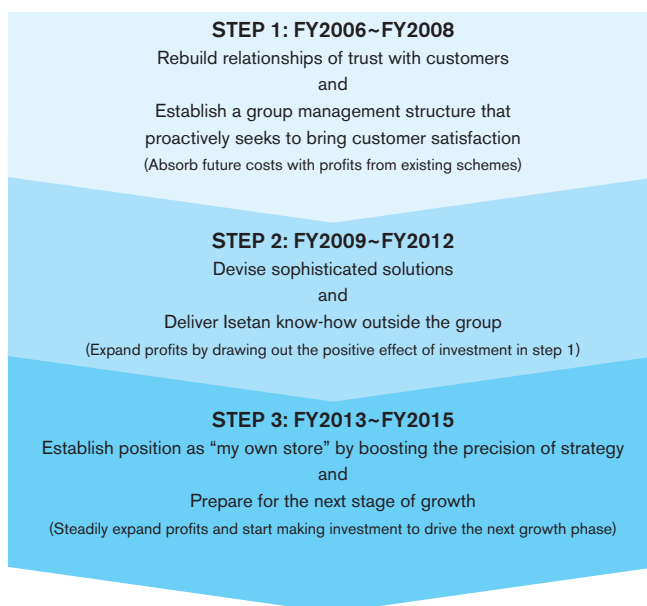
Isetan Group aims to be of assistance in all areas of a customer’s life. This requires us to gain a high level of trust from them so that they feel confident coming to us for advice. Up until now, Isetan Group has earned customer trust through communication with sales staff at our stores. Accordingly, maximizing customer satisfaction delivered by each sales rep forms the basis of all action aimed at realizing our desired direction.

(2) Strengthen and maximize Isetan alliances

Moving forward, Isetan will implement various strategies aimed at realizing the ideal corporate situation. Although Isetan Group has always possessed the core competencies to achieve this, the scale of these competencies has never been over and above that of other department stores. Accordingly, we have sought to forge alliances with companies in the same industry in the past few years. We seek to further strengthen these alliances in the coming years while also promoting collaboration with suppliers and other business partners. By doing so, we can create a structure that inspires customer satisfaction.

**Steps Towards Achieving New
Consolidated Business**

We have outlined three major steps that will take us to where we want to be after 10 years. In the first three years, we will bolster business foundations; in the next four years, we will look to generate results; and in the final three years, we will seek to solidify our position as “my own store”. Particularly, rebuilding relationships of trust with customers in step one will form the basis of all activities and is therefore a priority task.



**Desired Stance in Following
Three Years**

Positioning in FY2006~FY2008

1. Rebuild relationships of trust with customers
2. Establish a group management structure that proactively seeks to bring customer satisfaction



Desired stance in following three years

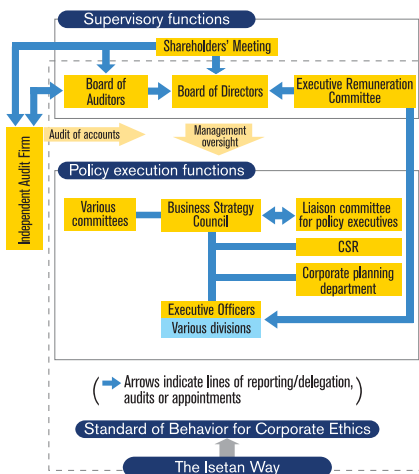
1. Secure overwhelming competitive edge at main store
2. Create new solutions business
3. Improve quality and productivity in sales
4. Assure market competitiveness in each area that makes up the Isetan Group

Towards Optimum CSR Management

Enhancing Corporate Governance

Isetan regards effective corporate governance as an important issue facing management to ensure ongoing improvements in transparency, fairness and speed of response. Bolstering corporate governance and social responsibility is tackled from two different perspectives. First, Isetan works to build good relationships with all stakeholders, including customers, employees, shareholders, suppliers and local communities. Second, as part of our efforts to reform business structures, Isetan aims to strengthen and improve the functioning of existing statutory structures, including shareholder meetings, the Board of Directors, the Board of Auditors and independent audit functions.

Internal Corporate Governance Structures and Relationships



Specific Actions

Transparent and fair management practices and the creation of a structure that facilitates speedy decision-making are essential to meet the expectations of stakeholders. Isetan clarified its “supervisory functions” and “policy execution functions” in fiscal 2001, and worked to enhance its corporate governance via various measures, such as the: (1) introduction of an Executive Officer System; (2) external director appointments and establishment of an Executive Remuneration Committee; (3) establishment of clearer lines of authority and organizational reform (such as the creation of the Business Strategy Council); and (4) reform of executive compensation systems.

Isetan has also appointed CSR in line with revisions to the Company Law enforced in May 2006 and demand for an internal control system and enhanced disclosure. In pursuit of CSR-oriented management, we will continue to improve our corporate governance and fulfill our social responsibility.

Appointed CSR

In February 2006, in line with The Isetan Way and our management plan, the New 10-Year Vision, we appointed CSR to promote CSR activities throughout the group. The role of these managers is not only to ensure legal compliance, but also to promote CSR activities that will lead to greater corporate competitiveness and corporate value. They will help ensure that we fulfill our responsibility to society.

*CSR: Corporate Social Responsibility

[Supervisory Functions]

- The Board of Directors includes two external directors. Besides overseeing the execution of policy from an independent, objective perspective, the external directors provide general advice on corporate strategy based on their broad experience.
- The Executive Remuneration Committee, which is chaired by an external director, discusses executive personnel issues, nominates candidates for positions as directors, corporate auditors or presidents of Group companies, and advises on related executive compensation and personnel development issues. These functions serve to raise the transparency and fairness of top management deliberations.

[Policy Execution Functions]

- The Business Strategy Council and Executive Officer System were introduced to promote faster decision-making and demarcate clearer lines of responsibility.
- Besides creating supervisory and reporting mechanisms, it performs a control function through internal checks.

Risk Management

Isetan set up the Risk Management Project Committee as a consultative body for the Business Strategy Council to strengthen the risk management capabilities of the Company, and to oversee the establishment of a system of internal regulations designed to minimize the occurrence of serious adverse events.

In view of the increasing importance of risk management issues at the consolidated level, a manager with responsibility for all risk management issues affecting the Isetan Group was appointed within the General Affairs Department to oversee and manage related corporate planning functions.

Isetan to Receive SRI (Socially Responsible Investment) Funds

The Pension Fund Association has included Isetan as one of 53 firms to invest in with its Corporate Governance Fund. The fund focuses on corporate governance as its investment criterion, with Nomura Asset Management Co., Ltd. tasked with the

actual management of the fund. We were also been included in the Fukoku SRI Fund in 2005.

(As of July 2006)

Legal and Regulatory Compliance

Compliance is a critical component of our efforts to build society's trust in our company, based on The Isetan Way. Compliance issues thus impinge on all daily business activities.

Helpline Set Up

The Isetan Group Hotline was set up in April 2006 as a helpline aimed at swiftly discovering illegal and misappropriate behavior inside the company and taking remedial action.

All Isetan Group employees have the system at their disposal. Chiefly, the hotline administration office examines the content of the whistleblower's report, and if any wrongdoing is found, the relevant department is requested to take the necessary action to fix the problem and prevent reoccurrence.



Poster explaining the Isetan Group hotline

Efforts on a Structural Level

At Isetan, legal and regulatory compliance is positioned as a priority management issue.

In terms of structural bodies, we have set up the Isetan Fair Trading Promotion Council specifically to deal with compliance with anti-trust laws. It acts as an advisory body to the Business Strategy Council, which has the highest decision-making authority on business execution matters in the company. Another advisory body to the Business Strategy Council is the Risk Management Council, which aims to strengthen the organization's response to risk-related matters. Both of these consulting boards meet on a regular basis.

In order to clarify the stance required of the company's management tier, the chairman of the Isetan Fair Trading Promotion Council is the Executive Vice President and Director of the Business Planning & Operations Division; meanwhile, the chairman of the Risk Management Council is the Senior Executive Vice President and Director of the company. In this way, Isetan managers can set an appropriate example for all employees further down the organizational hierarchy.



Compliance guidelines

Compliance Guideline Formulation

The Compliance Guidebook was compiled and distributed in April 2002 to set out compliance-related policies for Isetan and to provide specific examples of expected behavior. Setting out clear rules and providing illustrative examples, the publication deals with a wide range of issues and situations, such as: contracts with customers; personal data confidentiality; product safety, giveaways and labeling; ethical trading practices vis-à-vis suppliers; intellectual property rights; official approvals, licenses and notifications; protection of human rights; sexual harassment in the workplace; insider trading rules; and the legal responsibilities and duties of directors.

Legal Consultation System

Isetan holds weekly legal consultation meetings with advisory counselors to deal with any legal issues related to due diligence procedures in new business ventures, legal disputes, and other operational matters. A separate system has been established to enable swift response to extemporal incidents by setting up close ties with advisory counselors. An internal legal affairs team is available to draft and check contracts, deal with claims and oversee any intellectual property matters.



Lecture on compliance

Training and Education

Compliance training forms part of courses aimed at managers and newly promoted staff. We also hold legal training seminars for sales representatives, and the secretariat for the Isetan Fair Trading Promotion Council provides training on anti-trust issues.

In fiscal 2005, we held a series of one-point training sessions to boost compliance during regular sales division manager's meetings and conducted 26 workshops on fair trading and intellectual property rights for sales managers and buyers. In fiscal 2006, we plan to hold around 40 training sessions for staff at branches and Isetan Group stores.

To help educate Isetan employees, the sales division has compiled a database of legal approaches and related ordinances so that all employees have access to information for use in their daily operations.

Protection of Personal Information

Each company in the Isetan Group is profoundly aware of the importance of protecting a customer's personal information. Besides adhering to all laws related to the protection of personal data, Isetan has formulated its own set of voluntary standards. Our personnel are bound to these external and internal rules. We treat information gathered from customers with the utmost respect and only use it in ways deemed appropriate for specific objectives. In this way, we aim to meet the expectations of our customers and further deepen relationships built on trust.



The Isetan Personal Information Protection Manual (pocketbook)



The Isetan Personal Information Rule Book



Memorandum concerning the handling of customer information

Specific Actions

- Based on guidelines for the protection of personal information at department stores released by Japan Department Stores Association (JDSA), Isetan has laid down an appropriate management system for customer data. In April 2004, we established a “personal information protection committee” and reviewed and enhanced our internal rules pertaining to the acquisition, use and management of personal data. We also disclose important items such as our “privacy policy” and “policy on handling personal information” on our website.
- Isetan has established “information management regulations” and “personal information protection regulations” to help protect the privacy of personal data in daily operations. In April 2005, we revised our personal information protection regulations in line with the enactment of the Personal Information Protection Act.
- Isetan issued the Isetan Personal Information Rule Book and the Isetan Personal Information Protection Manual (pocketbook) in April 2005. These have been distributed to all employees, and we have also enhanced education for new recruits in this regard.

All-Inclusive Protection of Personal Information

- Isetan has concluded a memorandum concerning the handling of customer information with all suppliers. Meanwhile, the customer information processing procedure manual is revised on an annual basis. In 2005, we conducted an internal audit of the condition of personal data management at around 3,000 shops nationwide. Similar audits were also conducted at domestic group department stores in Shizuoka, Niigata, Kokura and Kyoto.

A customer services manager at our main store and sales service managers at branch stores handle all enquiries related to personal information.

Management of Computer Systems

- Isetan encourages the installation of high-security terminals company-wide. Strict personal authentication and screen-saver lock help prevent imposters, while virus check patterns are periodically changed.
- Continued technical preventative measures against illegal access to personal information include encryption of wireless LAN communication via POS terminals, and the appointment of external specialists who monitor unlawful access 24 hours a day, 365 days of the year.
- A third party has examined the websites of Isetan and Isetan I Card Co., Ltd. for any vulnerability and they both cleared the strict security criteria.
- Isetan has placed restrictions on which staff members (called “J staff”) have access to personal information and we continue to hold security-related training for these people.

Isetan I Card Co., Ltd. Granted Privacy Mark

Isetan I Card Co., Ltd., which issues I Card, Isetan's own in-house credit card, and takes care of the various services for its members, revised its personal information protection guidebook - which was first published in February 2000 - in May 2005. The company acquired the Privacy Mark in April 2006 and continues working to maintain and enhance the appropriate management of personal information.

* The Privacy Mark is an accreditation granted by the Japan Information Processing Development Corporation (JIPDEC) to companies that operate according to the Japanese Industrial Standards JISQ 15001 standard (Requirements of compliance programs related to the protection of personal information).

Isetan Data Center Co., Ltd. Acquires ISMS Certification

Isetan Data Center Co., Ltd. (IDC), which manages the personal information of all the members of I Card, has gained certification for its information security management system (ISMS)*. As daily operations are based on the standards of this ISMS certification, we can enhance the trust of customers in the security measures implemented by the Isetan Group to protect the confidentiality of personal data.

* Information security management systems (ISMS) certification signifies not only that a company's system is technically secure, but also validates that information systems implement proper risk management measures at the corporate level and that a security management system is subject to regular audit. The Japan Information Processing Development Center (JIPDEC) has been responsible for ISMS certification procedures in Japan since 2002.

Stakeholders and Isetan

**Only by sharing with others
— our feelings, our ideas,
and our joy — can we create
new and better lifestyles
for tomorrow.**

At Isetan we have something to share with everyone.

- With our customers, we share empathy and technology.
- With our fellow employees, we share the desire to create an enjoyable work place.
- With our shareholders, we share the rewards of business well done.
- With our suppliers, we share mutual growth and prosperity.
- With our communities, we share our responsibilities as good corporate citizens.
- And with everyone, we hope to share trust and respect.

With our customers, we share empathy and technology

With our fellow employees, we share the desire to create an enjoyable work place.

With our shareholders, we share the rewards of business well done.

With our suppliers, we share mutual growth and prosperity.

With our communities, we share our responsibilities as good corporate citizens.

Customers and Isetan

Ensuring the Safety and Security of Customers

Isetan has taken action as people's interest in product labels has grown. We work to ensure the safety and security of customers by managing quality control from a customer-centered perspective. We also strive to listen to customer feedback and to make changes designed to increase customer satisfaction.



In-house seminars on food safety and hygiene

Quality Control from a Customer-Centered Perspective

Isetan's customer-centered quality control approach focuses on the management of two key activities: QC procedures and product labeling. Besides preventing accidents, the aim is to ensure the safety and security of all merchandise while striving to improve quality. We set our own strict standards for all merchandise and supplied products, and work closely with our suppliers to maintain the highest levels of quality control. In the rare event of an accident or other incident, we cooperate with local governments and external bodies to determine the cause, implement a swift solution, and take appropriate measures to prevent future occurrences.

(1) QC procedures

Safety is the highest priority, and Isetan's motto is: "If in doubt, don't sell!" We undertake pre-sale inspections and periodic sampling inspections of all merchandise. Staff supervising inventory and sales coordinate closely to maintain high-level QC controls. We also work to raise the level of quality control management through the integration of departments handling suppliers, sales floors and QC supervision, through regular spot checks, by sharing of information, and with training and education programs.

1. Store hygiene

We undertake hygiene checks of all in-store kitchen facilities and demonstration areas, and we also check our food suppliers to ensure that their food production sites and methods also uphold high levels of hygiene. To ensure that all employees who handle food have the correct knowledge and training, we provide staff training in food hygiene and hold discussions at the employee health centers located at each site. Finally, we provide operational support to a special committee that oversees occupational health and safety matters for all food suppliers to Isetan.

Isetan Food Standards

In May 2005, Isetan introduced an original product arrangement and labeling standards to classify products in the "freshmarket" of the "fruit and vegetable section" into three categories to ensure the safest and freshest food possible.

- (1) Organic: JAS-certified organic produce
- (2) Select: Buyers select the best produce from around the country, such as native and traditional vegetables, and special crops based on LSA*
- (3) From market: Products bought on a daily basis depending on freshness, standard and price

In October 2006 we will open our revamped fresh produce section. Based on the aforementioned concept, we plan to set in place a disclosure system for product information and improve the way we present specialty items. We aim to have around 70% of vegetable-based items adhering to either (1) or (2) above.

* LSA: Low Input Sustainable Agriculture. High-quality agricultural produce made using an extremely low amount of pesticide or chemical fertilizer.



Point-of-purchase advertising depicts the food categories: orange for "organic," green for "select" and blue for "from market" (as of July 2006)



2. Quality testing of textile products

Besides verifying the quality of the dyes, chemicals and properties of textile products from the fabric stage onward, we also test the quality of products already on the market when requested to do so from sales stores.

3. Measuring control

Isetan ensures the appropriate product weight through the use of accurate measuring apparatus. We also inspect products to be given during summer and winter gift-giving seasons based on assorted packaging standards.

(2) Product labeling

In recent years, customers have taken a much greater interest in labeling as concerns have grown over issues such as allergic reactions to ingredients, material origins, fake merchandise and exaggerated advertising claims. Checking labeling required by law such as images regarding handling and composition of textiles products is becoming increasingly important. Isetan pays particular attention to checks of its own original products.



QC and Safety Checks –the QC Control Dept.–

Isetan originally set up a Product Testing Dept. in 1936 to undertake quality control of merchandise and to strengthen the existing system of safety checks. In 2001 this department was renamed the QC Control Dept. It oversees the two key activities described above, all of which operate from a customer-centered perspective. Separate sections are responsible for textiles, in-store hygiene and testing measurements.



People You Can Trust –the Isetan Consumer Advisory Center–

We established our first consumer consultation service in 1972 to allow customers to discuss any points about products or services purchased at Isetan. This service strives to maintain a neutral perspective to enable customers to receive fair and unbiased advice. In doing so, the center has developed a trustworthy reputation. The center is currently staffed by seven qualified professionals, including certified consumer advisors and experts in fabric and clothing QC issues. It typically receives over 2,000 inquiries annually.

Delivering fine food with secure peace-of-mind

Queen's Isetan Product Testing Laboratory

Queen's Isetan, a supermarket chain specializing in foodstuffs for the Isetan Group, set up a Product Testing Laboratory in accord with the commencement of operations at the Tachikawa food factory in August 2004. Here, the focus is on quality control, especially in terms of testing for bacteria in foodstuffs and testing, improving and maintaining general hygiene. Our commitment is to offer the finest foods with secure peace-of-mind.

Isetan Business Support Co., Ltd. Continues to be Approved under ISO9001

Isetan Business Support, the Isetan Group subsidiary that handles company logistics, acquired ISO9001 certification for its quality management systems in 2001 - a first within the Japanese department store industry. Thereafter, it has undertaken regular checks to retain its status. Specific initiatives in fiscal 2005 include a review of business activities at the logistics center, which resulted in increased efficiency through such measures as concentrating simplified packaging work at night. This helped cut delivery lead-time in the extremely busy summer

and winter gift-giving seasons by around two days. As a result, the number of delivery-related inquiries has been reduced by approximately 40%. Elsewhere, we revised the work method of managers and made improvements in the operating line to boost packing efficiency. We will continue trying to improve operations in this area.

* ISO9001 is one of the international standards certified by ISO (International Organization for Standardization) for quality management and guarantee. International standard is used to evaluate management structures for maintaining quality control.

Reflecting Customer Opinion in Products and Services

At Isetan, we value the importance of meeting our customers' needs. We always strive to reflect their opinion in the development of original products and work to provide specialist shopping advice through qualified experts.

Only I - Merchandise Exclusive to Isetan Born from Customer Feedback

Based on views gathered in sales situations and responses from thousands of customers to company questionnaires, Isetan creates a diverse array of original products that embody our commitment to fashion. We strive to incorporate customer desire regarding function, design, color and pattern into merchandise that exceeds expectations. Our aim is to provide a shopping experience second to none through original products and special limited offers.

Since the inception of Only I in the autumn 1993, we have continued to propose unique new products, and to celebrate its 10 year anniversary in 2003, we introduced six new categories that included "customer voice," "trends flash" and "limited offers." In the autumn of 2005, we will add a seventh category - "unique point" - as part of our plans to increase the number of product proposals annually and enhance the business.



Comfortable and beautiful clover-size bras



Planned walking shoes



Planned mango-cream bread

Customer Participation in Only I Product Development Project

This project aims to develop new products together with our customers by using the internet. We work in tandem with suppliers to fuse the opinion of target customers into the development of unique Isetan merchandise.

The ninth phase of the project took place in September 2005. Here, we developed large-size, sung-fitting, fashionable bras to eliminate worries customers may have about finding a large size.

Sales Service from Qualified Experts

Isetan sales staff possess a variety of qualifications, including those issued internally, that enable them to offer valuable shopping advice when selecting products.



Beaute concierge



Wine advisor

Expert Shoe Counsellors

Shoes counsellors, a position introduced in 2000, have attained internal qualification making them specialists in selecting shoes that are perfect for the customer in terms of the material, function and characteristics of the shoe. Apart from helping select shoes, they build one-on-one relationships with customers by offering counselling on shoes and feet.

In 2006, we introduced the highest qualification known as "expert shoe counsellor" in response to growing customer demand. This qualification is unique to the industry in that it requires potential candidates to gain knowledge about anatomy and orthopedics and learn about shoe adjustment techniques. From this autumn, employees who have attained the qualification will start working at each shop at our Shinjuku store and domestic group department stores (women's shoes, men's shoes, children's shoes, sports shoes).

Qualifications (As of July 2006) *Denote internal company qualifications

Qualification	Number of People	Qualification	Number of People
Beauté concierge*	11	First class sales expert	39
Body concierge*	6	Second class sales expert	1,017
Shoe counselor*	48	Third class sales expert	178
Baby consultant*	51	Formal specialist gold license	24
Mode fitter*	7	Gemologist	1
Wrapping attendant*	42	Personal information protection supervisor	23
Color analyst*	154	Architect (first class/second class)	34
Interior coordinator	8	Tea instructor	1
Wine advisor	13	Consumer advisor	17
Cheese advisor	9	Hygienist	62
		Shoe fitter	51

Creating the Best Store Environment for Customers

We are introducing various universal-use design concepts into store environments, facilities and services to allow more customers to enjoy shopping at Isetan.

These moves are helping to make our stores pleasant and convenient for customers, irrespective of age, gender, size and physical ability.



Rest area

Started Construction to Even Out Floor on Food Hall of Shinjuku Store

The exclusive foods corner in the food hall floor of main store was left with a split level due to the addition of floor-space in 1936, which has been a hassle for customers. We began work to even out the floor in August 2005 aimed at creating a store environment in which customers can move around more freely and enjoy their shopping. Construction is scheduled for completion in November 2006.



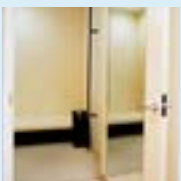
Revamped Baby Rest Area

In February 2006, Isetan enhanced and expanded the baby rest area on the sixth floor of the Shinjuku store based on the concept of “space, peace-of-mind and safety.” Materials both kind to the environment and to people have been used, while the color scheme has been carefully thought out. Round shapes and soothing music make for a safe space that can be enjoyed by babies and their families. Besides the relaxing breast-feeding area and the nappy-changing corner, Isetan has incorporated a family room (reservation required, but free of charge) and a child-rearing consultation room that utilizes touch-panel screens. Water machines supply purified water at two temperatures: 60°C and 97°C. The wide space allows baby stroller access.

Creating a Pleasant Environment –improved facilities and services–

We have upgraded store facilities to improve wheelchair and stroller access, and we also offer a free rental service for such items. We have also improved the services we offer to those with hearing or speech impairments. Our aim is to make the Isetan shopping experience as pleasant as possible for all.

Multi-functional fitting rooms (Shinjuku store)



Offering roughly four times the area of standard fitting rooms, these special rooms allow step-free, smooth wheelchair access. They are also fitted with ramps and benches to make it easier for customers to get in and out of a wheelchair to try on clothes.

Signing-capable store assistants



Isetan first established an in-house training course in sign language in 1981, the Year of the Disabled. Today around 260 Isetan sales assistants can communicate in sign language, and are identifiable by special red badges. These staff are ready to assist any customers with hearing or speech impairments.

Multi-functional rest rooms (Shinjuku store)



These special rest room cubicles offer enough room for wheelchair or stroller access, and are also fitted with specially softened toilet seats and child seats. The rest rooms on the 7th floor of the main building and 6th floor of Isetan men’s building of the Shinjuku store feature specially upgraded facilities offering baby seats, seats with an adaptable fit, and various fixtures for colostomy patients. In May 2006, a similar rest room was installed in the underground floor of the main building, making six in all. Each one has its own special features, designed to meet the personal needs of customers.

Service Outline



Manual wheelchair and Power wheelchair (Shinjuku store)



Written communication facilitation boards

Service	Shinjuku store	Tachikawa store	Kichijoji store	Matsudo store	Urawa store	Sagamihara store	Fuchu store
Wheelchair loan	○	○	○	○	○	○	○
Wheelchair access toilet	○	○	○	○	○	○	○
Stroller loan	○	○	○	○	○	○	○
Baby rest area	○	○	○	○	○	○	○
Toilet with baby rest	○	○	○	○	○	○	○
Child rearing consultation	○	○		○	○	○	○
Shopping carts for elderly	○	○		○	○	○	○
Guide for blind	○			○			
Written communication facilitation boards	○	○	○	○			

Customers and Isetan

Supporting Senior Citizens



—“Heartful Station” (Tachikawa/Matsudo/Sagamihara/Fuchu)—

Many senior citizens aspire to live healthily, to make their homes as convenient and safe as possible, and to go out to town with grace and a minimum of fuss. With such needs in mind, Isetan has created special retail areas, so called “Heartful Station”, at four stores that offer a range of clothing, accessories, health foods/goods and other items for seniors. Examples include clothes that are easier to put on and super-light shoes. As well as the expected range of nursing care-related products, these fixtures offer a wide range of items specifically tailored to the needs of senior citizens. The Tachikawa store also features a full-time consultation counter that can offer advice on various leisure, welfare and care-related issues. The store supports to make senior citizens’ life be happy, healthy and comfortable.

Tachikawa store certified as providing universal access



The Isetan Tachikawa store was the first department store in the Tama district in the Tokyo western suburbs to gain certification under Japanese universal building access legislation*. The store features exits, passageways, elevators, rest rooms and parking facilities that are specially designed to provide easy access to elderly and disabled people. For example, the main thoroughfare on each floor has a width of 6m, permitting smooth access for those in wheelchairs or pushing children in strollers.



* Enacted in Japan in 1994, the so-called “Heart Building Law” aims to promote the design and construction of buildings that enable smooth access and use of facilities by elderly or disabled people; buildings that meet certain universal-access criteria can be certified as complying with this law.

Tachikawa store certified as providing universal access

T O P I C S

Dealing with Asbestos

Isetan conducted a thorough check of all stores and related facilities to determine the extent of asbestos use. The results of the examination showed that Asbestos was being used in certain parts of six different facilities by August 2005.

In February 2006, we concluded tests of the air in all six facilities and confirmed their safety. We will continue testing the air in places where asbestos has not been eliminated to ensure a safe environment. Plans are to totally eliminate it in the future.

Situation and Measure

Building	Application	Measure
Shinjuku store	Heat insulator	Results show area as safe; plan to conduct regular future checks
Kichijoji store	Fireproofing	Currently removing in conjunction with earthquake proofing construction (Plan to finish part in September 2006)
Matsudo store	Fireproofing	Results show area as safe; plan to conduct regular future checks
Shinjuku store office	Fireproofing	Results show area as safe; construction to seal off part in November 2005
Isetan Kaikan	Heat insulator	Almost Completed removal in September 2005
Hachioji delivery center	Fireproofing	Completed removal in October 2005

Preparedness for Disasters



Map training earthquake of the 7th degree on the seismic scale directly under Tokyo (November 2005)



Emergency action handbook provided to all Isetan employees



Certificate showing that the Urawa store has successfully completed earthquake-proof retrofitting; recognition was given by the Saitama City authorities in March 2005.



Training for the standard first aid qualification



Voluntary fire drill examination committee Kichijoji store female brigade received the outstanding award

Disaster Contingency Committee

At Isetan, we have set up a Disaster Contingency Committee to review measures and devise appropriate action in case of earthquake, fire or any other calamity. When disaster strikes, the committee is in charge of implementing measures to ensure a company-wide response.

- Our top priority is to ensure the utmost safety of customers and employees by taking suitable action when disaster strikes. Further, we have formulated a “basic earthquake and disaster countermeasure plan” aimed at minimizing injury.
- Learning a valuable lesson from the Fukuoka earthquake that struck in March 2005, Isetan revised its “basic contingency plan for earthquakes” the following month. Specifically, members of the disaster contingency committee gathered information on the damage inflicted on the Iwataya (Fukuoka) part of the Isetan Group, and revised the plan based on this first-hand knowledge. All Isetan stores have since implemented earthquake training in accord with the modifications and reviewed disaster prevention equipment and where it is placed on each floor.
- Isetan instituted an “emergency call system” to precisely and swiftly confirm the safety of employees when an earthquake over magnitude six on the seismic scale strikes and to assist in restoring the store to working order again. In 2005, employee safety confirmation training was conducted five times at different stores.

Shopping with Peace-of-Mind

Earthquake-proof Retrofitting

In accord with the law regarding earthquake-proof retrofitting in Japan, Isetan has conducted thorough examinations of its stores and buildings that were constructed before the enactment of earthquake resistant design codes. Any structures deemed to be unable to handle massive stress are undergoing anti-seismic reinforcement. We are currently upgrading one part of the main building at the Shinjuku store (planned completion March 2007) as well as the Kichijoji store (planned completion September 2006). Thereafter, all Isetan stores will have cleared earthquake resistant design codes.

Approval for Special Exemption

The fire department has designated our Head Office and all branch stores as employing the correct maintenance and management procedures regarding building and fire safety, and accordingly, we have received approval for “special exemption” (fire safety certificate).

Standard First Aid Qualification

Isetan pours efforts into developing personnel with knowledge of first aid. At the Shinjuku store, a total of 850 employees (fiscal 2005) have attained the standard first aid qualification. In particular, the Shinjuku store, Kichijoji store and Matsudo store have been granted the highest certification for first aid training from local fire departments.

Voluntary Fire Brigade

A voluntary fire unit set up in each store works hard to ensure fire protection. The following people received outstanding reports from the voluntary fire drill examination committee in fiscal 2005.

- Tachikawa store female brigade: Best effort award
- Urawa store female brigade: Outstanding award
- Kichijoji store female brigade: Outstanding award
- Sagamihara store female brigade: Outstanding award
- Matsudo store female brigade: Outstanding award
- Sagamihara store male brigade: 2nd place
- Fuchu store female brigade: 3rd place

T O P I C S

Helping Disaster-stricken Areas

When a major calamity strikes, the Isetan Group donates money to the victims and the region through the Japanese Red Cross Society.

October 2005 Pakistan earthquake

June 2006 Central Java earthquake

Employees and Isetan

The relationship between a company and its employees in Japan is shifting away from the traditional lifetime employment pattern toward a more career based model that places greater emphasis on the freedom, choices and responsibilities of individual workers. In this new paradigm, the role of the company is to provide career-enhancing opportunities and a working environment that is conducive to growth. Isetan aims to treat the lifestyles of all employees with respect, and is an equal opportunity employer*. We are also at the forefront of efforts to combat workplace discrimination of all types.

* In line with the enactment of equal opportunity legislation in Japan in 1999, Isetan's "Positive Action" program features an internal initiative to eliminate discrimination in the workplace, whether on the basis of gender, age or physical ability.

■ Number of full-time Isetan employees (non-consolidated): 3,870 (as of April 2006)

(Average age: 40 yrs 8 mths; average length of service: 19 yrs 9 mths)

Males: 1,673 (43.2%)

Average age: 42 yrs 6 mths

Average length of service: 20 yrs 5 mths

Females: 2,197 (56.8%)

Average age: 39 yrs 4 mths

Average length of service: 19 yrs 2 mths

■ Total Number of Employees (As of April 2006)

Full-timers	3,870
"Mate" employees	944
"Some-timer" employees	3,136
Others	240
Total	8,190

"Some-timer" Employee System

The "Some-timer" system comprises contract employees who work between 12~35 hours per week. It was implemented in 1988 to enhance personnel productivity by utilizing only the number of people required at a certain time and place. They undertake such roles as sales, sales assistants, point-of-sale (POS) system operators, store guides, telephone directory assistance and product transportation, as well as certain other simple jobs and administration-related work. As of April 2006, 3,136 people were registered as "sometimer" employees. Isetan has been using the "sometimer" system for "Mate" employees involved in sales since October 2002 as a means to boosting motivation and enhancing productivity.

"Mate" Employee System

"Mate" employees are contract workers whose primary job is over-the-counter sales, mainly in clothing and cosmetics. The system was introduced in February 1998 to enhance sales services, while promoting differentiation and voluntary Merchandise. In April 2002, we started recruiting store leaders. We have been gradually broadening the scope of the concept to include specialty areas such as outside sales (from October 2003) and administration (from October 2005). The number of "Mate" employees was 944 as of June 2006.

Re-employment System

In October 2000, Isetan introduced a system for "elderly employees" that allows them to be rehired after statutory retirement age and work until 65 years of age. People work with flexible times and have been matched to the job that best suits them. As of April 2006, a total of 159 people were working at Isetan under such arrangements.

From April 2006, "Some-timer" and "Mate" employees will also be eligible to work until 65 years of age.

Career Path for full-time Employees

In October 2005 Isetan started a system in which it promotes certain "Mate" employees every year who display leadership skills and a high degree of independence to become full-time employees. Eight people were employed at the start of the fiscal year.



Company initiation, October 2005

Autonomous Career Self-Development Support and Positive Action Implementation



Aspects of the "Positive Action" Program

Isetan wants to help workers actively pursue and develop careers that realize potential, rather than simply providing an inflexible career path that encourages only passive contribution. Our aim is to provide the right opportunities, means and environment to support people as they develop their careers proactively through self-actualization.

In October 2001, Isetan established the "Challenge-Career" system to fulfill these objectives. This system has two major components. In the first component, the company advertises internally to fill a variety of positions that form part of more independent career tracks. These positions demand a high degree of creativity and drive. This system helps the company to identify and retain talented people, who in turn receive support from Isetan to develop their own career path within the company. The second component of the "Challenge-Career" system places emphasis on individual drive and career preferences.

As part of our efforts to create an environment in which diverse personnel can maximize their potential, we initiated the "Positive Action Promotion Committee" in April 2003. This body aggressively encourages personal change from the perspectives of both knowledge and systems.

Supporting Both Work and Family

In swift response to new social demands that include the enactment of the Law for Measures to Support the Development of the Next Generation, Isetan has beaten other companies in implementing various systems related to childcare and nursing care. At the moment, around 20% of female employees on the company register have taken childcare leave or accepted other similar assistance. We support both work and family through the creation of an environment that ensures everyone can continue working.

[Isetan's Employee Support Programs]

Year introduced	System	Details	Legal standard	Beneficiaries (5-yr ave.)
1956	Maternity leave	Paid leave: 8+8=16 wks (pioneering within Japan)	6+8=14 wks; paid leave non-compulsory (exc. 6 wks post-natal)	
1971	Childcare leave	3yrs per child up to age 4; total leave the longer of 4yrs or legal limit, depending on number of children	Until child turns 1	1,132 total (59.8/yr)
1982	Caregivers' leave	Once per family, up to 1 yr	Up to 3 mths	36 total
1989	Childcare employment plan	5-6-hour working day until child in elementary school; max. 8 yrs incl. childcare leave; period extendable until child is 3	Position must have short working hours until child is 3	616 total (47.4/yr)
	Caregivers' employment plan	5-6-hour working day; once per family, up to 1 yr	Max. 3 mths, incl. caregivers' leave	94 total
2001	Childcare flexible employment plan	No overtime/guaranteed early shift preference for those with children up to 3rd grade		70 total
2002	Returning employee seminars (for working mothers)	Designed for those returning to work after childcare leave	Law requires employers "to make efforts"	57
2003	Child-nursing leave	Max. 5 dys/yr unpaid leave for nursing children up to elementary school		52 total
	Cafeteria plan	Point-based menu of support provided for childcare and care-giving services; 50% co-payments		
2005	Childcare leave (contract employees)	Leave to care for child up to age 1 (can extend to 1 yr 6 mths under certain circumstances)		
	Caregivers' leave (contract employees)	Up to 93 days per person for one care-receiver		
2006	Childcare leave (fixed-term contract employees)	Change to same system as full-time employees		
	Caregivers' leave (fixed-term contract employees)	Change to same system as full-time employees		

(figures accurate as of April 2006)

Employees and Isetan



Isetan Soleil Co., Ltd. – Special-Purpose Subsidiary

With disabled workers, our core philosophy is to look beyond disability and concentrate on ability. We actively seek to employ disabled people. In September 2004, we created a subsidiary called “Isetan Soleil Co., Ltd.” (name approved in March 2005), especially designed to expand our contribution to society by promoting employment for disabled people.

We aim to foster a supportive workplace where such people can show their talents, and we provide support to them when required in sales situations. Key jobs undertaken by them include assisting with the production of printed materials, sorting mail, filing payment vouchers and enclosing direct mail in envelopes. As of April 2006, 26 people with disabilities were employed.

Business Transfer to Isetan Career Design Co., Ltd.

Besides handling the dispatch of personnel to the Isetan Group and over 50 group companies, employee recruitment and development operations of head office and the main store were transferred to Isetan Career Design Company Limited in April 2005. To boost productivity in personnel-related operations, we are working to centralize and standardize areas concerning recruitment and education.

Our education department is striving to improve sales services throughout the entire department store industry by sponsoring a department store professional sales qualification system approved by Japan Department Stores Association (JDSA).

Held Seminars for Managers at Sales Partners

Isetan has been conducting seminars once a year for managers of Shinjuku store’s sales partners since 2002 as these partners are seen as integral to sales at the store. The seminars aim to boost understanding of the philosophy of Isetan and the Shinjuku store so the managers can permeate it to other staff members; and to promote knowledge and idea exchange with people from other stores. Around 40 people participated in the seminars in 2005, which included lectures and discussion on the current condition of the Shinjuku store and case examples of how to use customer opinion.



Internship initiation ceremony 2005

Isetan Summer Internship Program

Isetan has set up an internship program for university student and postgraduate students to give them the opportunity to gain job experience at a company. Besides gaining insight into the business world, they are able to assess their own ability and aptitude to help in future job selection. The program - a first within the Japanese department store industry - was introduced in the summer of 2001 so that students could learn about the department store industry as well as what kind of work is performed at Isetan. Third year university students and first year postgraduate students participate in the scheme each year, with around 280 people taking part in the course by the summer of 2006.

From the summer of 2006, we started a new two-day summer school program in which managers directly involved in some of the main events at Isetan such as the Salon du Chocolat Fair delivered lectures on the events. This provides participants with a first-hand look at how the events are planned and run. Around 150 people were involved in the program in its first year.

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 With our communities, we share our responsibilities as good corporate citizens.

Shareholders and Isetan

Isetan has gained the trust of its shareholders by conducting stable and wholesome corporate activities. Our aim is to build relationships that people can rely on.

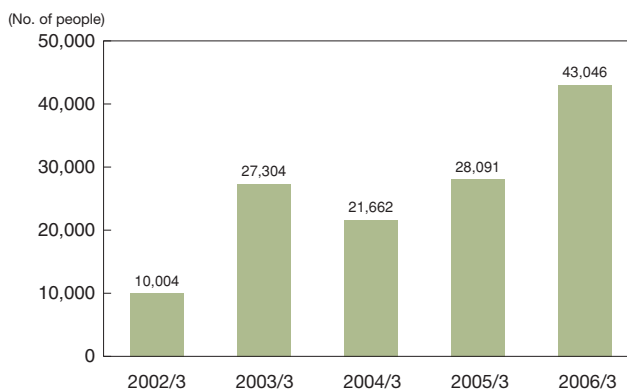
Isetan Shareholders

■ Number of shareholders: 43,046 (as of March 31, 2006)

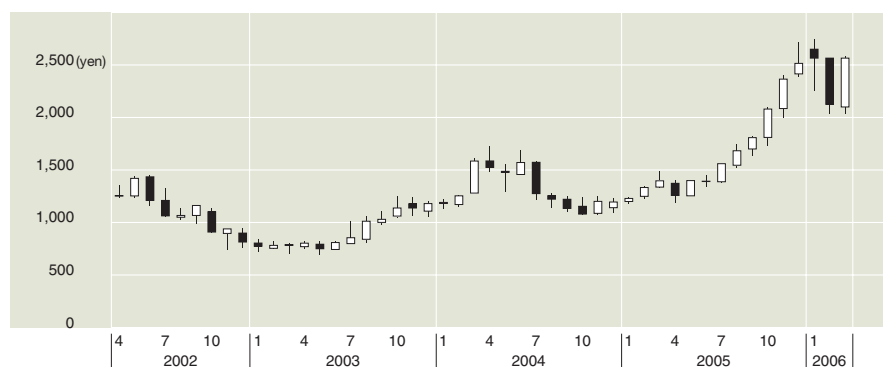
■ Major Shareholders (as of March 31, 2006)

Name	No. of Shares Held (thousands)	Equity Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	17,828	7.95
Japan Trustee Service Bank, Ltd. (Trust Account)	11,496	5.12
Japan Trustee Service Bank, Ltd. (Onward Kashiyama Co., Ltd. Retirement Benefit Trust Account Re-entrusted by The Sumitomo Trust & Banking Co., Ltd.)	10,384	4.63
Meiji Yasuda Life Insurance Company	6,850	3.05
NIPPONKOA Insurance Co., Ltd.	5,189	2.31
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,090	2.27
Koryu Co., Ltd.	4,796	2.14
Shimizu Corporation	4,500	2.01
Mitsubishi UFJ Trust and Banking Corporation	3,696	1.65
Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,606	1.61

■ Number of Shareholders by Fiscal Year



Share Price



	FY2001	FY2002	FY2003	FY2004	FY2005
Year's high	¥1,397	¥1,451	¥1,615	¥1,728	¥2,750
Year's low	¥996	¥705	¥691	¥1,070	¥1,189
Price-earnings ratio (consolidated PER)	22.96 times	22.95 times	—	24.74 times	30.82 times
Earnings per share (consolidated EPS)	¥56.32	¥34.42	¥-13.93	¥56.46	¥83.23

Return to Shareholders

Dividend Policy

At Isetan, we view returning profits to shareholders as one of management's most important agendas. Historically, our fundamental policy has been to increase shareholder equity from the perspective of strengthening financial standing while maintaining a stable level of dividends. Accordingly, from fiscal 2005, we introduced a dividend policy in which dividend payments are linked to performance in order to further expand profit returns for all shareholders. Under this policy, we aim to continuously provide a stable annual dividend of ¥10 per share over the long term. We will also allocate 30% of the amount of income that exceeds ¥10.0 billion on a non-consolidated basis in a given fiscal year to profit distribution. As a result, in fiscal 2005, Isetan paid a year-end dividend of ¥9 per share and an interim dividend of ¥5 per share, making a total dividend for the year of ¥14 per share.

	FY2001	FY2002	FY2003	FY2004	FY2005
Dividend amount	¥10	¥10	¥10	¥12*	¥14
Dividend payout ratio	19.90%	56.82%	—	22.12%	24.00%

* Record highs in recurring income and net income were posted on a non-consolidated basis in fiscal 2004. A bonus dividend of ¥2 per share

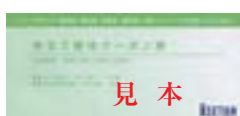
Enhanced Special Benefit Plan for Shareholders

To make it easier for individual investors to invest in the company, Isetan reduced the number of shares contained in each share unit from 1,000 to 100. In addition, we set up an enhanced special benefit plan for shareholders so that they can enjoy the Isetan shopping experience even more.

Details of Special Benefit Plan

Isetan issues shopping discount coupons, discount coupons and Queen's Isetan shopping discount coupons to shareholders with 100 shares or more, and complimentary food and beverage ticket worth ¥3,000 to shareholders with 1,000 shares or more.

- Mailing period: twice yearly, beginning of July for shareholders as of the end of March and beginning of December for shareholders as of the end of September.
- Applicable stores: Isetan Company Limited (7 stores), Shizuoka Isetan, Niigata Isetan, Kokura Isetan, West Japan Railway Isetan (complimentary ¥3,000 food and beverage ticket: Shinjuku Isetan, Shizuoka Isetan, Niigata Isetan). Queen's Isetan shopping discount coupons can be used at any Queen's Isetan store.



- (1) **Shopping discount coupon (for shareholders with 100 shares or more)**
 - 10% discount on cash purchases (some items do not apply) totaling over ¥3,000 (excluding consumption tax)
 - 3~60 coupons depending on number of shares held
- (2) **Discount coupon (for shareholders with 100 shares or more)**
 - 10% discount on cash purchases totaling over ¥3,000 (excluding consumption tax) at Eat Paradise; hour extension on free parking
 - 1~2 booklets (10 discount coupons each and 6 free parking coupons each) depending on number of shares held
- (3) **Complimentary food and beverage ticket worth ¥3,000 (for shareholders with 1,000 shares or more)**
 - Allocated for food and beverages at Eat Paradise
 - One ticket to all shareholders with more than 1,000 shares
- (4) **Queen's Isetan shopping discount coupon (for shareholders with 100 shares or more)**
 - 10% discount on cash purchases totaling over ¥3,000 (excluding consumption tax)
 - 20 coupons to all shareholders with 100 shares or more

IR Program Projects True Corporate Image

Isetan's investor relations (IR) activities aim consistently to convey a fair and accurate image of the company to shareholders and other investors through prompt disclosure by management of all relevant information, so that those who supply Isetan with capital can make informed investment decisions.

Investor and Analyst Disclosure

In an age where corporate value is measured by investors and shareholders in terms of the share price, companies are obliged to make timely and appropriate disclosure of information to financial markets. With the goal of providing investors and analysts with cogent information to aid investment decisions, Isetan strives to compile, organize and disclose a wide range of information spanning business strategy, sales data, financial data and industry-related figures.

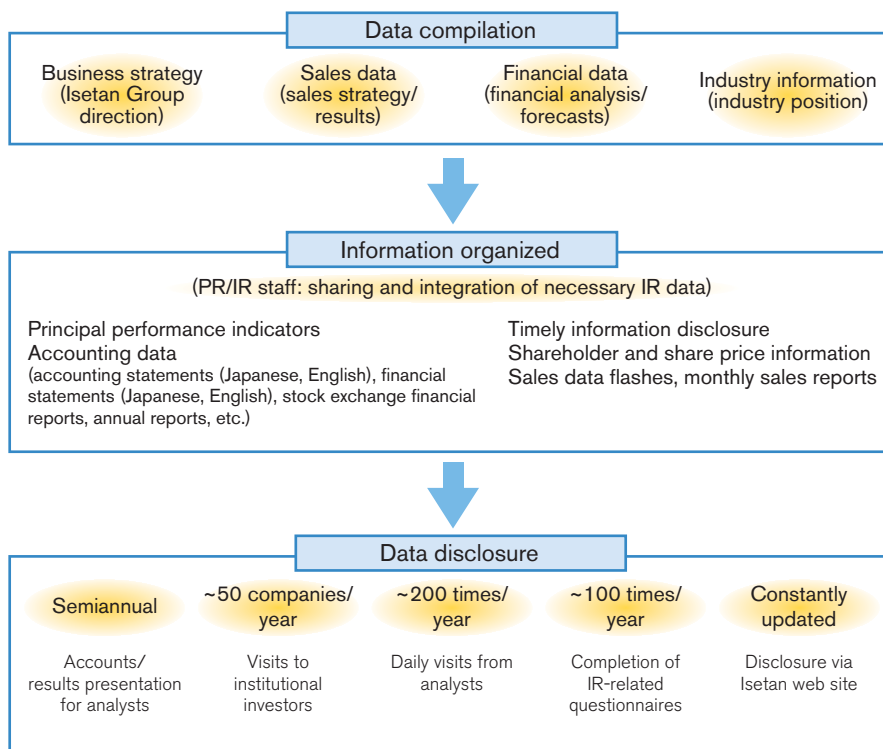
Financial releases by the Isetan PR and IR departments are not just limited to official stock exchange submissions and quarterly accounting statements. We also hold regular meetings with investors and analysts to discuss financial performance, and disclose a wealth of information via our web site.

Long-term Debt Rating of Key Retailers (As of end-July 2006)

	Rating and Investment Information, Inc. (R&I)	Japan Credit Rating Agency, Ltd. (JCR) ^{*1}	Moody's Japan K.K. (MDOODY'S)	Standard & Poor's (S&P)
Isetan Company, Limited	A	Ap	Baa1	BBB+
Takashimaya Company, Limited	BBB+	A-	-	BBB-
Mitsukoshi, Ltd.	-	BBB	-	BB-
The Daimaru, Inc.	BBB+	BBB+p	Baa3	-
Matsuzakaya Co., Ltd.	-	BBB	-	-
Hankyu Department Stores, Inc.	BBB+	A-	A3	-
MARUI Co., Ltd.	AA-	-	A1	A-
Ito-Yokado Co., Ltd.	AA ^{*2}	AA+	Aa3	AA-
AEON Co., Ltd.	A+	-	Baa1	A-

^{*1} The letter p refers to instances where evaluation has not been requested.

^{*2} R&I did not rate Ito-Yokado, so the rating from Seven & I Holdings Co., Ltd. has been included.



FY2005 analyst's meeting



Timely online disclosure of IR data
<http://www.isetan.co.jp/icm2/jsp/isetan/financial/index.jsp>

With our customers, we share empathy and technology.
 With our fellow employees, we share the desire to create an enjoyable work place.
 With our shareholders, we share the rewards of business well done.

With our suppliers, we share mutual growth and prosperity.

With our communities, we share our responsibilities as good corporate citizens.

Suppliers and Isetan

At Isetan, we regard our suppliers as our “joint partners in responding to the demands of customers.” Retailing is about providing what customers want to buy, so we place a great deal of importance on collaborative programs with suppliers to jointly develop products based on customer feedback. Since the core aim is to put the customer first, we view our relationships with suppliers in terms of creating win-win opportunities for profit generation, so that we can prosper together.

Developing the Ultimate Merchandising

With both the department store and the apparel industries in Japan struggling against harsh market conditions, we believe that closer cooperation is necessary with suppliers to cater to the demands of customers. If a customer comes to an Isetan store but fails to find the product they want because it is out of stock, they leave dissatisfied and we cannot build any trust. We are using POS systems to prevent such situations through cooperation with suppliers.

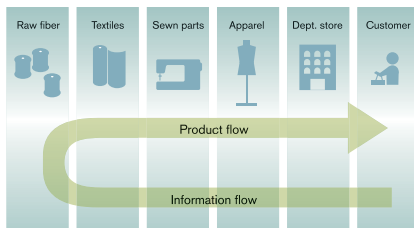
We are also implementing supply-chain management (SCM) solutions to optimize and integrate the entire process from manufacture to sales, which involves revising the relationships between the department store and apparel/production firms from a collaborative perspective. SCM demands that the retailing outlet closest to the customer accurately forecasts demand, while the apparel/production firms institute flexible but speedy product supply systems. This frequently involves rethinking processes within each sector and necessitates rapid exchange of information via shared networks to facilitate supply operations and to build mutual trust.

Developing new, more balanced supply relationships

Sales floor research undertaken at Isetan has revealed that non-availability of the desired color or size translates into a missed purchasing opportunity in the fashion sections of our stores. Such out-of-stocks represent lost sales. For the apparel industry, however, such opportunity losses are outweighed by the inventory risk posed by the threat of returns. To combat this situation, Isetan and its apparel suppliers worked together to formulate new supply contracts in 2001. These new contracts attempt to build mutual trust by making more explicit the various responsibilities of both sides, and commit Isetan to taking certain amounts of inventory in return for specified production and delivery guarantees. This predictably leads to greater satisfaction from a customer perspective.

In the 2001 fall/winter season, Isetan was the first in the industry to introduce these new supply contracts, taking advantage of the ADO (All-Nippon Department Stores Development Organization) alliance (see p.74 for details), a move that has helped to reduce the amount of lost sales.

Supply Chain

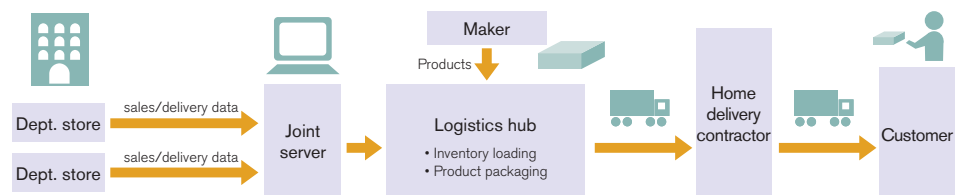


Integration of food gift operations

Japan has two traditional gift-giving seasons (chugen/seibo), when it is customary to send luxury food gifts. Isetan is collaborating with Hankyu Department Stores Inc., stores in the A. D. O network alliance, wholesalers and food manufacturers to construct an SCM solution for the biannual gift-giving seasons. Replacing the previous system in which department stores stocked and delivered the various food gift sets separately, the new system introduced in mid-2003 features common product ranges and catalogs, plus an integrated logistics system organized around special distribution hubs. Reduced out-of-stocks through centralized merchandise inventory help ensure that all companies involved boost their profits while keeping customers satisfied.

There were 16 participating companies in fiscal 2005, five distribution hubs nationwide and total sales of around ¥30.0 billion.

Common product/data flows for integrated gift operations





Shop on the third floor in Shinjuku store.



Apparel for the fall/winter collection 2006



IC tag reader (above)



Smart shelf in the wine section (below)

Collaboration Brand: CORNICE

In conjunction with Sanyo Shokai Ltd., Isetan established a new brand for the fall/winter collection in 2005 called CORNICE. The brand has been introduced at Isetan's seven major stores as well as at 11 ADO (All-Nippon Department Stores Development Organization) stores and Hankyu department stores.

In launching the new brand, Isetan fused one of its greatest assets, customer feedback, with the product development capabilities of Sanyo Shokai Ltd., Eco-conscious products have been developed using the color dye technology of Cihon Tec, which uses various natural dye compounds.

Brand Licensing Business with SAZABY Inc.

Isetan and SAZABY Inc. joined hands to establish ISL Inc., which will focus on domestic licensing of brands and the sale of lifestyle-related products. Isetan and SAZABY Inc. will work to develop new brands in Japan and overseas. Also, by leveraging SAZABY's expansive store network and its licensing production know-how and Isetan's established sales channel control capability, we aim to enhance brand originality and boost customer satisfaction.

In March 2006, the company will exclusively handle the import, sale and licensing business of the French apparel brand "Zading & Voltaire". Isetan will provide guidance and support related to store development, product development and services, while SAZABY Inc. will provide guidance and support related to store openings, network development, store design and other general managerial areas. The shop opened on the second floor of the main building in Shinjuku in August 2006.

"Japanese Future Store Project" and Initiatives at Queen's Isetan

The "Japanese Future Store Project" promotes electronic tag validation testing for realization as a future store service. It is proactively supported by Ministry of Economy, Trade and Industry. In this project, trials are being undertaken at various retail stores to provide futuristic services using IC tags. These trials include a smart shelf in the wine section of the Queen's Isetan Shinagawa store since November 2005.

1. Smart shelf: When a customer picks up a sales item with an IC tag, a nearby computer shows information on where the wine was produced, the type of grape used and when it was harvested, plus the cheese and so on that fits the wine best.
2. Smart cart: The smart cart (shopping cart) downloads the customer's shopping list onto its screen, alerts the customer to promotions and provides information on related products as its IC tag reader takes information from the tags on the shelves.
3. Express checkout: Scanning a series of consumer goods with IC chips in one single data transaction process and the use of digital cash to make payment fast and efficient reduces waiting time at the register.

With our customers, we share empathy and technology
With our fellow employees, we share the desire to create an enjoyable work place.
With our shareholders, we share the rewards of business well done.
With our suppliers, we share mutual growth and prosperity.

With our communities, we share our responsibilities as good corporate citizens.

The Local Community and Isetan

The Isetan Group operates within, and is supported by, local communities. Every Isetan store aims to be the premier department store in its locality, and we take seriously our responsibilities as a contributor to community life. Our aim is that Isetan become a focal point for local residents to gather and hold a variety of lively and fun events.



Training to assist people getting home



Cleaning the streets around Shinjuku

Ahead of the Opening of the Tokyo Metro No. 13 Line

In May 2005 and March 2006, Isetan inspected the construction site of the Tokyo Metro No. 13 Line, which is being built by Tokyo Metro Co., Ltd. and which is expected to open in March 2008. Engineering work on the subway is almost complete, so work on laying the tracks will begin in September 2006.



Inspection of the construction site of the Tokyo Metro No. 13 Line in May 2005.

Isetan has participated since the planning stage in the project, which aims to vitalize the area around Shinjuku San-chome. We have been working hand-in-hand with the local community to resolve problems that may arise in the future in the construction of a new Shinjuku town. This year, we are constructing an elevator in line with expansion of the South East exit basement floor while also even out the floor on the food hall floor. This work aims to increase customer convenience together with the new subway.

Participated in Information Sharing Training to Assist People Getting Home After an Earthquake

January 17, 2006 (Tuesday) was designated as “earthquake prevention and volunteer day” to mark the 11th anniversary of the Hanshin Earthquake. On this day, the Chiyoda-ward authorities together with The Crisis Management & Preparedness Organization, a non-profit organization, implemented the “D-PAC” project, which aims to create a system of cooperation between the community and the company for when an emergency occurs. Training on information sharing to assist people getting home and simulation walks home were conducted. Isetan participated in the training as a cooperating member of the Shinjuku community. Here, training was held on how to provide and share information to help people get home quickly from the city center and protect their safety if an earthquake strikes under Tokyo.

Shinjuku Clean Plan

In December 2005, in response to a plea from the Shinjuku municipal government, 988 people gathered from local business associations, town councils and 48 different businesses to partake in a special cleaning exercise of the surrounding area of Shinjuku station.

Employees from the general affairs department, workers’ union and Isetan Building Management Service Co., Ltd. (IBMS) participated in the project. The cleaning started at 7:30 in the morning and lasted about an hour. Areas targeted included the main street in Shinjuku, and around the Isetan main building, Men’s Annex and up until More. Efforts resulted in a much cleaner and safer environment for people to enjoy their shopping.

Isetan Foundation

Funded by a bequest from Tanji Kosuge, the second president, the son of Isetan’s founder, the Isetan Foundation was originally established in August 1963. Its mission is to contribute to society by providing scholarships to deserving Japanese students or foreign students that lack the economic, and thereby help to develop talented people who will become contributors to society. The foundation also provides research grants for projects that aim to improve national culture and commerce. In the year ended March 2006, it disbursed a total of approximately ¥10 million in university scholarships to 29 students.

Active Participation in Community Events

Based on our commitment to be a good corporate citizen, each Isetan store actively supports local events, beautification programs, and initiatives to boost safety, fight crime and prevent disasters.

[Examples of Isetan Participation in Local Events]

Shinjuku store

- Shinjuku matsuri (festival)
- Noh performance in Shinjuku Gyoen (park)
- Shinjuku Art Paradise
- Shinjuku Eiser festival (Okinawan culture)
- Hanazono Jinja (shrine) Festival



Tachikawa store

- Showa Memorial Park fireworks
- Tachikawa Suwa matsuri (festival)
- Tachikawa Yoito matsuri (festival)
- Tachikawa Music Festival

Kichijoji store

- Kichijoji Welcome Campaign (spring/fall)
- Cleanup around store and in front of station
- Local environment beautification and crime-prevention patrols

Matsudo store

- Matsudo matsuri (festival)
- Local fireworks display
- Matsudo Clean Campaign

Urawa store

- Urawa matsuri (festival)
- Local temple summer festival
- Urawa Odori (dance festival)
- Saitama-shi Unagimatsuri (festival)
- Christmas illumination in front of station



Sagamihara store

- Local fireworks display
- Sagami-Ono Mandou matsuri (festival)

Fuchu store

- “Darkness” festival
- Local chamber of commerce festival
- Fuchu Keyaki festival
- Citizens’ local beautification program



Shizuoka Isetan

- Shizuoka matsuri (festival)
- Participation in stalls at festival time
- Donation to Shizuoka Consumer’s Association



Niigata Isetan

- Niigata matsuri (folk song and dance festival)
- Participation in Niigata Winter Shoku no Jin (Food Festival) — Tojitsuza
- Cleanup campaigns in shopping streets and neighborhoods
- Environment cleanup and crime prevention activities

Kokura Isetan

- Participation in fire prevention training for females
- Opening of Wasshoi Shrine
- Local beautification program
- Wasshoi YOSAKOI Kita Kyushu 2006 (dance festival)



Protecting our precious environment for generations to come

The Customer always comes first.

We should strive to protect our precious environment by carefully conserving it for future generations.



I Garden map

Rooftop Garden on the Main Building

In June 2006, the “I Garden,” was opened on the rooftop of the main building of the Shinjuku Store. The garden is covered with green grass and seasonally blooming trees and has a small path for walking, providing a relaxing and comfortable atmosphere for guests. The garden was also built to contribute to global and urban environmental efforts such as urban greenery and tackling the heat island effect.



“Flower and Plant Guide”
“We offer the guide to “I Card” members at the “I Kids” counter on the 6th floor of the main building.

Overview of “I Garden”

- Area: 2,050m² (including the deck)
- Number of plant species: 210
- Barrier-free facilities: Access for guests with baby carriages and wheelchair users.
- Greening technology: Planting in pot made of EPS (expandable polystyrene foam), lightweight artificial soil, use of South Sea wood (to lessen the weight), use of porous stone for water evaporation, etc.
- Opening hours: March to October 10:00 a.m. - 7:00 p.m.; November to February 10:00 a.m. - 6:00 p.m.
- Greening technology was supervised by Isetan Building Management Service Co., Ltd. (IBMS), a group company of Isetan.



Ways to Enjoy “I Garden”

- “Hana Goyomi”: We produce a brochure, “Hana Goyomi”, illustrating the major flowers in each season. Detailed information on flowers can be obtained by inputting the QR code (a kind of 2D symbology developed by Denso) from a mobile phone.
- “Flower and Plant Guide”: We offer an IC handset with our “Flower and Plant Guide”. The handset contains a guide and quiz about plants and flowers using visual images and oral description and makes ideal entertainment for families with children. The handset uses wireless technology and obtains information by communicating with each IC (The guide was developed in cooperation of YRP Ubiquitous Networking Laboratory).

The Benefits of Rooftop Garden

- 1) Helps to mitigate temperature rise on the ground (Mitigates the heat island effect)
In the presence of plants and soil, the thermal insulation of concrete surfaces is improved. Together with evaporation of water, this helps mitigate the heat island effect. It is estimated that plants in the I Garden absorb approximately seven tons of carbon dioxide a year through photosynthesis.
- 2) Energy conservation
Since the plants absorb heat of the sun in the summer and the soil retains heat in winter, a rooftop garden allows the efficient use of air-conditioners in the building, and thereby contributing to reduced energy consumption. Plants are also said to purify the air and have a healing effect.



Opening ceremony
(Nobukazu Muto
President of Isetan)



Planting trees at the
ceremony



Children from Hanazono
Elementary School in the garden



Visitors at Isetan Ecology
Exhibition



The “Furoshiki workshop” in
Isetan Ecology Exhibition

Opening Ceremony

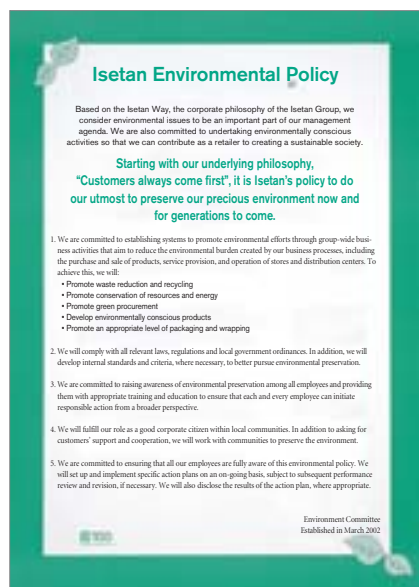
A planting ceremony was held to celebrate the opening of the I Garden on June 1st. Participants included Hiroko Nakayama, Mayor of Shinjuku Ward; Tetsuya Nomura, President of the Shimizu Corporation, which built the garden; and students of the sixth grade class at Hanazono Elementary School in Shinjuku. Ken Sakamura, Professor of Tokyo University (Chairman of YRP Ubiquitous Networking Laboratory), who cooperated in the design of the Flower and Plant Guide, made a speech.

“Isetan Ecology Exhibition”

“Isetan Ecology Exhibition” was held to coincide with the opening for “I Garden”. The exhibition illustrated whole picture of the I Garden with panel boards and scale models. The exhibition included “Heat island effect” by Shinjuku Ward, “Forest management to reduce pollen” by Tokyo Metropolitan Government, and “Energy-saving technology” by Shimizu Corporation. We held environmental campaigns in conjunction with Environmental Month in June. The campaigns included display about the history of wrapping and the introduction of “furoshiki” (a square piece of cloth) to launch “Smart Wrapping” (see page 43), and a workshop to introduce “furoshiki”. We displayed our environmental initiatives including environmentally conscious products and information about recycling and, power generation utilizing food waste (see page 40). Many visitors attended and shared their opinions that Isetan should strive to promote Smart Wrapping, environmentally conscious products, energy conservation and waste reduction.

Long-Term Environmental Action Plan (through March 2011)

In 2002, we developed a long-term action plan based on the Isetan Environmental Policy established in 2002, specifying the goals of Isetan's environmental activities. The long-term action plan runs through fiscal year 2010 (ending March 2011) by reference to the target year adopted in the Kyoto Protocol and the action plan of the Japan Department Stores Association (JDSA). To achieve the ultimate goals, action plans for each year are set up and implemented. We have made steady progress toward this plan.



The Isetan Environmental Policy

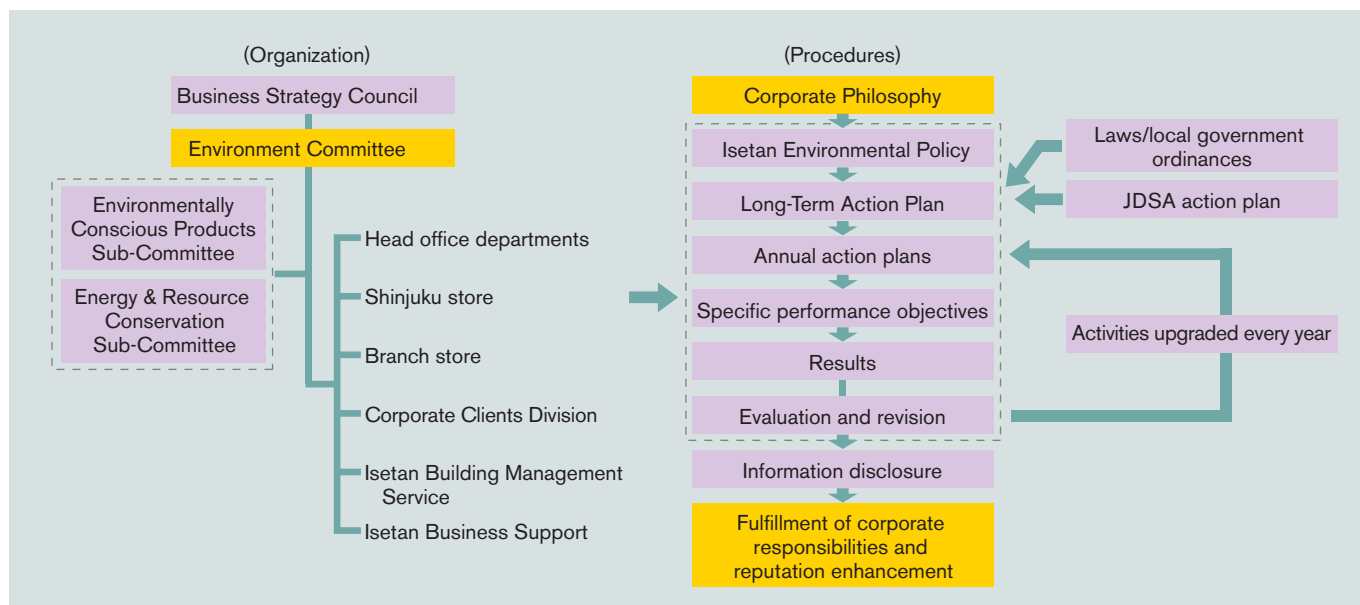
Long-Term Action Plan

- (1) Offer safe products that can earn the trust of our customers. Place greater focus on environmental consciousness in our product line-ups.
- (2) Promote simplified and appropriate wrapping and packaging, and seek customers' cooperation to achieve waste reduction. Use environmentally conscious materials for packaging and wrapping.
- (3) Target a 60% reduction of waste volume sent for final disposal per unit of sales by 2010 from the 1999 level. To this end, promote reuse, recycling, and reduction of waste generated by our business operation.
- (4) Save resources with office supplies by ensuring the use of centralized supply system, and promoting shared use and reuse of office supplies.
- (5) Reduce the paper consumption at the office by streamlining business processes. Use recycled paper for wrapping, printed material and documents.
- (6) Promote green procurement, the purchase of environmentally conscious products, through our purchasing departments for office supplies, equipment and other items.
- (7) Target a 6% reduction of energy consumption and CO₂ emissions per floor area and business hour by 2010 from the 1999 levels, to save energy and reduce pollution.

Systems to Promote Environmentally Conscious Activities

A task force addressing environmental issues was in place from 1991 to 1994. The team members' dedication brought several tangible benefits. Currently, our Environment Committee plays this role and leads Isetan's environmental activities. The Committee is supported by two sub-committees that focus on the issues of energy/resource conservation and environmentally conscious products.

Isetan's environmental initiatives include a group-wide "green month" campaign in February, June and October every year. During this campaign, greater focus is placed on environmental activities, such as energy-saving, waste reduction through waste separation, recycling, appropriate packaging, and reduction of paper consumption. Annual performance reporting and an activity review helps to make our initiatives more effective and efficient.



FY2005 Environmental Action Plan Progress/ FY2006 Environmental Action Plan

(Scope: Our seven stores)

		FY2005 Action Plan	FY2005 Targets	FY2005 Results	Achievement status	FY2006 Action Plan	FY2006 Targets
Energy conservation	Reduce energy consumption*1	0.3% reduction per unit of energy consumption*2	2,164.45MJ/ 1,000 m ² -h	2,140.1MJ/ 1,000 m ² -h	○ (1.4% reduction)	0.7% reduction per unit of energy consumption	2,125.4MJ/ 1,000 m ² -h
	Reduce water consumption (piped water and groundwater)*3	Maintain year-on-year level per unit of energy consumption*2	1.74m ³ / 1,000 m ² -h	1.67m ³ / 1,000 m ² -h	○ (4% reduction)	Maintain year-on-year level per unit of consumption	1.67m ³ / 1,000 m ² -h
Waste reduction/ recycling promotion	Reduce final disposal of waste	3% reduction per unit of output*4	11.5kg/ ¥1 million	11.3kg/ ¥1 million	○ (6% reduction)	24% reduction per unit of output	8.5kg/ ¥1 million
	Increase recycling rate	1% increase per unit of output*4	61%	62%	○ (2% increase)	9% increase per unit of output	71%
Resource conservation	Reduce office paper, including copy paper	Maintain year-on-year level	178t	181t	× (1.7% increase)	Maintain year-on-year level	181t

Notes:

1. Energy consumption refers to the total amount of electricity, gas, heavy oil, light oil, LPG, steam and water consumption converted to a calorie figure.
2. The denominator used for calculating the basic unit of energy consumption, CO₂ emissions and water consumption (1,000m²h) is calculated by multiplying total store area by average operating hours.
3. In FY 2005, we updated the target for water consumption, and included well water use in addition to piped water use so as to capture the total volume of water consumption.
4. The denominator used for calculating the basic unit of waste is the total sales of the fiscal year.
5. The figures in parentheses show the change from the actual figures posted in FY 2004.

FY2006 Environmental Action Plan

1. Product-related activities

- (1) Implement stringent quality control and accurate, easy-to-understand product labeling to promote customers' confidence in our products.
- (2) Work closely and actively with our "environmentally conscious" suppliers in selecting national brand products and developing our private brand products.

2. Promotion of Smart Wrapping*

Promote simplified and appropriate packaging and wrapping with the cooperation of customers. e.g. simplified gift wrapping for traditional semiannual gift-giving season, zero-wrapping for non-present items, and use of bigger plastic/paper bags instead of smaller individual packaging.

*Smart Wrapping: To encourage customers to choose appropriate wrapping for individual purposes in order to reduce packaging and wrapping.

3. Waste reduction and recycling

- (1) Promote recycling, reuse and reduction of waste. Reduce waste volume sent for final disposal per unit of sales by 24% year-on-year. (Unit of output: ¥1 million in net sales)
Numerical goals: Total amount of waste for final disposal: 11.3kg/¥1 million → 8.5kg/¥1 million
Recycling rate: 62% → 71%
- (2) Promote increased use of same kind of hangers among department stores to reduce waste.

4. Resource conservation

- (1) Promote reduction in office paper consumption, including copy and computer paper through PC utilization, streamlining business processes, and a shift to electronic accounting slips.
Numerical goal: 181 tons → Maintain on year-on-year level
- (2) Review and revise wrapping/packaging items in terms of materials, density, shape and design to promote a shift to more environmentally conscious items wherever possible.

5. Green procurement

- (1) Promote green procurement of office supplies, equipment and other items for offices and facilities, based on the Isetan Green Procurement Standards and increase green procurement ratio by 2%.
- (2) Utilize used paper for packaging, printed materials and documents. Seek to confirm the traceability of raw materials as much as possible.

6. Energy conservation

- (1) Reduce energy consumption by 0.7% (Unit: Retail space, 1,000m² per operating hour)
Numerical goal: 2,140MJ/1,000m²-h → 2,125MJ/1,000m²-h
And maintain water consumption on year-on-year level.
- (2) Introduce low-emission vehicles, with the cooperation of suppliers, for distribution and sales.

FY 2005 Environmental Accounting

■ Overview

The objectives of environmental accounting are twofold: (1) to analyze the cost-effectiveness of our environmental preservation activities, and use the results of this analysis to formulate appropriate targets for such activities; and to conduct performance evaluations; and (2) to promote effective environmental activities by understanding the environmental risks that we are exposed to and identifying and implementing appropriate measures against them.

To help these objectives be achieved, we drastically revised the content of our environmental accounting last fiscal year.

Our environmental accounting for FY 2005 demonstrates the costs and benefits of each major environmental activity as well as those of the overall activities. To further clarify the relationship between the costs and benefits, we have presented the costs contracted with the benefits in the table below.

Through this environmental accounting, we strive to provide a better overview of Isetan's environmental preservation activities and enhance communication with society.

■ FY 2005 Environmental Accounting Results

The results of our environmental accounting for FY 2005 are as follows: The amount of investment in environmental preservation activities was ¥781 million. A large proportion of this investment was used on pollution prevention (¥283 million), rooftop gardening (¥243 million), energy conservation (¥220 million), and installation of biopower for food waste (¥15 million).

Expenses amounted to ¥713 million. The main expense was ¥530 million on outsourcing costs on waste.

The benefit of each of our environmental preservation activities totaled ¥177 million. Of this amount, ¥158 million was saved in the reduction of water consumption by utilizing well water.

In terms of environmental preservation effects, we achieved a 5.4% reduction in waste from the previous year through promotion of recycling food waste. There was also a 13.1% increase in our green procurement ratio for office supplies from the previous year. We will continue to tackle energy conservation by introducing an ESCO project and other measures.

Environmental Preservation Costs

(Unit: thousands of yen) Nature and Effect of Major Environmental Preservation Activities

Categories		Investments	Expenses	Main Activities	Effect
Environmentally conscious products	Development of environmentally conscious products (food, clothing and housing)	-	-		
Pollution prevention (legal/regulatory compliance)	Prevention of water pollution	2,584	370	installation of bio-treatment system	-
	Prevention of air pollution		160		
	Management of chemical substances, including PCBs	4,505	7,456	Storage and management of PCBs	-
	Other pollution prevention (noise, vibration, smell, soil contamination etc.)	283,750	0	installation of low-noise equipment	-
Waste reduction and recycling	Outsourcing costs on final disposal of waste		241,812	installation of biogas power generation system utilizing food waste	-
	Outsourcing costs on recycling		298,183	Reduction of sludge (t)	-
	Other waste-related measures (internal efforts, Waste Disposal and Public Cleaning Law compliance, reuse)	15,656	1,157	Proceeds from sale of valuable resources	-
	Outsourcing costs on recycling of products required by Law for Promotion of Sorted Collection and Recycling of Containers and Packaging		20,506		
Greenhouse gas reduction and ozone depletion prevention	Energy conservation (ESCO projects, use of energy-saving equipment and materials)	220,041	5,816	Reduction of electricity consumption/costs (thousands of kWh)	725
	Rooftop gardening	243,148	30,553	Reduction of gas consumption/costs (m ³)	397
	Appropriate handling of CFCs		2,026		
Resource conservation	Water conservation	11,985	50,536	Reduction of water consumption/costs (thousands of m ³)	466
	Reduction of paper consumption	-	-	Reduction of paper purchasing costs by promoting electronic slips (kg)	3,938
	Reduction of use of containers and packaging	-	-	Income from sale of shopping bags	-
	Reduction of packaging material use (by sale of shopping bags)	-	731		
Logistics	Introduction of fuel-efficient, low-emission vehicles	-	-	Increased proportion of fuel-efficient vehicles Reduction of NOx and PM	- -
	Improvement of logistics efficiency	-	-	Outsourcing of product delivery and inspection Use of foldable containers	- -
Green procurement	Green purchasing of office supplies and fixtures	-	-	Establishment of green procurement standards	-
Environmental management activities	EMS (including management of Environment Committee etc.)	-	20,115	Obtained "Eco-Stage 1" Certification (Corporate Clients Division)	
	Environmental education	-	955		
	Environmental information disclosure	-	29,109	Held an environmental exhibition	
	Environmental advertising, participation in related events	-	1,263		
	Others	-	582		
Social contribution	Cooperation with local community on environmental protection, beautification	-	2,109	Cleaning of local community areas	-
				Donation of part of proceeds from sale of shopping bags	-
Total		781,669	713,439	Total	

• **Scope of Isetan Environmental Accounting Data collection period:**

Fiscal year 2005 (April 1, 2005 to March 31, 2006)

Boundaries of data collection:

Eleven companies- Isetan Co., Ltd., Isetan Building Management Service Co., Ltd., Isetan Business Support Co., Ltd., Isetan Data Center Company Limited, Shizuoka Isetan Company Limited, Niigata Isetan Company Limited, Isetan Institute Co., Ltd., Isetan I Card Co., Ltd., Isetan Career Design Company Limited, Isetan Soleil Company Ltd., and Isetan Travel Service, Inc. (including certain store tenants, distributors and suppliers).

Reference:

Environmental Accounting Guidelines 2005, by the Ministry of the Environment of Japan

Environmental Preservation Costs

- These costs include investments and expenses.
- The investment figures represent an aggregation of the environmental capital investments made during fiscal year 2005.
- Depreciation costs are not included.
- With respect to costs attributable to combined factors, the environmental-related portion, only to the extent that it is identifiable, is used for calculation. No propor-

tionate calculation is made.

- Personnel costs are calculated by multiplying the average personnel cost unit by the total time spent on environmental preservation activities

Individual Environmental Preservation Effects

- These effects are calculated based on the actual effects (revenue and cost reduction) arising from individual environmental preservation activities.



Environmental Preservation Effects

- These effects represent the difference between the total amount in the previous year and the total amount in the year under review.

Other Notes

- The calculation of CO₂ emissions is based on the Guidelines for Estimating Greenhouse Gas Emissions from Enterprises (Draft Version 1.6) by the Ministry of the Environment.
- The unit costs of electricity consumption are calculated based on the actual amount consumed.
- The unit costs of water supply and sewage are based on the figures released by the Bureau of Sewage in Tokyo.

Environmental Preservation Effect*

Value (thousands of yen)		Scope: excludes two affiliated stores			Scope: Includes two affiliated stores		
		FY2005	FY2004	Environmental Preservation Effects	FY2005	FY2004	Environmental Preservation Effects
-		Complied with all laws and regulations					
-	Total amount of waste generated (t)	13,156	12,991	165	14,770	14,587	183
-	Total amount of waste for final disposal (t)	5,007	5,211	-204	5,871	6,182	-311
11,018	Total amount of waste for final disposal (kg/sales (millions of yen))	11.1	11.8	-0.7	11.4	12.3	-0.9
-	Amount of recycled waste (t)	8,149	7,780	369	8,899	8,405	494
-	Recycling rate (%)	61.9	59.9	2.0	60.2	57.6	2.6
-	Food recycling rate (%)	26.7	21.3	5.4	28.5	21.7	6.8
6,208	Total energy input (thousands of MJ)(*1,2)	1,988,006	2,016,717	-28,711	2,307,050	2,310,710	-3,660
19	Electricity consumption (thousands of kWh) 	170,047	172,493	-2,446	196,767	198,030	-1,263
-	Greenhouse gas emissions (t-CO ₂)	110,419	110,606	-187	126,441	125,524	917
-	Greenhouse gas emissions (kg-CO ₂ /thousands of m ³ hr)	118.87	119.07	-0.20	115.63	114.9	0.73
-	CFC recovery (kg)	364	207	-	364	208	-
158,567	Water input (thousands of m ³) – Piped water (including industrial water)	886	858	28	1,118	1,085	33
-	– Well water	664	760	-96	703	801	-98
-	– Reuse of waste water, rainwater	137	147	-10	137	147	-10
-	Water discharge (thousands of m ³)	1,255	1,324	-69	1,497	1,569	-72
465	Paper consumption (fliers, advertisements) (t)	3,329	2,891	438	-	-	-
-	Paper consumption – packaging (t)	1,586	1,582	4	-	-	-
-	Paper consumption – office paper (t)	181	178	3	-	-	-
-	Paper consumption – PR magazines	34	32	2	-	-	-
1,050	Hangers (thousands)	2,980	3,132	-152	3,237	3,375	-138
-	Cardboard boxes (thousands)	3,053	2,485	568	3,268	2,706	562
-	Returnable boxes	10,400	8,112	2,288	12,252	10,992	1,260
-	Energy consumption in transportation (thousands of MJ)(*3)	13,906	12,269	1,637	22,632	22,632	1,967
-	– CNG (thousands of m ³)	81	66	15	81	66	15
-	– Gasoline (thousands of m ³) 	125	129	-4	259	251	8
-	– Light oil (kl)	165	134	31	272	243	29
-	Greenhouse gas emissions in transportation (t-CO ₂)	885	783	102	1,477	1,353	124
-	Proportion of low-emission vehicles for company use (%)	68.7	47.5	21.2	-	-	-
-	Nitrous Oxide (NO _x) (kg)	2,929	2,505	424	-	-	-
-	Particulate Materials (PM) (kg)	259	211	48	-	-	-
-	Green procurement ratio (%) (office supplies)	91.0%	77.9%	13.1%	-	-	-
-	Green procurement ratio (%) (packaging materials)	91.4%	91.4%	0.0%	-	-	-
177,327							

*“Excluding two affiliated stores” refers to the scope of data collection since FY 2004. Environmental impact information of all the scope is represented in “including the two affiliated stores”.

*1. Energy consumption increased due to the expansion of the scope of data collection including new buildings in Niigata Isetan.

*2. City gas is calculated based on conversion to normal cubic meters.

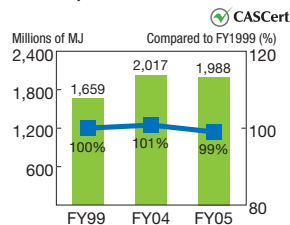
*3. Energy consumption increased due to an increase in the number of transport vehicles included.

Energy Conservation

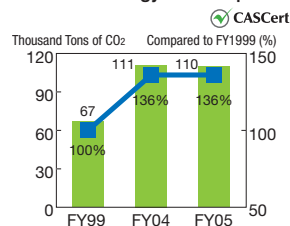
Energy consumption makes up the majority of the environmental burden created by department stores. Our energy consumption during FY 2005 was reduced through the Cool Biz initiative in our offices and the introduction of an ESCO project.

* ESCO (Energy Service Company) project:
Pursuing energy conservation based on recommendations by ESCOs on optimal energy-saving renovations.

Total Energy Consumption & Comparison of Per Unit of Energy Consumption

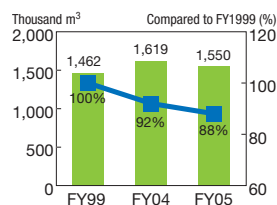


CO₂ Emissions & Comparison of Per Unit of Energy Consumption



* The calculation of CO₂ emissions is based on Guidelines for Estimating Greenhouse Gas Emissions from Enterprises (Draft Version 1.6), by the Ministry of the Environment.

Total Water Supply Consumption (Piped water and well water) & Comparison of Basic Unit of Water Consumption



Fuchu store: Underground pump for waste water

Energy Consumption

During FY 2005, "Cool Biz" and "Warm Biz" campaigns were introduced in our offices with the aim of reducing energy consumption. For the campaign, we set temperatures higher from June to August in the summer and lower from October to March in the winter. In addition, we have introduced ESCO projects at four stores (Shinjuku, Tachikawa, Matsudo, and Sagami-hara stores) to reduce the use of electricity in February 2006. This resulted in a 1.4% reduction of energy consumption from the previous year. Total energy consumption rose by 20% from the base year 1999, while this marked a 0.7% reduction compared with our targeted per unit consumption, calculated by dividing energy consumption by the total retail space and operating hours. We switched electricity suppliers to the "business entities other than power companies" from FY 2004 and this resulted in an increase in the emission coefficient. Hence, carbon dioxide emissions during FY 2005 saw a significant increase.

ESCO Projects (For the Shinjuku, Tachikawa, Matsudo and Sagami-hara stores)

As a part of the efforts to promote energy conservation while maintaining the comfort of our customers, we installed an inverter control in FY 2005. The estimated reduction in CO₂ emissions per year will be 1,620 tons through the introduction of an ESCO project.

Measures for the ESCO project included:

- 1) Inverter control of air conditioning fans, secondary water cooling pumps, and water pumps for cooling showcases
- 2) Optimal control of ventilation for parking lot
- 3) Flow optimization of primary water cooling pumps in freezers

We try to reduce the energy consumption of air conditioning fans by applying the inverter control system (at the Shinjuku and Matsudo stores). The inverter control system enables air conditioning fans to optimize the flow rate by monitoring the temperature inside the buildings, which changes depending on the number of the customers in the store. Accordingly, air conditioning fans usually supply air irrespective of the air conditioning load.

Electricity consumption was reduced by 720,000kWh by using high efficiency lighting and energy-efficient lamps, and improving energy efficiency through the introduction of an ESCO project.

Furthermore, we have installed manual switches in each office, raised awareness of turning off lights, implemented a reduced schedule of elevator operation on weekends, and shortened the time that neon lights are on.

We also plan to install solar panels on the rooftop to further promote energy conservation during FY 2006.

Water consumption (Piped water and well water)

For environmental conservation purposes and reduction of water consumption (piped water and well water), we use rainwater and reuse waste water. Total water consumption increased by 106% compared with FY 1999. However, Isetan achieved a substantial 88% reduction in water usage in terms of the basic unit of water consumption calculated by dividing by the total retail space and operating hours.

Reuse of Waste Water (Tachikawa and Fuchu stores)

Waste water from our restaurants and kitchens is used for flushing the toilets, after removing oil and impurities and deodorizing the water at the waste water processing facilities. After this process, the waste water approaches water supply quality. In FY 2005, we used 130,000 m³ of this waste water; this covered 33% of water usage for the Tachikawa store and 37% for the Fuchu store.

Rainwater Use (Fuchu Store)

We use rainwater collected in underground tanks as cooling water for air conditioners and small freezers. During FY 2005, we used 6,600m³ of such water.

Utilization of Well Water (Groundwater) (All Stores, excluding the Fuchu Store)

We use 380,000m³ of groundwater as general service water (for all purposes except for drinking) and 280,000m³ as drinking water by filtering it with a groundwater membrane filtration system, with the approval of each local governing agency.

The water filtered by membrane filtration at the Kichijoji store will be used as drinking water for neighboring areas in the event of a disaster.

Waste Reduction

60%, or 21 tons, of the 36 tons of waste generated by our seven stores on a daily basis is recycled. In April 2006, we began a waste recycling at all stores. We also started recycling food waste in our all seven stores from April 2006. We will continue to make efforts to separate waste in order to minimize the amount of waste for final disposal.



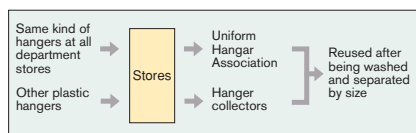
Shinjuku store: Eco-station



Sagami-hara store: Recycling room



At the awards ceremony for organizations that actively promote waste reduction and recycling



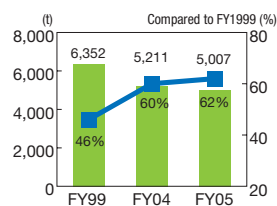
Hanger Recycling

Promotion of Waste Separation and Recycling

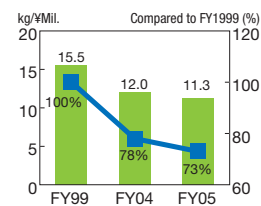
In order to further promote waste separation and recycling, we introduced a recycling system for food waste in FY 2005. We achieved a 6% reduction of waste for final disposal and a recycling rate of 62% as a result of enhancing the precision of waste separation at each store. Both of these figures represent achievement of our targets. Compared to FY 1999, the total amount of waste for final disposal per ¥1 million of sales decreased by 27%. We achieved the 20% recycling rate required by the Food Recycling Law. We expect a significant increase in the recycling rate at our all seven stores as a result of changing our waste disposal methods from April 2006.

In order to encourage employees to separate waste from stores and offices, we revised our display panels. Furthermore, we provided education on waste separation, ensuring employees that it is not for waste disposal, but for recycling of resources.

Final Disposal of Waste & Recycling Rate



Final Disposal of Waste per ¥million of Sales



Eco-station at the Shinjuku Store

A belt conveyor system to separate paper waste was introduced at the Shinjuku store in April 2004. The system allows further separation of paper by type, resulting in almost full recycling of all paper waste.

Food Waste Recycling through Methane Fermentation

Food waste from our five stores has been used for methane fermentation to generate electricity since April 2006. Input of 5.3 tons by our five stores on a daily basis results in 1,150kWh of electricity being generated through this process of methane fermentation, equivalent to electricity consumption by 115 households*.

* Calculated based on average electricity consumption of 10kWh (see TEPCO website) per household each day.

Sagami-hara Store: Renovation of Recycling Room

The recycling room at the Sagami-hara store now has a better waste separation system after renovation and installation of refrigerators.

Recognition as "A Company Taking the Initiative to Reduce Waste and Recycle" by Shinjuku Ward

In February 2006, the Isetan Shinjuku store was recognized by Shinjuku ward as an organization that actively promotes waste reduction and recycling. The efforts which were rewarded include:

- Employees and sales staff of business partners actively engage in waste separation.
- The name of the waste processing room was changed to "Eco Station" and a better waste separation system, which encourages employees to recycle waste as resources, was introduced.
- A belt conveyor system was installed for promoting further recycling of paper waste.
- The Shinjuku Store achieved a more than the 70% recycling rate, which is relatively high in the retail industry.

Isetan was presented with an award by Hiroko Nakayama, Director General of Shinjuku Ward at the award ceremony and our representatives gave information about our day to day efforts.

Hanger Recycling

We have been promoting the use of the same kind of hangers at all department stores since 1997 in order to reduce waste and to cut the peripheral duties of sales staff, such as re-hanging clothes. Hangers collected by the Uniform Hanger Association are used repeatedly. Other plastic hangers are also washed and separated after use and returned to the manufacturers in good condition, where they are reused. Our reuse rate is 88%, including those recycled to become hanger material.

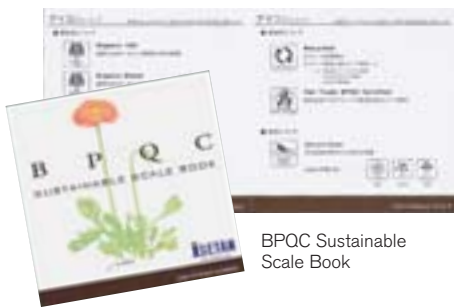
Status Report for FY 2005

Development of Environmentally Conscious Products

As a retailer, we are expected to develop environmentally conscious products. At Isetan, we always work to provide products that reflect customer's interests and expectations. Our customers have become increasingly aware of product safety and security, and are interested in environmentally conscious lifestyles. We aim to create products with both highly fashionable design and environmental consciousness.



Example of an Only I product made of organic cotton



BPQC Sustainable Scale Book

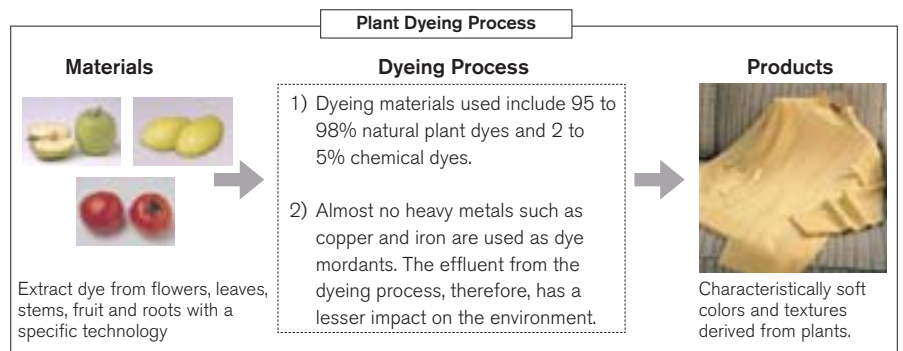


Efforts through Only I Products

Environmentally conscious items in our private "Only I" brand released during FY 2005 include "plant-dyed" products and sweaters, T-shirts and baby clothing made of organic cotton. We also sell food such as organic wines. We are also regularly introducing plant dyed products such as "CORNICIE" developed by the ADO Group.

■ Plant Dyes

The depth of color and shade that is unique to plant dyeing creates a soft impression. In addition, these products generate industrial wastewater with a reduced environmental burden compared with general chemically dyed products.



*Photo Images

■ "Global Green" Campaign

In May 2005, we held a sales campaign with the concept "Coexisting with Nature" and sold organic wines and food products grown using organic farming methods. The campaign enjoyed great popularity with our customers. In a campaign in May 2006, we expanded product lines to include fashion items, introducing environmentally conscious products in a whole range of clothing, food, and housing.

BPQC Initiative (2nd basement floor at main building of the Shinjuku Store; 1F at the Tachikawa store)

In FY 2005, the BPQC private brand started to promote an environmentally conscious and fashionable lifestyle. BPQC offers products made of "green cotton" produced in a factory designed and run with environmental consideration in Denmark. Since February 2006, we have offered environmentally conscious unique clothing and miscellaneous goods. We distribute "the BPQC Sustainable Scale Book" and also offer explanations on our labeling to help customers understand what aspects of these products are environmentally conscious.

■ Sponsoring Charity Events by BPQC

In March 2006, we held Original Eco Bag Exhibition, entitled "Eco Bags Save the Earth", in cooperation with Recruit Co., Ltd. This event intends to inspire customers to reduce their environmental burden by using their own favorite shopping bags instead of plastic bags. It also provided an opportunity for new customers to visit the store. The revenue generated by the sales of more than 1,700 bags over the 20-day period, (approximately ¥2.7 million) was donated to The Japan Committee for UNICEF.

We Have Established Voluntary Standards Regulating PVC Product Handling.

PVC products refer to the products which are made of chlorinated plastics and emit dioxins when combusted. We have established voluntary standards regulating the handling of PVC products in order to provide our customers with safe products.

Isetan's PVC Product Handling Standards

- We will not sell PVC toys intended for use by children under three years of age.
- We will not sell PVC kitchen wrap.
- Our food-related divisions will not use kitchen wrap or containers made of PVC.
- Our food-related divisions will not wear PVC kitchen gloves for cooking or handling foods.
- We will not sell gloves made of PVC.

Environmental Initiatives at the Corporate Clients Division

Our Corporate Clients Division develops and offers various environmentally conscious products, and many corporations have begun to use these products. The division also obtained “Eco-Stage 1” certification to better meet customers’ expectations.



Corporate Clients Division Environmental Policy

Proposing Environmentally Conscious Products

The division has more and more opportunities to propose and offer an increased number of eco-conscious items. In particular, there are more and more cases where clients use uniforms that are made of environmentally conscious material. We will continue to propose environmentally friendly products to customers.



Receptionist's uniform for a beverage manufacturer



Work uniform for a construction company



Small baskets made of craft tape with 100% recycled paper from publisher (Supplement to a magazine for housewives)



Obtaining “Eco-Stage 1” Certification

Given the increasing opportunities to offer environmentally conscious products to corporate customers, our Corporate Clients Division obtained the “Eco-Stage 1”^{*} certification in October 2005. “Eco-Stage 1” is an environmental management system which allows Isetan to better respond to customers’ needs.

The division also specified its own environmental policies and has been engaged in various environmental activities and study sessions on environmentally conscious products.

^{*} Eco-Stage is a system for evaluation and support of environmental management, operated by the Eco Stage Institute, Japan. The system is designed to fit each entity's specific nature and aims at effective incorporation into the entity's management. Evaluation is conducted by a local “Eco Stage Evaluation Organization”.

Efforts in Distribution and Other Areas

We are introducing low-emission vehicles and using agents for product delivery and inspection to reduce the environmental burden of our distribution practice.

Outsourcing of the Product Inspection and Delivery Process and the Introduction of Fuel-Efficient and Low-Emission Vehicles

We strive to reduce the number of vehicles used for product inspection and merchandise delivery from suppliers, aiming to mitigate local traffic congestion and reduce fuel consumption through efficient transportation systems. To achieve this, Isetan started to use merchandise delivery agents in 1973 and quality inspection contractors in 1988. Furthermore, in cooperation with our suppliers, we started to introduce low-emission vehicles in FY 2002 and we now have 15 vehicles in total including two newly introduced natural gas vehicles in FY 2005.

We also request the drivers of distribution trucks to ensure that they avoid unnecessary idling, and sudden acceleration or breaking. With the cooperation of apparel manufacturers, Isetan uses foldable containers of some purchased/returned products from/to the apparel manufacturers, which has led to reduce consumption of cardboard boxes.

We have also improved the efficiency of our distribution process by outsourcing our product delivery service since April 2004. We promote the use of fuel-efficient vehicles as our commercial cars for employee use. Currently, 68.7% of our commercial vehicles are fuel-efficient.

Isetan Business Support Co., Ltd., as our group company, is mainly responsible for the efforts in distribution and other areas.

Promotion of Green Procurement



PEFC/01-44-04

With the approval of the PEFC Council, we use this logo.

^{*} PEFC is an international organization that promotes sustainably managed forests through independent evaluation. Please visit the website: www.pefcasia.org for more information.

Green Procurement

Based on the Isetan Green Procurement Standards, it is our policy to purchase goods and materials that produce a lesser environmental burden. The Standards stipulate:

- Paper packaging and bags should contain 30% or more recycled paper
- Office supplies should be products that qualify for /comply with the Green Mark Program, the Eco Mark or the Law on Promoting Green Purchasing.

Of all the packaging materials we purchase, 91% (on a per-weight basis) meets these green procurement criteria, and 91% of purchased office-supplies are green products.

We are also gradually replacing existing office equipment, such as small air conditioners, copiers, printers and faxes with energy-efficient versions.

Use of ECF Pulp for Printed Materials

The paper we use for advertisements, circulars and catalogs is made of elemental chlorine free (ECF) pulp, which does not use dioxin-producing chlorine during the whitening process. Moreover, 50% of this paper is sourced from woods certified by the Programme for the Endorsement of Forest Certification schemes (PEFC), an international forest certification body.

Status Report for FY 2005

Environmental Communication

We actively communicate about the Environment with our customers and the children who lead the next generation.



Separating waste at the "Department Store Expedition"



Workbook for introductory levels



Poster promoting Smart Wrapping



In-house training on waste separation at the Shinjuku store

■ Environmental Exhibition at the Shinjuku Store

In September 2005, we held an exhibition, "Isetan's Efforts for the Environment" on the 7th floor of the main building of the Shinjuku store. The exhibition included a display of environmentally conscious products and our environmental efforts in energy conservation and waste reduction, etc. Many customers came by the exhibition when passing and were attracted by the plant-dyed products with their vivid colors. Many customers were also interested in our plans to construct a rooftop garden and to promote appropriate packaging.



Environmental exhibition at the Shinjuku store

We will continue to hold exhibitions on the environment as a part of our environmental communication.

■ Environmental Education for Elementary School Students through Our "Department Store Expedition"

We hold an annual event called the "Department Store Expedition" at the Shinjuku store, whereby elementary school students who are members of the I Kid's Club* to go on a social studies field trip in department store. We included wastepaper separation in the event to provide more as environmental education in August 2005. At the event, we explained how waste is recycled in the department store and the children tried out wastepaper separation.

*A club for the children of I Card members at the Shinjuku store.

■ Supporting Kids' ISO Program

Tokyo Metropolitan Government introduced environmental education material, the "Kids' ISO 14000 Programme" for senior pupils at elementary schools to learn about environmental management and measures against global warming in FY 2005. Isetan support a portion of the expenses of textbooks in education material.

The Kids' ISO Programme is an environmental education program for children offered both in Japan and throughout the world by the International Art and Technology Cooperation Organization (ArTech). For details, please refer to <http://www.artech.or.jp/japanese/kids/index.html>

■ Promotion of Smart Wrapping

The Japan Department Stores Association initiated a Smart Wrapping campaign since the traditional year-end gift-giving season in 2005. The target is to reduce the use of paper and plastic bags and wrapping by encouraging customers to choose appropriate wrapping for individual purposes.

We seek customers' support and cooperation on our initiatives to promote Smart Wrapping through various communication tools, including in-house broadcasting, message displays and posters, and advertising circulars. We conduct these campaigns in conjunction with Environment Month and the Environmentally Friendly Shopping Campaign, every June and October, respectively. These initiatives are promoted by the Ministry of the Environment.

■ Promotion of Isetan Shopping Bags

Since 2002, Isetan has encouraged our customers to simplify the packaging they use by selling Isetan shopping bags. Over 100,000 of the bags have been sold to date and part of the proceeds was donated to local governmental and environmental organizations for environmental preservation and afforestation project. We have contributed ¥4.66 million in total to such projects over the past three years.

■ Employee Training and Education

We provide our employees with educational information on environmental management through internal publications and the company's intranet. In addition, each store offers education programs on waste separation. Furthermore, during the company-wide "Green Month" campaign, we further focus on appropriate packaging, waste separation, energy conservation and reduction of office/copy paper consumption.

The Green Consumer Promotion Award by the City of Tokyo

In February 2002, Isetan was awarded the "Green Consumer Promotion Award" by Tokyo Metropolitan Government and a NPO, Green Consumer Tokyo-Net, as an organization that had promoted environmentally conscious products and services.



Award ceremony

Independent Review/ Independent Assurance

To Mr. Nobukazu Muto,
President & C.E.O., Isetan Company Limited

This is an English translation of ChuoAoyama Sustainability Certification's Independent Review Comments of the Japanese version of Isetan's "Annual Report 2006".

Independent Review Comments on Isetan's Annual Report 2006

The objective of this review is to express our independent view on the features, achievements, developments and direction of Isetan Company Limited (hereafter, "Isetan")'s approach towards environmental issues as well as reporting of significant corporate activities in such areas contained in the "Annual Report 2006" (hereafter, "the Report"). Our comments are based on the following procedures:

1. Interview with Mr. Chihiro Nihashi, Executive Vice President, Director, about environmentally conscious products
2. Interview with the management in charge of environmental control (Mr. Keinosuke Okawa, Senior Executive Officer, Director)
3. Inspection of the Head Office and interview with the personnel thereof
4. Review of the final Japanese draft of the Report

1. Initiatives and Products in Consideration of the Environment and Charity

In our independent review comments last year, we commended Isetan's efforts to create a concept of sustainable lifestyles through its individual initiatives and products, and also expected for establishment of corporate-wide concepts and further provision of "products that can gain empathy" based on the principle of "value creation with customers."

Isetan implemented a large-scale environmental campaign, the "global green" campaign at the Shinjuku store in May 2005, which was successful in gaining new customers and increasing sales. This campaign was conducted again in May 2006, covering the wider areas of clothing, food and housing. At the "BPQC" private brand, its brand concept, "BPQC Sustainable" was established and rolled out in February 2006 and various naturally-dyed (plant or mineral dyes) organic cotton products have been developed in line with the concept. Total sales of the "BPQC" brand products including natural cosmetics, have been increasing every year. Isetan also teamed up with 51 prominent fashion designers worldwide to hold a charity t-shirt exhibition called "Bonds with Designers" under the theme of "coexistence with nature." The event was a major success.

Through efforts such as these, Isetan has clearly projected its stance on environmental and charitable initiatives as a fashion retailer, while raising

customers' awareness of the importance of nature, the environment and charity. In other words, Isetan is engaged in two-way dialogues with customers, through which it strives to encourage further and wider participation by society in environmental and charitable efforts. We hope that Isetan will continuously promote and enhance these highly commendable initiatives.

2. Expectations for Further Promotion of Environmental Preservation Activities and Environmentally- and Socially-Conscious Procurement

While offering various environmentally conscious products to customers, Isetan are also actively engaged in internal activities to preserve the environment. The Corporate Clients Division obtained the "Eco-Stage" certification in October 2005, and each Isetan store has been promoting recycling of food waste, with positive results. Furthermore, the rooftop of the Shinjuku store was renovated to build the "I Garden", which was opened in June 2006. Last year, we proposed that Isetan provide further environmental education to its employees and incorporate environmental and social perspectives into the company's procurement standards. While employee education is still under consideration, the Corporate Clients Division has already responded to customer demand and revised part of its procurement standards in consideration of environmental and social aspects. Also, since February 2006, certain Isetan products under the "BPQC" brand have been manufactured at selected factories that are designed to be environmentally- and socially-conscious.

We commend Isetan for actively promoting such environmental and social activities. Going forward, we hope to see manufacturing at environmentally- and socially-conscious factories be further promoted to the utmost extent possible, especially for products from BPQC brand that focuses on sustainability in its brand concept.

*These comments DO NOT express our view and/or opinions on the effectiveness and/or reliability of the processes used to collect and report the data and information included in the Report.



This is an English translation of ChuoAoyama Sustainability Certification's Independent Assurance Report on Energy Consumption and CO₂ emissions of the Japanese version of Isetan's "Annual Report 2006".

Independent Assurance Report On Energy Consumption and CO₂ Emissions

Objectives and Scope We, ChuoAoyama Sustainability Certification Co., Ltd., were commissioned by Isetan Company Limited (hereafter, "the Company") to review the Isetan's Annual Report 2006 (hereafter, "the Report"), and to express our opinion as to:

1. Whether the information and data on energy consumption and CO₂ emissions provided in the Report were compiled and reported in accordance with the relevant Company procedures; and
2. Whether the information specified in item 1 above is consistent with the supporting documents.

The Company is responsible for the preparation of the Report. Our responsibility is limited to expressing an independent opinion on the Report.

Basis of Opinion Currently, there are no generally accepted international standards regarding the collection, reporting and assurance of environmental and social information. Therefore, we have referred to emerging practices and the following guidance:

- Guidelines for Estimating Greenhouse Gas Emissions from Enterprises (Draft Version 1.6, revised July 2005) by the Ministry of the Environment of Japan
- Assurance Standards for Environmental Reporting (formulated March 2004) by the Ministry of the Environment of Japan
- International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000, revised December 2003) by the International Federation of Accountants

Summary of Procedure Performed To review the processes for compiling data and information on energy consumption and CO₂ emissions that fall within the scope of our assurance, we conducted that following procedures at the head office, Shinjuku store and Sagami-hara store. We:

- Conducted interviews with the management and personnel in charge of environmental controls
 - Inspected relevant documents and assessed their consistency with the supporting documents.
- For energy consumption and CO₂ emissions information and data in the Japanese

version of the Report, marked CASCert, we conducted the above procedures.

Site Inspected

Name of Site	Function
Head Office	Head Office Functions, Distribution Center, Warehouse
Shinjuku Store	Department Store
Sagami-hara Store	Department Store

Our Opinion On the basis of the above work, we have reached the following opinion:

1. The information and data on energy consumption and CO₂ emissions provided in the Report have been compiled and reported in accordance with the relevant Company procedures; and
2. The information specified in item 1 above was consistent with the supporting documents and we did not find any significant items that should be corrected.

Independence We observe the Certified Public Accountants Law (Japan), the Ethical Guidelines of the Japanese Institute of Certified Public Accountants (JICPA), and the Independent Policies of ChuoAoyama PricewaterhouseCoopers and PricewaterhouseCoopers.



Our Recommendations to Isetan

We noticed that Isetan was aware of the need for aggressive reduction of greenhouse gas emissions and accordingly established specific reduction targets in their long-term plan.

Although Isetan's data collection procedures still focus on identifying consumption levels, we commend that Isetan has improved its system for gathering information on energy and has enhanced the credibility thereof since last year. Specifically, the company has made revisions to certain areas of its data collection methodology and modifications to the calculation method for CO₂ emissions associated with city gas consumption.

Going forward, we hope that Isetan will work systematically to reduce greenhouse gases by strengthening systems between head office and department stores to ensure data and information needed for the efficient implementation of energy conservation measures is appropriately gathered.

A network film of



ChuoAoyama Sustainability Certification Co., Ltd.
(ChuoAoyama PricewaterhouseCoopers Group)

On September 1 2006, ChuoAoyama Sustainability Certification Co., Ltd. changed its name to MISUZU Sustainability Certification Co., Ltd.

Response to Independent Review Comments

This year the Isetan Group celebrate the 120th anniversary of our founding. As stated in our corporate vision, “Only by sharing with others - our feelings, our ideas, and our joy - can we create new and better lifestyles for tomorrow,” we wish to help create abundant lifestyles for our customers while meeting the expectations of our wider stakeholders through our corporate activities.

Isetan’s basic principle on developing products is to create highly fashionable goods of superior quality that are both reassuring and safe. We have always strived to innovate our offerings on a daily basis, while incorporating feedback and verifying benefits. We believe that these individual efforts make up the history of this company. Based on our fundamental philosophy, “the customer always comes first”, our history has created together with our customers, who agree with our philosophy and support us.

If environmentally conscious products are not attractive in themselves, customers will not buy them and we will be eventually be unable to maintain such products. Therefore, Isetan’s approach to environmentally conscious products is to offer attractive products which incorporate environmental consciousness.

At this juncture of our 120th anniversary, we are launching various promotional campaigns under the theme of “strengthen bonds with all those connected to the company.” In one of these initiatives, the “global green” campaign, signifying our gratitude for the blessings of nature, we rolled out various environmentally conscious products in a whole range of clothing, food and housing. Another example is “Bonds with Designers Charity T-shirts” campaign, a charity event to help victims of the Central Java earthquake. With great support and assistance from fashion designers, suppliers, and customers, this campaign was a resounding success and promoted significant donations for those affected by the earthquake.

Furthermore, we are committed to “We should strive to protect our precious environment by carefully conserving it for future generations” as declared in our Corporate Stance. In my personal opinion, the earth is also one of our stakeholders. We must continue to engage in dialogues with our customers so that we can sow the seeds that will enable us to return even a small portion of the blessings the earth has bestowed upon us.

July 2006



Executive Vice President, Director
Business Planning and Operations

Enhanced implementation of environmental initiatives through our main business was a major challenge for us. Since last year, we have been able to actually see the results of our efforts in environmentally conscious products and promoting various campaigns in an accelerated manner.

Another challenge was to make further improvements to our communication efforts on the environment, as recommended in the review comments two years ago. To respond to these, after spending one year on the construction of the “I Garden”, it was opened in June 2006 on the rooftop of our Main store. We also held a large-scale exhibition on the environment to inform a number of customers of our environmental activities with the cooperation of the Tokyo Metropolitan Government and Shinjuku Ward. The creation of a considerable space for refreshment like this in the midst of an urban building district should have significant long-term benefits for our customers and local communities. Now an increasing number of our customers with kids spend relaxing time in our rooftop garden and substantial environmental benefits have been achieved, such as the reduction of CO₂ emissions, mitigation of the “heat island” effect, and improved energy conservation through the thermal insulation on the rooftop.

This year’s review comments include recommendations on the facilitation of systematic reduction of greenhouse gases. Although we have made progress in this area by establishing various numerical standards for all stores through the introduction of environmental accounting, resulting in improved understanding of our group’s overall status, we recognize that this issue still remain a major challenge for us and we are, therefore, committed to making enhanced efforts at further improvement.

As globalization of the economy and information progresses, efforts to protect the global environment are increasingly required of all individuals, corporations and countries. Rather than creating an “environmental fad”, we intend to fulfill our environmental responsibilities on a daily basis through our main business with a customer-first focus, and to develop fashionable and environmentally conscious products. We also look forward to continuing our initiatives on environmental preservation through ongoing dialogues with our customers. It is the children of today who will protect the environment in the twenty-first century. In this context, through our programs at the I Kid’s Club, we will continue to devote ourselves to educating the children who will bear this responsibility in the next generation about the importance of preserving the environment.

July 2006



Senior Executive Officer, Director
General Administration division

Isetan Group Business Results Summary and Financial Report

In fiscal 2005 (April 1, 2005 to March 31, 2006), the Isetan Group consisted of 32 subsidiaries (20 domestic, 12 overseas) and 7 affiliates (5 domestic, 2 overseas).

FY2005 Performance Overview

Isetan achieved new historical highs for fiscal 2005 consolidated sales, operating income, recurring income and net income due to efforts made under our Three Year Value Creation Plan.

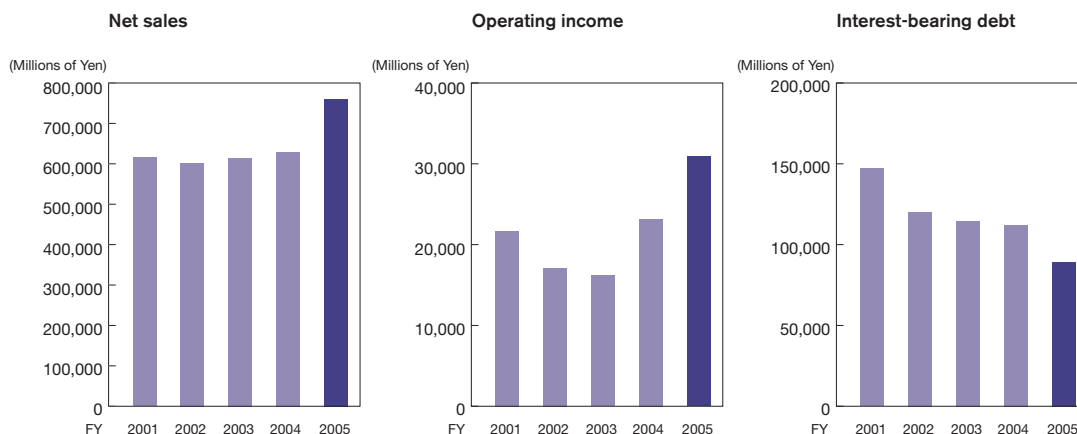
Consolidated Performance Overview

During the year ended March 31, 2006 (fiscal 2005), the Japanese economy made solid progress toward the resumption of stable growth as the tempo of the recovery quickened. While capital investment remained robust against the background of a general upturn in corporate earnings, the employment and personal income situations improved, leading to brisk personal consumption. Also, exports and production regained vigor from the middle of the year onward.

In the retail industry, in the midst of intensifying competition both among department store groups and between department stores and other retail formats, efforts by companies to attract customers by creating unique stores and developing private brands were conspicuous. Also, backed by the improved earnings, some companies restarted large-scale investment in store improvements.

The Isetan Group pushed forward with the implementation of the Three-Year Value Creation Plan, launched in fiscal 2003, to ensure sustainable development far into the future. In fiscal 2005, the final year of the plan, reform of in-store organizations was further promoted to inculcate the customer-centered perspective. At the same time, regarding the administrative operations at the head office, systems and structures to support Isetan Group companies were reinforced. Moreover, in order to strengthen the profitability of the department store business, infrastructure to strengthen cooperation with branch stores and domestic group department stores was improved. Isetan achieved new historical highs for fiscal 2005 consolidated sales, operating income, recurring income and net income due to efforts, reflecting the positive impact on sales growth of the department store business as a result of the inclusion of Iwataya Company Limited in the scope of consolidated subsidiaries and the robust performance of Isetan Co., Ltd. and stores overseas.

- Consolidated net sales amounted to ¥760,038 million an increase of 20.8% from the previous fiscal year. This marks the third consecutive year net sales have increased, with an historic high posted for the second consecutive year. Besides making Iwataya Company Limited into a consolidated subsidiary, all Isetan stores recorded year-on-year sales gains while sales at overseas stores were strong, leading to business expansion in our department store operations.
- Consolidated operating income increased 56.6% to ¥30,061 million, also a record high for the second consecutive year. This result exceeded the target performance indicator ¥25,000 million set in the Three-Year Value Creation Plan.
- Consolidated recurring income was ¥30,925 million, an increase of 41.2% from the previous year due to the inclusion of Iwataya Company Limited as a consolidated subsidiary and solid results at stores in China and South East Asia. This result marked a second consecutive increase and a record high.
- Consolidated net income was ¥18,710 million, an increase of 48.3% from the previous year. This too was the second consecutive year of gains and the second consecutive record high.



Consolidated Balance Sheets

(Millions of yen)

Item	As of March 31, 2006	Item	As of March 31, 2006
<ASSETS>		<LIABILITIES>	
Total current assets	173,356	Total current liabilities	211,198
Total fixed assets	319,400	Total long-term liabilities	75,667
Total property and equipment, net	165,656	Total liabilities	286,865
Total intangible fixed assets	2,832		
Total investments and other assets	150,912	<Minority interest in consolidated subsidiaries>	
		Minority interest in consolidated subsidiaries	11,899
Deferred assets	797	<Shareholders' Equity>	
		Common stock	36,122
		Additional paid in capital	42,703
		Consolidated retained earnings	100,058
		Net unrealized gains on securities	17,529
		Foreign currency translation adjustments	(1,531)
		Treasury stock	(91)
		Total shareholders' equity	194,790
Total assets	493,554	Total liabilities and shareholders' equity	493,554

Consolidated Statements of Income

(Millions of yen)

Item	Year ended March 31, 2006
Net sales	760,038
Cost of sales	538,365
Gross profit	221,673
Selling, general and administrative expenses	191,612
Operating income	30,061
Other non-operating income	8,136
Other non-operating expense	7,271
Recurring income	30,925
Non-recurring income	10,151
Non-recurring loss	3,893
Income before income taxes and minority interest	37,184
Income taxes, current	13,032
Income taxes, deferred	3,214
Minority interest in earnings of consolidated subsidiaries	2,228
Net income	18,710

Consolidated Statements of Cash Flows

(Millions of yen)

Item	Year ended March 31, 2006
Net cash provided by operating activities	35,559
Net cash provided by investing activities	1,353
Net cash used in financing activities	(23,688)
Effect of exchange rate changes on cash and cash equivalents	892
Net increase (decrease) in cash and cash equivalents	14,116
Cash and cash equivalents at beginning of year	22,226
Cash and cash equivalents at end of year	36,342

Business Segment Analysis

(Millions of yen)

	Department store business	Credit & finance business	Other retail, specialty stores & restaurant business	Other business	Elimination	Consolidated total
Net sales	683,938	13,610	74,766	36,070	(48,346)	760,038
Operating income	24,333	3,816	1,350	219	343	30,061

* One consolidated subsidiary was added and one removed since the end of last fiscal year.

Added: Jinan Isetan Co., Ltd.

Removed: Isetan Dining Co., Ltd. (Converted to an equity affiliate)

* Iwataya Company Limited: Only the balance sheet was consolidated last fiscal period. Iwataya has been fully consolidated from the current fiscal year, including the Profit and Loss Statement.

Non-Consolidated Performance Overview

Non-Consolidated Balance Sheets

(Millions of yen)

Item	As of March 31, 2006	Item	As of March 31, 2006
<ASSETS>		<LIABILITIES>	
Total current assets	101,652	Total current liabilities	133,006
Total fixed assets	251,405	Total long-term liabilities	60,192
Total property and equipment, net	112,054	Total liabilities	193,198
Total intangible fixed assets	4,723		
Total investments and other assets	134,628		
		<Shareholders' Equity>	
		Common stock	36,122
		Additional paid in capital	42,703
		Consolidated retained earnings	64,903
		Net unrealized gains on securities	16,222
		Treasury stock	(91)
		Total shareholders' equity	159,859
Total assets	353,057	Total liabilities and shareholders' equity	353,057

Non-Consolidated Statements of Income

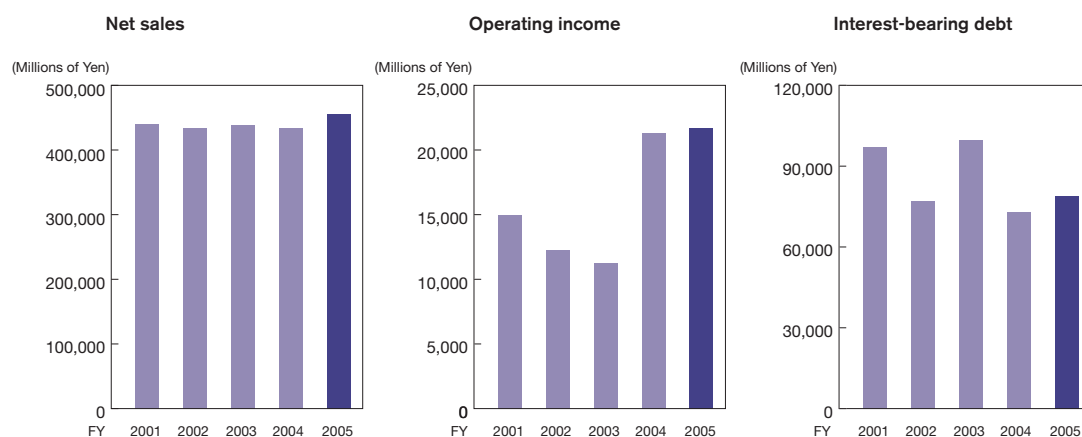
(Millions of yen)

Item	Year ended March 31, 2006
Net sales	444,263
Cost of sales	320,398
Gross profit	123,865
Other operating revenues	1,658
Gross profit on operating revenues	125,523
Selling, general and administrative expenses	105,504
Operating income	20,019
Other non-operating income	7,865
Other non-operating expense	6,255
Recurring income	21,629
Non-recurring income	9,969
Non-recurring loss	5,853
Income before income taxes and minority interest	25,745
Income taxes, current	8,930
Income taxes, deferred	3,668
Net income	13,147

Change in classification

Income from business alliances and business support, previously included in other non-operating income, has increased in line with the strategy to expand department store operations, and as a result, has been restated as other operating income from this fiscal year to more appropriately reflect these activities as operating activities.

- Total sales for the fiscal year were an increase of 2.3% from the level of last fiscal year, recording year-on-year growth for the first time in two years.
- Operating income rose for the third consecutive year, registering a new historical high.
- Recurring income rose for the second consecutive year, hitting a record high for the second year in a row.
- Net income rose for the second consecutive year, hitting a record high for the second year in a row.
- After remodeling the entire store for the first time, the Urawa store showed strong growth at March following remodeling to register year-on-year growth for the whole store for the first time since 1991, fourteen years ago.



Sales by Store

(Millions of yen)

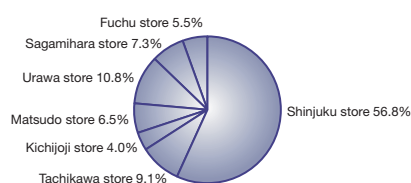
	Year ended March 31, 2006		
	Net sales	% to net sales	Percentage change
Shinjuku store	252,235	56.8%	102.5%
Tachikawa store	40,240	9.1%	103.4%
Kichijoji store	17,890	4.0%	102.3%
Matsudo store	29,121	6.5%	101.0%
Urawa store	47,959	10.8%	101.1%
Sagamihara store	32,310	7.3%	101.1%
Fuchu store	24,505	5.5%	103.2%
Total	444,263	100.0%	102.3%

Sales by Product Category

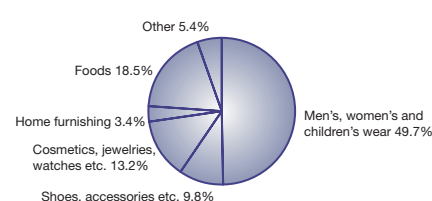
(Millions of yen)

	Year ended March 31, 2006		
	Net sales	% to net sales	Percentage change
Men's, women's and children's wear	220,770	49.7%	104.8%
Shoes, accessories etc.	43,652	9.8%	107.4%
Cosmetics, jewelries, watches etc.	58,645	13.2%	103.9%
Home furnishing	15,360	3.4%	98.9%
Foods	82,001	18.5%	93.7%
Other	23,832	5.4%	101.3%
Total	444,263	100.0%	102.3%

Sales by Store

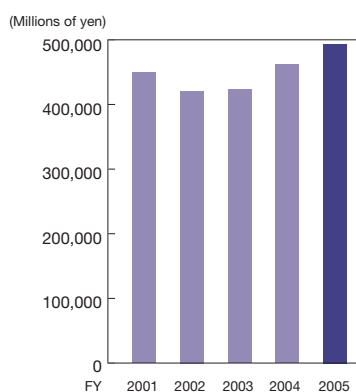


Sales by Product Category

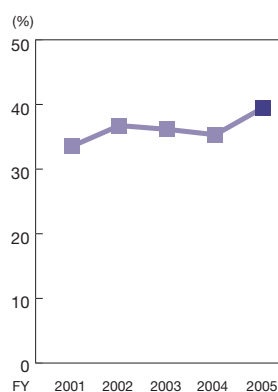


Financial Indicators (Consolidated)

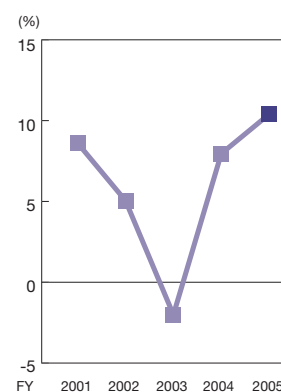
Total Assets



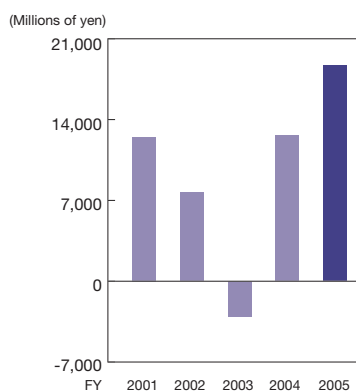
Equity Ratio



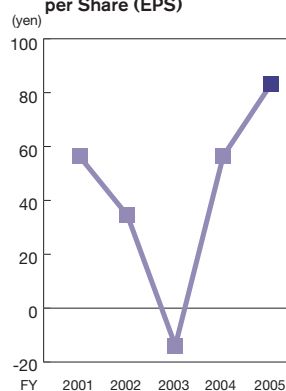
Return on Equity (ROE)



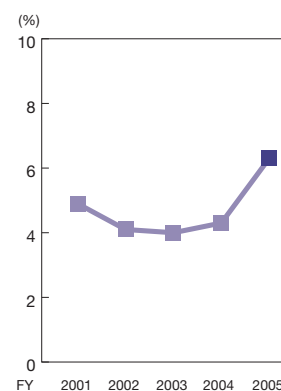
Net Income (Loss)



Net Income (Loss) per Share (EPS)



Return on Assets (ROA)



Consolidated/Non-Consolidated Year-on-Year Increase

(Times)

	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Net sales	1.40	1.45	1.71
Operating income	1.67	1.27	1.50
Recurring income	1.44	1.03	1.43
Net income	—	1.04	1.42

Consolidated Balance Sheets

ISETAN COMPANY LIMITED AND SUBSIDIARIES
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
ASSETS			
Current Assets:			
Cash and bank deposits (Note 4)	¥ 37,162	¥ 22,545	\$ 316,350
Marketable securities (Note 10)	1,447	2,076	12,315
Notes and accounts receivable:			
Trade	79,195	76,788	674,167
Other	114	3,041	972
	79,309	79,829	675,139
Less: Allowance for doubtful accounts	(3,784)	(2,289)	(32,213)
	75,525	77,540	642,926
Inventories	36,306	34,679	309,066
Deferred tax assets—current (Note 7)	7,547	5,410	64,249
Other current assets	15,369	13,046	130,841
Total current assets	173,356	155,296	1,475,747
Investments and Advances:			
Investments in securities (Note 10)	55,315	34,714	470,888
Investments in and advances to unconsolidated subsidiaries and affiliates	6,248	4,892	53,184
Total investments and advances	61,563	39,606	524,072
Property and Equipment:			
Land and leasehold	52,403	54,875	446,093
Buildings and structures	204,129	213,545	1,737,709
Furniture and fixtures	35,388	35,533	301,251
Construction in progress	950	423	8,091
	292,870	304,376	2,493,144
Less: Accumulated depreciation	(127,214)	(133,515)	(1,082,949)
Total property and equipment, net	165,656	170,861	1,410,195
Other Assets:			
Fixed leasehold deposits	69,378	71,913	590,601
Long-term loans	1,603	1,811	13,650
Deferred tax assets—non-current (Note 7)	2,036	3,759	17,330
Deferred assets	797	1,196	6,787
Other assets	21,733	19,910	185,006
Less: Allowance for doubtful accounts	(2,568)	(2,772)	(21,859)
Total other assets	92,979	95,817	791,515
Total Assets (Note 15)	¥ 493,554	¥ 461,580	\$4,201,529

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Current Liabilities:			
Short-term borrowings (Note 9)	¥ 29,522	¥ 34,398	\$ 251,315
Current portion of long-term debt	21,990	2,650	187,197
Notes and accounts payable:			
Trade	67,268	60,813	572,642
Other	45,855	41,446	390,352
	113,123	102,259	962,994
Income taxes payable	9,988	7,434	85,025
Accrued expenses	16,972	15,905	144,478
Deferred tax liabilities — current	10	6	87
Other current liabilities	19,593	21,352	166,794
Total current liabilities	211,198	184,004	1,797,890
Long-term Debt (Note 9):	37,659	75,101	320,585
Reserve for Accrued Employees' Retirement Benefits (Note 8)	25,260	26,082	215,037
Retirement Allowance for Directors and Corporate Auditors	623	520	5,302
Deferred Tax Liabilities—Non-current (Note 7)	10,039	251	85,461
Other Long-term Liabilities	2,086	2,340	17,754
Minority Interests in Consolidated Subsidiaries	11,899	9,351	101,296
Shareholders' Equity:			
Common stock	36,122	35,133	307,501
Authorized: 800,000,000 shares			
Issued: 224,360,003 shares and 222,452,403 shares			
at March 31, 2006 and 2005, respectively			
Additional paid-in capital	42,703	41,714	363,525
Retained earnings	100,058	84,089	851,778
Unrealized gain on other securities, net of tax	17,529	5,767	149,216
Foreign currency translation adjustments	(1,531)	(2,697)	(13,037)
	194,881	164,006	1,658,983
Less: Treasury stock	(91)	(75)	(779)
Total shareholders' equity	194,790	163,931	1,658,204
Total Liabilities and Shareholders' Equity	¥ 493,554	¥ 461,580	\$4,201,529
Contingent Liabilities (Note 11)			

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income and Retained Earnings

ISETAN COMPANY LIMITED AND SUBSIDIARIES
Year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net Sales (Note 15)	¥ 760,038	¥ 628,996	\$ 6,470,060
Cost of Sales	538,365	446,254	4,582,997
Gross profit	221,673	182,742	1,887,063
Selling, General and Administrative Expenses (Note 12)	191,612	163,549	1,631,158
Operating income (Note 15)	30,061	19,193	255,905
Other Income:			
Interest and dividend income	1,010	761	8,597
Rental income	1,034	2,011	8,804
Gain on receipt of property and equipment	1,450	801	12,346
Gain on sales of property and equipment	8,579	6,926	73,029
Gain on sales of investment securities	1,225	1,598	10,431
Other	4,990	4,588	42,473
	18,288	16,685	155,680
Other Expenses:			
Interest expenses	(1,413)	(1,111)	(12,025)
Loss on disposal of property and equipment	(2,366)	(1,644)	(20,147)
Loss on sales of property and equipment	(456)	(7,250)	(3,879)
Loss for settlement of tax-qualified pension plan in affiliates	—	(134)	—
Restructuring costs	—	(576)	—
Loss on impairment of property and equipment (Note 5)	(3,438)	—	(29,266)
Other	(3,492)	(2,691)	(29,730)
	(11,165)	(13,406)	(95,047)
Income before income taxes and minority interests	37,184	22,472	316,538
Income Taxes (Note 7):			
Current	(13,032)	(8,216)	(110,937)
Deferred	(3,214)	(1,702)	(27,365)
	(16,246)	(9,918)	(138,302)
Minority Interests	2,228	(65)	18,960
Net income	18,710	12,619	159,276
Retained Earnings:			
Balance at beginning of the year	84,089	73,734	715,836
Appropriations:			
Cash dividends	(2,673)	(2,222)	(22,754)
Directors and corporate auditors' bonuses	(68)	(2)	(580)
Effect of changes in consolidated subsidiaries	—	(40)	—
Balance at end of the year (Note 13)	¥ 100,058	¥ 84,089	\$ 851,778

	Yen		U.S. dollars (Note 3)
	2006	2005	2006
Per Share (Note 2 (8)):			
Net income			
Basic	¥ 83.23	¥ 56.46	\$ 0.71
Diluted	82.71	56.30	0.70
Cash dividends	14.00	12.00	0.12

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

ISETAN COMPANY LIMITED AND SUBSIDIARIES
Year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 37,184	¥ 22,472	\$ 316,538
Adjustments for:			
Depreciation and amortization	10,690	12,532	91,003
Impairment of property and equipment	3,438	—	29,266
Provision for (Reversal of) allowance for doubtful accounts	1,283	127	10,923
Provision for (Reversal of) retirement benefits to employees	(2,875)	798	(24,472)
Provision for retirement allowance to directors and corporate auditors	103	34	874
Allowance for point cards	171	79	1,457
Interest and dividend income	(1,010)	(761)	(8,597)
Interest expenses	1,413	1,111	12,025
Foreign exchange losses (earnings), net	(28)	110	(239)
Equity in losses (earnings) of affiliated companies	(579)	(590)	(4,925)
Gain (Loss) on sales of property and equipment	(8,123)	324	(69,150)
Loss on disposal of property and equipment	2,367	1,644	20,147
Gain on sales of investment securities	(1,225)	(1,598)	(10,431)
(Increase) decrease in receivables	(2,618)	2,759	(22,285)
(Increase) decrease in inventories	(1,358)	(1,297)	(11,561)
(Decrease) increase in payables	5,858	(1,828)	49,872
Others, net	1,867	(4,564)	15,891
Sub-total	46,558	31,352	396,336
Interest and dividend income received	587	760	4,999
Interest expenses paid	(1,192)	(1,119)	(10,145)
Income taxes paid	(10,394)	(2,444)	(88,483)
Net cash provided by operating activities	35,559	28,549	302,707
Cash Flows from Investing Activities:			
Payments for purchase of marketable securities and investments in securities	(2,137)	(1,895)	(18,192)
Proceeds from sales of marketable securities and investments in securities	2,319	481	19,740
Payments for purchase of property and equipment	(11,114)	(12,464)	(94,613)
Proceeds from sales of property and equipment	10,410	15,909	88,621
Proceeds from purchase of shares of consolidated subsidiaries, accompanied by changes in scope of consolidation	695	2,751	5,920
Payments for purchase of other investments	(4,075)	(1,235)	(34,692)
Proceeds from sales of other investments	5,942	4,375	50,579
Others, net	(687)	373	(5,847)
Net cash provided by (used in) investing activities	1,353	8,295	11,516
Cash Flows from Financing Activities:			
Increase (decrease) in short-term borrowings	(5,513)	(4,409)	(46,935)
Proceeds from borrowings of long-term debt	19,417	2,000	165,298
Repayment of long-term debt	(36,752)	(8,456)	(312,866)
Redemption of bonds	—	(5,000)	—
Redemption of commercial paper	—	(20,000)	—
Dividends paid	(2,673)	(2,223)	(22,754)
Other, net	1,833	173	15,606
Net cash used in financing activities	(23,688)	(37,915)	(201,651)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	892	(83)	7,598
Net Increase (Decrease) in Cash and Cash Equivalents	14,116	(1,154)	120,170
Cash and Cash Equivalents at Beginning of the Year (Note 4)	22,226	23,412	189,206
Cash and Cash Equivalents of Excluding Consolidated Subsidiaries at End of the Year	—	(32)	—
Cash and Cash Equivalents at End of the Year (Note 4)	¥ 36,342	¥ 22,226	\$ 309,376

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

ISETAN COMPANY LIMITED AND SUBSIDIARIES
As of March 31, 2006 and 2005

1. Basis of Presenting the Consolidated Financial Statements

(1) Accounting Principles and Practices

The accounts of Isetan Company Limited (the "Company") and its domestic subsidiaries have been prepared in accordance with the provisions of the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries consolidated with the Company are based on the financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries have been incorporated. In general, no adjustments have been reflected in the accompanying consolidated financial statements to present the accounts of the subsidiaries in compliance with Japanese accounting principles and practices followed by the Company, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries are essentially the translation

of those included in the Securities Annual Report filed with the Ministry of Finance and the Stock Exchanges as required by the provisions of the Securities and Exchange Law and related regulations in Japan.

Accordingly, the information disclosed in the accompanying consolidated financial statements is derived from the original text, and the scope and nature of the information is limited to that disclosed therein. However, the consolidated financial statements of the Company and its consolidated subsidiaries are not intended to present the consolidated financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and certain reclassification or summarization of accounts has been made to present the consolidated financial statements in a form which is more familiar to readers outside Japan.

(2) Scope of Consolidation

The Company had 37 subsidiaries at March 31, 2006 (37 at March 31, 2005). The consolidated financial statements include the accounts of the Company and 32 of its subsidiaries in respect of the

	Direct and indirect ownership percentage by the Company (*1)	Paid-in capital (*1)
Shizuoka Isetan Company Limited	100.0%	¥2,222.00 million
Niigata Isetan Company Limited	100.0	¥200.00 million
Kokura Isetan Company Limited	70.0	¥1,000.00 million
Iwataya Co., Ltd.	43.1	¥2,240.00 million
Isetan of Japan Ltd. (Hong Kong)	100.0	H.K.\$6.80 million
Shanghai Mei Long Zhen Isetan Department Store Co., Ltd. (China)	80.0	US\$5.00 million
Tianjin Isetan Co., Ltd. (China)	80.0	US\$2.10 million
Shanghai Jinjian Isetan Co., Ltd. (China)	63.0	RMB23.75 million
Jinan Isetan Co., Ltd. (China) (*2)	100.0	US\$2.65 million
Isetan (Singapore) Ltd. (Singapore)	52.7	S.\$20.63 million
Isetan (Thailand) Co., Ltd. (Thailand)	49.0	THB290.00 million
Isetan of Japan Sdn. Bhd. (Malaysia)	51.0	M.\$20.00 million
Isetan I Card Co., Ltd.	100.0	¥1,100.00 million
Izutsuya Withcard Co., Ltd.	100.0	¥100.00 million
Barneys Japan Company Limited	100.0	¥2,490.00 million
Mamma Co., Ltd.	100.0	¥400.00 million
Queen's Isetan Company Limited	100.0	¥255.00 million
BAC Investments, Inc. (U.S.A.)	100.0	US\$0.04 million
Mints 88 Co., Ltd. (U.K.)	95.5	GBP5.60 million
Isetan Travel Service, Inc.	100.0	¥490.00 million
Isetan Career Design Company Limited	100.0	¥100.00 million
Isetan Data Center Company Limited	100.0	¥90.00 million
Isetan Business Support Co. Ltd.	100.0	¥40.00 million
Isetan Swing Inc.	100.0	¥50.00 million
Isetan Clover Circle Company Limited	100.0	¥50.00 million
Iwataya Tomonokai Co., Ltd.	100.0	¥50.00 million
Isetan Building Management Services Co., Ltd.	100.0	¥40.00 million
Isetan Institute Co., Ltd.	100.0	¥10.00 million
Century Trading Company Limited	80.0	¥20.00 million
Isetan (Italia) S.r.l (Italy)	100.0	EUR0.10 million
Lexim (Singapore) Pte. Ltd. (Singapore)	100.0	S.\$5.00 million
Isetan Kaikan Co., Ltd.	100.0	¥60.00 million

(*1) As of March 31, 2006

(*2) Newly consolidated, effective from the year ended March 31, 2006 due to an increase in shares of those subsidiaries.

year ended March 31, 2006 (32 subsidiaries for 2005). The Company and these consolidated subsidiaries are hereinafter referred to as the "Companies." The 32 consolidated subsidiaries are listed below:

The above consolidated subsidiaries use a fiscal year ending on March 31 of each year, which is the same as the fiscal year of the Company, except for 15 subsidiaries: Shanghai Mei Long Zhen Isetan Department Store Co., Ltd., Tianjin Isetan Co., Ltd., Shanghai Jinjian Isetan Co., Ltd., Jinan Isetan Co., Ltd., Isetan of Japan Ltd., Isetan (Singapore) Ltd., Isetan (Thailand) Co., Ltd., Isetan of Japan Sdn. Bhd., Mints 88 Co., Ltd., Bhd., Isetan (Italia) S.r.l, Lexim (Singapore) pte. Ltd., Iwataya Co., Ltd., Iwataya Tomonokai Co., Ltd. Izutsuya Withcard Co., Ltd. and Barneys Japan Company Limited.

Shanghai Mei Long Zhen Isetan Department Store Co., Ltd., Tianjin Isetan Co., Ltd., Shanghai Jinjian Isetan Co., Ltd., Jinan Isetan Co., Ltd., Isetan of Japan Ltd., Isetan (Singapore) Ltd., Isetan (Thailand) Co., Ltd., Isetan of Japan Sdn. Bhd., Mints 88 Co., Ltd., Isetan (Italia) S.r.l and Lexim (Singapore) Pte. Ltd., have fiscal years ending December 31 of each year. For the purpose of consolidation, the financial statements of these 11 subsidiaries at the end of December of each year have been used with necessary adjustments on significant transactions during the period between the end of December and March 31.

Iwataya Co., Ltd., Iwataya Tomonokai Co., Ltd. Izutsuya Withcard Co., Ltd. and Barneys Japan Company Limited have fiscal years ending at the end of February of each year and the financial statements of these 4 subsidiaries at the end of February of each year have been used with necessary adjustments for significant transactions during the period between the end of February and March 31.

The accounts of the remaining 5 (5 for 2005) unconsolidated subsidiaries had combined total assets, net sales and net income, which in the aggregate were not considered significant in relation to those

of the consolidated financial statements of the Companies, and therefore, have not been consolidated with the Company.

(3) Consolidation and Elimination

For the purpose of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits within the Companies have been eliminated, and the portion of unrealized profits and adjustment on foreign currency statement translation attributable to minority interests has been charged to minority interests.

The legal reserves of consolidated subsidiaries provided subsequent to the acquisition of each subsidiary by the Company are included in retained earnings and are not shown separately in the consolidated financial statements.

(4) Investments in Unconsolidated Subsidiaries and Affiliates

At March 31, 2006, the Company had 7 affiliates (6 at March 31, 2005).

The equity method is applied to the investments in 7 affiliates, West Japan Railway Isetan Ltd., Hamaya Department Store Co., Ltd., Ta Lee Isetan Department Store Co., Ltd., ITM Clover Co., Ltd. AZ Card Co., Ltd., Isetan Dining Co., Ltd. and Shinjuku Underground Parking Co., Ltd., for which the Company's equity in the net income of the affiliates is included in consolidated income.

As the figures of Iwataya Co., Ltd. and Isetan (Thailand) Co., Ltd. are included in the consolidated financial statements, the equity method is not applied.

The investments in 5 unconsolidated subsidiaries at March 31, 2006 (5 for 2005) would not have had a material effect on consolidated net income or retained earnings if they had been accounted for by the equity method and accordingly these investments are carried at cost.

2. Summary of Significant Accounting Policies

(1) Financial Instruments

(a) Derivatives

All derivatives are stated at fair value, with changes in fair values included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see (c) Hedge Accounting below).

(b) Securities

Investments in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost because the effect of the application of the equity method would be immaterial.

Available-for-sale securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of shareholders' equity at a net-of-tax amount.

Available-for-sale securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair values of equity securities issued by unconsolidated subsidiaries and affiliates, or available-for-sale securities have declined significantly and such impairment of the values is not deemed temporary, those securities are written down to their fair values and the resulting losses are included in net profit or loss for the period.

Debt securities due within one year are presented as "current" and all the other securities are presented as "non-current."

(c) Hedge Accounting

Gains or losses arising from changes in fair values of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Companies are principally interest swaps, forward exchange contracts, currency swaps and currency options. The related hedged items are trade accounts receivable and payable and long-term bank loans.

The Companies have a policy of utilizing the above hedging instruments in order to reduce the Companies' exposure to the risk of interest and foreign currency fluctuations. Thus, the Companies' purchases of such hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Companies evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(2) Inventories

Inventories are stated at cost, with cost being determined by the retail cost method for merchandise and by the first-in first-out method (approximating market value) for supplies.

(3) Property and Equipment, and Depreciation

Property and equipment are stated at cost. Depreciation of buildings and structures is computed principally by using the straight-line method over their estimated useful lives. Depreciation of other property and equipment is computed principally by using the declining-balance method over their estimated useful lives.

Amortization of intangible assets is computed by using the straight-line method, and is mainly within 5 years.

(4) Deferred Assets

Organization costs and pre-operating and start-up costs are principally capitalized and amortized over a period of five years using the straight-line method.

(5) Income Taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

Deferred income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(6) Accounting for Allowances and Reserves

(a) Allowance for Doubtful Accounts

To prepare for the risk of possible losses arising from the irrecoverability of accounts receivable, loans and other claims, the Company set aside a general reserve based on actual default experience. For specific claims where collection is in doubt, the possibility of recovery is considered on a case-by-case basis and the amount considered uncollectible is set aside and provided for in the reserve.

(b) Reserve for Retirement Benefits to Employees

To provide for retirement benefits to employees, a reserve for retirement benefits is recorded based on the projected retirement benefit obligations and related pension assets of the current fiscal year end.

The prior service cost is amortized from the following consolidated fiscal year using the straight-line method based on a set numbers of years (3 to 8 years) within the average remaining service years of the employees when incurred.

Actuarial differences are amortized from the following consolidated fiscal year using the straight-line method based on a set numbers of years (8 to 10 years) within the average remaining service years of the employees when incurred.

(c) Retirement Allowance for Directors and Corporate Auditors

The retirement allowance for directors and corporate auditors ("officers") is based on the Companies' pertinent rules and is calculated as the estimated amount which would be payable if all officers were to retire at the balance sheet date. Any amounts payable to officers upon retirement are subject to approval at the general shareholders' meeting.

(d) Allowance for Point Cards

Kokura Isetan Co., Ltd., Iwataya Co., Ltd., Barneys Japan Company Limited and Queen's Isetan Company Limited, all of which are consolidated subsidiaries of the Company, offer point cards to their customers as a sales incentive program. To meet the obligation for issuance of the gift certificates, an allowance is provided for the estimated amount of gift certificates to be issued in the future based on a historical ratio of actual issuance of gift certificates to the outstanding points of the incentive program.

(7) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates. Resulting gains and losses are included in net profit or loss for the period.

Assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Shareholders' equity at the beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year or, alternatively, using the exchange rates prevailing at the balance sheet date. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" as a component of shareholders' equity.

(8) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, a plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors shall be approved at the shareholders' meeting, which must be held within three months of the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the result of such appropriations applicable to the immediately preceding fiscal year which was approved by the general shareholders' meeting and disposed of during the year. Dividends are paid to the shareholders on register at the end of each fiscal year. As is customary practice in Japan, payments of bonuses to directors and corporate auditors are made out of retained earnings instead of being charged to income for the year, which constitutes a part of the appropriation cited above. The Japanese Commercial Code provides that interim cash dividend payments may be distributed upon approval by the Board of

Directors. The Company pays such interim dividends to listed shareholders on the shareholders' register as of September 30 of each year.

(9) Net Income (Loss) per Share

Net income (loss) per share is based upon the weighted average number of shares outstanding during each year. Net income per share adjusted for dilution represents net income per share, assuming full conversion of all outstanding convertible bonds of the Company, with a related deduction in interest expenses. Cash dividends per share shown for each year in the consolidated financial statements of income and retained earnings represent dividends approved and paid in relation to each such year.

(10) Accounting for Significant Lease Arrangements

Finance lease contracts other than those by which the ownership of the leased assets is considered to be transferred to the lessee are mainly accounted for by the same method as normal operating lease contracts.

(11) Accounting for Consumption Tax

Consumption tax is imposed at a flat rate of 5 per cent. on all domestic consumption of goods and services with certain exemptions. The consumption tax imposed on the Companies' sales to customers is withheld by the Companies in Japan at the time of sale and is paid subsequently to the national government. The consumption tax withheld upon sale is not included in the amount of "Net sales" and consumption tax paid by the Companies on the purchases of goods and services from vendors is not included in the amounts of costs and expenses in the accompanying consolidated statements of income. The net balance of consumption tax withheld and paid is included in "Other current liabilities" in the accompanying consolidated balance sheets.

(12) Remeasurement of Assets and Liabilities of Subsidiaries

The Company adopts the "full fair value method", which provides that the full portion of the assets and liabilities of the subsidiaries is marked to fair value as of the acquisition of the control. The minor differences arising from the cost of the companies' investments in subsidiaries and affiliates over the equity in their net assets at fair value are charged or credited to income in the year of acquisition.

(13) Partial Revision of Accounting Standard for Retirement Benefits

In line with the public announcement of "Partial Revision of Accounting Standard for Retirement Benefits (Corporate Accounting Standard No. 3)" as well as "Implementation Guidance for Partial Revision of Accounting Standard for Retirement Benefits (Implementation Guidance No. 7 for applying Corporate Accounting standards)," both issued by the Accounting Standards Board of Japan on March 16, 2005, the Company elected to apply these standards to its consolidated financial statements for the year ended March 31, 2005.

As a result of this change, operating income and income before income taxes and minority interests increased by ¥761 million (\$7,086 thousand) for the year ended March 31, 2005.

The impacts on segment information are shown in the relevant parts of the notes to the consolidated financial statements.

(14) Change in Classification of revenue and expenses

Strategic measures to expand the department store business have resulted in greater revenue from such sources as business alliances and support. While this revenue was traditionally recorded under other income, it will now be recorded within net sales from the fiscal year under review for the purpose of greater financial transparency. Moreover, while expenses from these sources were traditionally recorded under other expenses, they will now be recorded within selling, general and administrative expenses from the fiscal year under review for the purpose of revenue and expense matching.

The effect of this change is immaterial.

The impact on segment information is shown in the relevant parts of the notes to the consolidated financial statements.

(15) Presentation of External Standard Taxation Portion in the Corporate Business Tax on the Profit and Loss Statement

Since the "Law for the Partial Revision of Local Tax, etc. (No. 9, 2003)" was announced on March 31, 2003, the rule of external standard taxation has been applied from fiscal years commencing on and after April 1, 2004. Subsequently, the added value portion and capital portion of corporate business tax have been recorded in selling, general and administrative expenses respectively from this point in accordance with the "Practical Treatment of the Disclosure of External Standard Taxation Portion in the Corporate Business Tax on the Profit and Loss Statement (February 13, 2004, Accounting Standards Board of Japan, Business Related Report No. 12)." As a result, selling, general and administrative expenses increased by ¥564 million, while operating income and income before income taxes and minority interests decreased by ¥564 million for the year ended March 31, 2005.

3. United States Dollar Amounts

The Company maintains its accounting records in Japanese Yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥117.47 = US\$1, the approximate rate of

exchange in effect on March 31, 2006. The inclusion of such dollar amounts is solely for the convenience of readers and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at this rate or any other rate.

4. Supplemental Cash Flow Information

I. Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits readily available

for withdrawal on demand and short-term investments with an original maturity of three months or less, and which represent a minor risk of fluctuations in value.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Cash and cash equivalents consisting of:			
Cash and bank deposits	¥37,162	¥22,545	\$316,350
Time deposits with maturity of over 3 months	(820)	(319)	(6,974)
Cash and cash equivalents	¥36,342	¥22,226	\$309,376

II. Non-cash investing and financing activities

For the year ended March 31, 2005, Iwataya Co., Ltd. and Iwataya Tomonokai Co., Ltd. were newly consolidated, and the equity method was newly applied to AZ Card Co., Ltd. and Hamaya Department Store Co., Ltd. due to the acquisition of a majority share of Iwataya Co., Ltd.

The assets and liabilities of these companies at the time of initial consolidation, additional cash paid for the capital, cash and cash equivalents held by consolidated subsidiaries, and net cash and cash equivalents received in conjunction with the purchase of consolidated subsidiaries were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2005	2005
Current assets	¥ 25,268	\$235,292
Fixed assets	47,996	446,932
Goodwill	2,023	18,838
Current liabilities	(41,012)	(381,898)
Non-current liabilities	(28,853)	(268,675)
Minority interests	(1,577)	(14,685)
Appraisal of pre-existing shares under the equity method	(768)	(7,152)
Additional cash paid for capital	3,077	28,652
Cash and cash equivalents held by consolidated subsidiaries	5,828	54,269
Cash and cash equivalents received in conjunction with the purchase of consolidated subsidiaries	¥ 2,751	\$ 25,617

5. Impairment of Property and Equipment

The Companies recorded impairment losses on the following asset groups during this fiscal year.

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 3)
			2006	2006
Shizuoka Isetan Company Limited (Shizuoka-shi, Shizuoka other)	Retail stores other	Building leasehold	¥2,237	\$19,045
Isetan Company Limited (Setagaya-ku, Tokyo)	Employee dormitory	Building leasehold other	858	7,301
Other	Retail stores other	Building leasehold other	343	2,920

Isetan Company Limited (the "Company") and its consolidated subsidiaries group assets into the smallest cash flow generating units possible, which is generally the individual retail store. Assets scheduled for sale are also grouped as individual units. Asset groups that continued to generate losses or whose market value was expected

to decline dramatically, as well as the book value of an employee dormitory scheduled for sale, were all written down to their recoverable levels, resulting in an impairment loss on property and equipment of ¥3,438 million (US\$29,266 thousand).

Location	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Shizuoka Isetan Company Limited	¥2,237	\$19,045
	(Building 1,675; leasehold 562)	(Building 14,260; leasehold 4,785)
Isetan Company Limited	¥ 858	\$ 7,301
	(Building 146; leasehold 681; other 31)	(Building 1,244; leasehold 5,795; other 262)
Other	¥ 343	\$ 2,920
	(Building 198; leasehold 112; other 33)	(Building 1,688; leasehold 951; other 281)

The recoverable value of these asset groups was calculated using the net sale value method, whereas the value of critical asset groups was determined by a real estate appraiser based on Japanese real estate

appraisal standards. Assets scheduled for sale were generally recorded using the value listed on the contract of sale.

6. Lease Contracts

I. Finance leases other than those deemed to transfer the ownership of leased assets to lessees

As a lessee

1. Amounts equivalent to the acquisition cost, accumulated depreciation, and net book value of leased assets:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Equipment:			
Acquisition cost	¥6,903	¥7,765	\$58,769
Accumulated depreciation	2,930	4,469	24,944
Net book value	¥3,973	¥3,296	\$33,825

2. The amounts of outstanding future lease payments:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Within one year	¥1,318	¥1,265	\$11,220
Over one year	2,655	2,032	22,605
Total	¥3,973	¥3,297	\$33,825

Note: Because amounts equivalent to the outstanding future lease payments are not material as compared with the balance of tangible fixed assets, the above amounts include the portion of interest thereon.

3. Lease rental expenses and amount equivalent to depreciation:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Lease rental expenses	¥1,453	¥271	\$12,371
Amount equivalent to depreciation	¥1,453	¥271	\$12,371

4. The amount equivalent to depreciation is computed using the straight line method over the leasing period, assuming no residual value.

II. Operating leases

As lessee:

The amounts of outstanding future lease payments

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Within one year	¥ 6,401	¥ 4,228	\$ 54,491
Over one year	65,688	49,195	559,188
Total	¥ 72,089	¥53,423	\$ 613,679

7. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2006 and 2005 was 40.7%.

At March 31, 2006 and 2005, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Deferred tax assets:			
Allowance for doubtful accounts	¥ 2,106	¥ 1,601	\$ 17,929
Accrued bonuses	3,571	3,125	30,397
Reserve for employees' retirement benefits	7,687	9,095	65,441
Depreciation in excess of tax deductible limit	1,797	1,982	15,301
Write-down of investments in securities	1,313	680	11,175
Undeducted loss on impairment of property and equipment	2,557	2,282	21,766
Tax loss carryforwards	3,077	2,397	26,196
Other	4,155	3,036	35,363
Total	26,263	24,198	223,568
Valuation allowance	(6,725)	(6,878)	(57,247)
Total deferred tax assets	19,538	17,320	166,321
Deferred tax liabilities:			
Reserve for deferred capital gain on property	(6,734)	(4,209)	(57,329)
Unrealized gain on other securities	(10,218)	(3,941)	(86,984)
Other	(3,052)	(258)	(25,977)
Total deferred tax liabilities	(20,004)	(8,408)	(170,290)
Net deferred tax assets (liabilities)	¥ (466)	¥ 8,912	\$ (3,969)

Note: Net deferred tax assets were included in the following consolidated balance sheet items.

Net deferred tax assets (liabilities) were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Current assets - deferred tax assets	¥ 7,547	¥5,410	\$64,249
Fixed assets - deferred tax assets	2,036	3,759	17,330
Current liabilities - deferred tax liabilities	(10)	(6)	(87)
Long-term liabilities - deferred tax liabilities	(10,039)	(251)	(85,461)

For the years ended March 31, 2006 and 2005, the reconciliation of the statutory tax rate to the respective effective income tax rate is as follows:

	2006	2005
Statutory tax rate	40.7%	40.7%
Increase (decrease) in taxes resulting from		
Permanent differences, net	0.3	0.4
Inhabitants tax - per capita levy	0.2	0.2
Net loss of subsidiaries	4.9	4.7
Amortization of consolidation goodwill	(0.2)	3.3
Equity earnings of affiliates	(0.6)	(1.1)
Effect of lower tax rates for overseas subsidiaries	—	(1.4)
Effect of dividends from overseas subsidiaries	—	4.3
Valuation allowance	(1.0)	(2.1)
Tax loss carryforwards	—	(3.6)
Other	(0.6)	(1.3)
Effective income tax rate	43.7%	44.1%

8 Retirement Benefit Plan

The Company and its domestic consolidated subsidiaries have defined benefit pension plans, i.e., welfare pension plans, tax-qualified pension plans and lump-sum retirement plans, covering substantially all their employees, who are entitled to lump-sum

payments and/or pension payments, the amounts of which are determined with reference to their basic salary.

The reserve for retirement benefits to employees as of March 31, 2006 and 2005 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Projected benefit obligations	¥(44,873)	¥(52,688)	\$(381,998)
Plan assets	28,206	24,620	240,114
	(16,667)	(28,068)	(141,884)
Unrecognized actuarial differences	655	5,687	5,575
Unrecognized prior service costs	(4,821)	(1,326)	(41,040)
	(20,833)	(23,707)	(177,349)
Prepaid pension costs	4,427	2,375	37,688
Accrued retirement benefits	¥(25,260)	¥(26,082)	\$(215,037)

Note: The above table includes the employees' contributory portion subject to the governmental welfare pension program. Certain of the consolidated subsidiaries have adopted the conventional method in calculating their retirement benefit obligation as set forth in the accounting standard for retirement benefits.

Net pension expenses related to retirement benefits for the years ended March 31, 2006 and 2005 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Service costs	¥1,841	¥2,183	\$15,669
Interest costs	1,123	985	9,557
Expected return on plan assets	(704)	(585)	(5,996)
Amortization of actuarial differences	997	791	8,490
Amortization of prior service costs	(2,489)	(609)	(21,187)
Loss for settlement of tax-qualified pension plan	—	127	—
Payments for defined contribution pension plan	943	718	8,030
Others	83	—	707
Net pension expenses	¥1,794	¥3,610	\$15,270

Assumptions used in calculation of the above pension expense were as follows:

	As of March 31, 2006	As of March 31, 2005
Discount rate	2.00—2.50%	2.50%
Expected rate of return on plan assets	1.50—3.50%	1.50—3.50%
Method of attributing the projected benefits to periods of service	straight-line basis	straight-line basis
Amortization of prior service costs	within 3-8 years	within 3-8 years
Amortization of unrecognized actuarial differences	within 8-10 years	within 8-10 years

9. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Short-term bank loans	¥29,522	¥34,398	\$251,312
Long-term bank loans due within one year	6,990	2,650	59,508
Total	¥36,512	¥37,048	\$310,820

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Long-term loans from banks and other financial institutions	¥14,649	¥32,751	\$124,709
Less: portion due within one year	(6,990)	(2,650)	(59,508)
Sub-total	7,659	30,101	65,201
Bonds:			
2.825% bonds due November 28, 2007	20,000	20,000	170,256
0.67% bonds due August 15, 2008	10,000	10,000	85,128
0.61% bonds due September 8, 2006	10,000	10,000	85,128
0.44% bonds due February 26, 2007	5,000	5,000	42,564
	45,000	45,000	383,076
Less: due within one year	15,000	—	127,692
Sub-total	30,000	45,000	255,384
Total	¥37,659	¥75,101	\$320,585

The aggregate annual maturities of long-term loans outstanding at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Year ending March 31,		
2007	¥3,459	\$29,448
2008	3,400	28,943
2009	400	3,405
2010	400	3,405

The Company has agreements with six banks for committed credit lines in order to ensure efficient operating-funds. The aggregate information with respect to unused credit lines at March 31, 2006 was as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Available credit lines	¥25,000	\$212,820
Used credit lines	—	—
Unused credit lines	¥25,000	\$212,820

10. Market Value of Securities

I. The carrying amounts and aggregate fair values of available-for-sale securities for which market quotations were available at March 31, 2006 and 2005 were as follows:

	March 31, 2006			
	Millions of yen		Thousands of U.S. dollars (Note 3)	
	Price at cost	Book value	Unrealized gain (loss)	Unrealized gain (loss)
(1) Securities with book value exceeding acquisition cost:				
Corporate stock	¥25,582	¥53,380	¥27,798	\$236,638
(2) Securities with book value under acquisition cost:				
Corporate stock	0	0	(0)	(0)
	March 31, 2005			
	Millions of yen		Thousands of U.S. dollars (Note 3)	
	Price at cost	Book value	Unrealized gain (loss)	Unrealized gain (loss)
(1) Securities with book value exceeding acquisition cost:				
Corporate stock	¥22,791	¥32,535	¥9,744	\$90,735
(2) Securities with book value under acquisition cost:				
Corporate stock	800	789	(11)	(102)

II. Total sales of available-for-sale securities sold in the year ended March 31, 2006 amounted to ¥503 million (\$4,284 thousand), and related gains amounted to ¥441 million (\$3,758 thousand), and related losses amounted to ¥2 million (\$13 thousand). Total sales of available-for-sale securities sold in the year ended March 31, 2005 amounted to ¥2,041 million (\$19,005 thousand), and related gains amounted to ¥1,598 million (\$14,880 thousand).

III. The carrying amounts of available-for-sale securities for which market quotations were unavailable at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Other securities	¥3,382	¥3,070	\$28,789

IV. Maturities of available-for-sale securities at March 31, 2006 are as follows:

	Millions of yen			Total
	Within a year	Over a year but within five years	Over five years but within ten years	
	2006			
Corporate bonds	¥1,347	¥212	¥638	¥2,197
Total	¥1,347	¥212	¥638	¥2,197

	Thousands of U.S. dollars			Total
	Within a year	Over a year but within five years	Over five years but within ten years	
	2006			
Corporate bonds	\$11,463	\$1,811	\$5,431	\$18,705
Total	\$11,463	\$1,811	\$5,431	\$18,705

11. Commitments and Contingent Liabilities

I. Commitments

Isetan I Card Co., Ltd. and Izutsuya Withcard Co., Ltd. both of which are consolidated subsidiaries of the Company have agreements under which they are committed to execute loans to card members provided that the agreed-upon terms are met. As at March 31, 2006, the total unused credit available to card members was ¥133,074 million (\$ 1,132,832 thousand).

II. Contingent liabilities

The Company had contingent liabilities for guarantees of housing loans borrowed by employees in the amount of ¥1,591 million (\$13,544 thousand) and ¥2,023 million at March 2006 and 2005, respectively.

12. Breakdown of Selling, General and Administrative Expenses

Selling, general and administrative expenses during the two years ended March 31, 2006 and 2005 included the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Salaries and payroll costs	¥66,068	¥59,217	\$562,424
Pension expense	1,794	3,483	15,272
Advertising	13,259	11,444	112,871
Depreciation (and amortization)	10,745	10,529	91,470

13. Appropriation of Retained Earnings

The following appropriations of unappropriated retained earnings of the Companies were approved by the shareholders of the Company

at the general shareholders' meeting held on June 29, 2006.

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Retained earnings:		
Balance at March 31	¥100,058	\$851,778
Appropriations:		
Cash dividends (¥9.0 per share)	(2,018)	(17,184)
Officers' bonuses	(129)	(1,094)
Balance to be carried forward	¥ 97,911	\$833,500

14. Stock Option Plan

The company adopted a stock option plan in Japan as an incentive plan for directors, operating officers and employees by resolution of the general meetings of shareholders.

Key information on the stock option plan is summarized as follows:

Option granted	Number of shares available for option	Term of the option	Exercise price
(1) Approved by shareholders at meeting held on June 29, 2000 Directors (19)	178,000 shares	from August 1, 2000 to June 28, 2010	¥1,157
(2) Approved by shareholders at meeting held on June 28, 2001 Directors (8) and employees (365)	1,055,000 shares	from August 7, 2003 to June 27, 2011	¥1,359
(3) Approved by shareholders at meeting held on June 27, 2002 Directors (9) and employees (364)	1,152,000 shares	from July 1, 2004 to June 26, 2012	¥1,162
(4) Approved by shareholders at meeting held on June 27, 2003 Directors (9) and employees (355)	1,533,500 shares	from July 1, 2005 to June 26, 2010	¥ 891
(5) Approved by shareholders at meeting held on June 29, 2004 Directors (8) and employees (72)	644,600 shares	from July 1, 2006 to June 28, 2011	¥1,378
(6) Approved by shareholders at meeting held on June 29, 2005 Directors (7) and employees (72)	692,400 shares	from July 1, 2007 to June 28, 2012	¥1,560
(7) Approved by shareholders at meeting held on June 29, 2006 Directors (7)	160,700 shares	from August 9, 2008 to August 8, 2013	¥1,829
(8) Approved by shareholders at meeting held on June 29, 2006 Operating officer (17)	262,900 shares	from August 9, 2008 to August 8, 2013	¥1,829
(9) Approved by shareholders at meeting held on June 29, 2006 Employees (54)	216,000 shares	from August 9, 2008 to August 8, 2013	¥1,829

*Each exercise price of the option was determined according to market quotations by the Tokyo Stock Exchange at the date the option was granted, or the monthly average of daily market quotations during the month preceding the date the option was granted, whichever is higher. The exercise prices are to be adjusted for the effect of subsequent stock splits or stock consolidation, if any.

15. Segment Information

I. Industry Segment Information

The Companies operate primarily in four lines of business:

• Department store business

• Credit & finance business

• Other retailing, speciality stores and the restaurant business

• Other business

Net sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditures of the Companies as at and for the years ended March 31, 2006 and 2005 classified by business segments are presented below.

	Millions of yen						
	2006						
	Department store business	Credit & finance business	Other retailing, speciality stores, restaurant business	Other business	Total	Elimination	Consolidated total
Net Sales:							
Outside customers	¥ 683,832	¥ 8,113	¥ 62,756	¥ 5,337	¥ 760,038	¥ —	¥ 760,038
Inter-segment sales	106	5,497	12,010	30,733	48,346	(48,346)	—
	683,938	13,610	74,766	36,070	808,384	(48,346)	760,038
Operating costs and expenses	659,605	9,794	73,416	35,851	778,666	(48,689)	729,977
Operating income	¥ 24,333	¥ 3,816	¥ 1,350	¥ 219	¥ 29,718	¥ 343	¥ 30,061
Assets	¥ 443,646	¥ 69,031	¥ 19,636	¥ 41,015	¥ 573,328	¥ (79,774)	¥ 493,554
Depreciation	¥ 9,654	¥ 162	¥ 1,060	¥ 28	¥ 10,904	¥ (10)	¥ 10,894
Impairment loss	¥ 3,289	¥ —	¥ 149	¥ —	¥ 3,438	¥ —	¥ 3,438
Capital expenditures	¥ 12,864	¥ 283	¥ 572	¥ 214	¥ 13,933	¥ (404)	¥ 13,529

	Millions of yen						
	2005						
	Department store business	Credit & finance business	Other retailing, speciality stores, restaurant business	Other business	Total	Elimination	Consolidated total
Net Sales:							
Outside customers	¥ 556,095	¥ 7,865	¥ 59,650	¥ 5,386	¥ 628,996	¥ —	¥ 628,996
Inter-segment sales	224	6,149	10,749	24,757	41,879	(41,879)	—
	556,319	14,014	70,399	30,143	670,875	(41,879)	628,996
Operating costs and expenses	542,637	9,555	70,550	29,997	652,739	(42,936)	609,803
Operating income	¥ 13,682	¥ 4,459	¥ (151)	¥ 146	¥ 18,136	¥ 1,057	¥ 19,193
Assets	¥ 410,658	¥ 65,275	¥ 21,683	¥ 38,435	¥ 536,051	¥ (74,471)	¥ 461,580
Depreciation	¥ 8,547	¥ 1,056	¥ 1,074	¥ 21	¥ 10,698	¥ (15)	¥ 10,683
Capital expenditures	¥ 8,994	¥ 319	¥ 3,174	¥ 11	¥ 12,498	¥ (99)	¥ 12,399

Thousands of U.S. dollars (Note 3)

	2006						Consolidated total
	Department store business	Credit & finance business	Other retailing, speciality stores, restaurant business	Other business	Total	Elimination	
Net Sales:							
Outside customers	\$ 5,821,336	\$ 69,062	\$ 534,234	\$ 45,429	\$ 6,470,061	\$ —	\$ 6,470,061
Inter-segment sales	904	46,794	102,234	261,630	411,562	(411,562)	—
	<u>5,822,240</u>	<u>115,856</u>	<u>636,468</u>	<u>307,059</u>	<u>6,881,623</u>	<u>(411,562)</u>	<u>6,470,061</u>
Operating costs and expenses	5,615,099	83,373	624,972	305,191	6,628,635	(414,479)	6,214,156
Operating income	<u>\$ 207,141</u>	<u>\$ 32,483</u>	<u>\$ 11,496</u>	<u>\$ 1,868</u>	<u>\$ 252,988</u>	<u>\$ 2,917</u>	<u>\$ 255,905</u>
Assets	<u>\$ 3,776,672</u>	<u>\$ 587,647</u>	<u>\$ 167,160</u>	<u>\$ 349,158</u>	<u>\$ 4,880,637</u>	<u>\$ (679,108)</u>	<u>\$ 4,201,529</u>
Depreciation	\$ 82,186	\$ 1,379	\$ 9,024	\$ 239	\$ 92,828	\$ (87)	\$ 92,741
Impairment loss	\$ 28,001	\$ —	\$ 1,265	\$ —	\$ 29,266	\$ —	\$ 29,266
Capital expenditure	\$ 109,508	\$ 2,412	\$ 4,871	\$ 1,818	\$ 118,609	\$ (3,439)	\$ 115,170

* Strategic measures to expand the department store business have resulted in greater revenue from such sources as business alliances and support. While this revenue was traditionally recorded under other income, it will now be recorded within net sales from the fiscal year under review for the purpose of greater financial transparency. Moreover, while expenses from these sources were traditionally recorded under other expenses, they will now be recorded within selling, general and administrative expenses from the fiscal year under review for the purpose of revenue and expense matching. The impact on the category "Department stores business" is immaterial.

II. Geographical Segment Information

Net sales, related operating costs and expenses, operating income and assets of the Companies as at and for the years ended March 31, 2006 and 2005 as classified by geographical segment, are presented below:

	Millions of yen				
	2006				
	Within Japan	Outside Japan	Total	Elimination	Consolidated total
Net sales:					
Outside customers	¥ 703,678	¥ 56,360	¥ 760,038	¥ —	¥ 760,038
Inter-segment sales	490	77	567	(567)	—
	<u>704,168</u>	<u>56,437</u>	<u>760,605</u>	<u>(567)</u>	<u>760,038</u>
Operating costs and expenses	677,056	53,501	730,557	(580)	729,977
Operating income	<u>¥ 27,112</u>	<u>¥ 2,936</u>	<u>¥ 30,048</u>	<u>¥ 13</u>	<u>¥ 30,061</u>
Assets	<u>¥ 464,047</u>	<u>¥ 31,805</u>	<u>¥ 495,852</u>	<u>¥ (2,298)</u>	<u>¥ 493,554</u>

	Millions of yen				
	2005				
	Within Japan	Outside Japan	Total	Elimination	Consolidated total
Net sales:					
Outside customers	¥ 584,288	¥ 44,708	¥ 628,996	¥ —	¥ 628,996
Inter-segment sales	18	114	132	(132)	—
	<u>584,306</u>	<u>44,822</u>	<u>629,128</u>	<u>(132)</u>	<u>628,996</u>
Operating costs and expenses	566,976	43,425	610,401	(598)	609,803
Operating income	<u>¥ 17,330</u>	<u>¥ 1,397</u>	<u>¥ 18,727</u>	<u>¥ 466</u>	<u>¥ 19,193</u>
Assets	<u>¥ 438,216</u>	<u>¥ 25,324</u>	<u>¥ 463,540</u>	<u>¥ (1,960)</u>	<u>¥ 461,580</u>

Thousands of U.S. dollars (Note 3)

	2006				Consolidated total
	Within Japan	Outside Japan	Total	Elimination	
Net sales:					
Outside customers	\$ 5,990,276	\$ 479,785	\$ 6,470,061	\$ —	\$ 6,470,061
Inter-segment sales	4,174	657	4,831	(4,831)	—
	<u>5,994,450</u>	<u>480,442</u>	<u>6,474,892</u>	<u>(4,831)</u>	<u>6,470,061</u>
Operating costs and expenses	<u>5,763,647</u>	<u>455,450</u>	<u>6,219,097</u>	<u>(4,941)</u>	<u>6,214,156</u>
Operating income	<u>\$ 230,803</u>	<u>\$ 24,992</u>	<u>\$ 255,795</u>	<u>\$ 110</u>	<u>\$ 255,905</u>
Assets	<u>\$ 3,950,344</u>	<u>\$ 270,751</u>	<u>\$ 4,221,095</u>	<u>\$ (19,566)</u>	<u>\$ 4,201,529</u>

Overseas sales information for the years ended March 31, 2006 and 2005 is not provided, since neither the net sales of overseas subsidiaries or overseas sales of the Companies were material (they were less than 10% of the consolidated net sales amount) in either year.

* Strategic measures to expand the department store business have resulted in greater revenue from such sources as business alliances and support. While this revenue was traditionally recorded under other income, it will now be recorded within net sales from the fiscal year under review for the purpose of greater financial transparency. Moreover, while expenses from these sources were traditionally recorded under other expenses, they will now be recorded within selling, general and administrative expenses from the fiscal year under review for the purpose of revenue and expense matching. The impact on the category "Within Japan" is immaterial.

16. Subsequent Events

Sale and transfer of shares of a major subsidiary

At a meeting of the Board of Directors held on June 20, 2006, the Company resolved to sell all shares of its consolidated subsidiary, Barneys Japan Company Limited, and concluded a share transfer agreement on the same day.

(1) Reasons of sale and transfer of shares

Based on the overall judgment of the future development of Barneys Japan as well as the "selection and concentration" of the Isetan Group's businesses, or more specifically, to further ensure competitiveness by concentrating management resources in the Department store business, the Company made a decision to sell its shares and engage in a share transfer agreement with the following transferees as a means of maximizing the interests of the respective concerned parties.

(2) Transferees

Sumitomo Corporation
TMCAP2005 (limited liability investment business fund operated by Tokyo Marine Capital Co., Ltd.)

(3) Transfer schedule

Transfer date: Mid July 2006 (planned)

(4) Main business of consolidated subsidiary and business transactions with the parent company

(a) Main business

Specialty stores for men's and women's apparel

(b) Business transactions with the Company

Supplying products to the Company

(5) Number of shares to be sold, selling price, profit (loss) on sale, and percentage of ownership after sale

1. Number of shares to be sold	49,800 shares
2. Planned selling price	¥1,245 million
3. Projected profit on sale	¥200 million
4. Percentage of ownership after sale	-%

Report of Independent Auditors

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

Report of Independent Auditors

To the Board of Directors and Shareholders of Isetan Company Limited

We have audited the accompanying consolidated balance sheets of Isetan Company Limited and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Isetan Company Limited and its subsidiaries as of March 31, 2005 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.

As described in Note 2. (14), effective for the year ended March 31, 2006, Isetan Company Limited changed its classification of business alliances and support revenue from "Other income" to "Net Sales", as well as related expenses from "Other Expenses" to "Selling, General and Administrative Expenses".

As described in Note 16, effective for the year ended March 31, 2006, at a meeting of the Board of Directors held on June 20, 2006, Isetan Company Limited resolved to sell all shares of its consolidated subsidiary, Barney's Japan Company Limited, and concluded a share transfer agreement on the same day.

As described in Note 2. (13), effective for the year ended March 31, 2005, Isetan Company Limited and its subsidiaries adopted the Partial Revision of Accounting Standard for Retirement Benefits.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.



ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2006

Isetan Corporate Profile

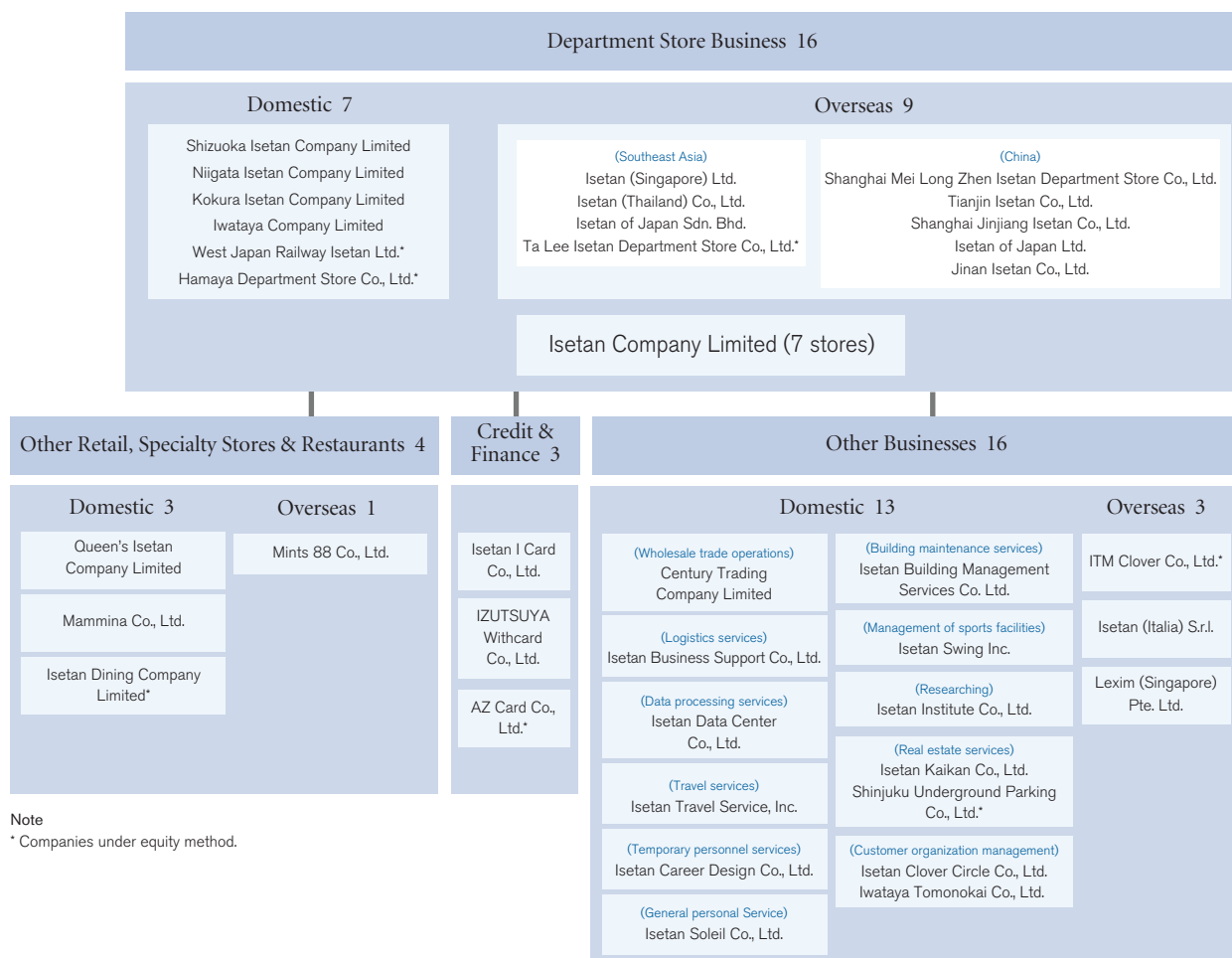
Name: Isetan Company Limited
 Founded: Nov 5, 1886
 Established: Sep 30, 1930
 Principal business: Department store business
 Representative director and chief executive officer: Nobukazu Muto
 Capital: ¥36,122 million
 Headquarters: 14-1, Shinjuku 3-chome, Shinjuku-ku, Tokyo
 160-0022, Japan
 Phone: +81-3-3352-1111
 Number of stores: 7

The total retail floor space: 262,586m²
 Accounting term: March
 Net sales: ¥760,038 million (consolidated)
 ¥444,263 million (non-consolidated)
 Operating income: ¥30,061 million (consolidated)
 ¥20,019 million (non-consolidated)
 Recurring income: ¥30,925 million (consolidated)
 ¥21,629 million (non-consolidated)
 Number of employees: 9,191 (consolidated)
 3,797 (non-consolidated)

Board of Directors and Corporate Auditors (As of June 2006)

<p>Chairman Kazumasa Koshiba</p> <p>President & CEO Nobukazu Muto</p> <p>Senior Executive Vice President, Director Mikio Hashimoto</p> <p>Executive Vice President, Director Chihiro Nihashi</p> <p>Senior Executive Officer, Director Keinosuke Okawa</p>	<p>Directors Shotaro Watanabe Takeshi Yano</p> <p>Corporate Auditors Etsuro Ishizuya Ikuo Nihei Keitaro Kawanami Yasumasa Gomi</p> <p>Senior Executive Officers Shinya Takada Tatsumasa Matsui Haruki Fujiwara Toshihiko Nakagome</p>	<p>Executive Officers Jun Sekine Taketoshi Nakayama Naoki Ueno Kenichi Nagasaki Kenji Utsuda Hiroshi Omata Susumu Sugiura Toshiaki Nakagawa Hiroyoshi Oshima Shinichi Matsuura Hiroshi Onishi Hidetoshi Yamaoka Keiichi Kurosawa</p>
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Business Relationship Among Isetan Group Companies (As of Aug. 2006)





Main store (Shinjuku, Tokyo)

Aiming to be the world's premier fashion store, the Isetan flagship store in Shinjuku offers high-quality merchandise and service of an international standard, and attracts over 30 million shoppers per year. The store comprises a main building and Isetan Men's (Annex), and regularly tops the Japanese single-store rankings for apparel sales.

3-14-1 Shinjuku, Shinjuku-ku, Tokyo 160-0022 Japan +81-3-3352-1111
Total selling floor area: 64,296m² Annual sales: ¥252,235 million
Opened: Sep. 28, 1933



Tachikawa store

Since the store on the original site opened in 1947, the Tachikawa Store has grown in step with the major suburban city of Tachikawa. In January 2001, a newly renovated store reopened on a new site near to Tachikawa station, and remains a popular local fixture.

2-5-1 Akebono-cho, Tachikawa-shi, Tokyo 190-0012 Japan +81-42-525-1111
Total selling floor area: 40,060m² Annual sales: ¥40,240 million
Opened: Oct. 10, 1947
(Newly renovated store reopened Jan, 24, 2001)



Kichijoji store

The Kichijoji store also welcomed the 35th anniversary of its opening, and has enjoyed the patronage of customers from the Musashino District for many years. We are continuing with efforts to create a store well-matched to the local community by offering high quality product lines and services.

1-11-5, Kichijojihon-cho, Musashino-shi, Tokyo 180-0004 Japan +81-422-21-1111
Total selling floor area: 20,758m² Annual sales: ¥17,890 million
Opened: Nov. 10, 1971



Matsudo store

A full remodeling completed in October 1995 gave the suburban city of Matsudo a city-center department store, besides adding another 10,000 sq. m. of floor space in a new annex. This store is designed primarily with the needs of families in mind.

1307-1 Matsudo, Matsudo-shi, Chiba 271-0092 Japan +81-47-364-1111
Total selling floor area: 33,109m² Annual sales: ¥29,121 million
Opened: Apr. 19, 1974



Urawa store

The Urawa store reopened on March 1 after a full remodeling, as we welcomed the 25th anniversary of its opening this year. Our goal is to be known as "my store, my Isetan" by meeting the needs of neighborhood families for even higher quality lifestyles over three generations

1-15-1 Takasago, Urawa-ku, Saitama-shi, Saitama 336-0011 Japan +81-48-834-1111
Total selling floor area: 29,355m² Annual sales: ¥47,959 million
Opened: Apr. 22, 1981



Sagamiyama store

Opened in 1990, the Sagamiyama store has proved a big hit in this commuter-belt city to the west of Tokyo. Featuring two annexes in addition to the main building, this city-center store located in the suburbs offers a wide range of fashion and lifestyle goods.

4-4-3 Sagamiyama, Sagamiyama-shi, Kanagawa 228-0803 Japan +81-42-740-1111
Total selling floor area: 40,906m² Annual sales: ¥32,310 million
Opened: Sep. 25, 1990



Fuchu store

Selected as the anchor tenant for the Fuchu Station South Exit Redevelopment Project in 1988, the Fuchu store opened its doors in April 1996, and is greeting its 10th anniversary. Kururu, a multipurpose complex in front of the station, opened in March 2005. The complex has a south entrance into Fuchu Station, leading to an increase in customer traffic through the store.

1-41-2 Miyamachi, Fuchu-shi, Tokyo 183-0023 Japan +81-42-334-1111
Total selling floor area: 34,102m² Annual sales: ¥24,505 million
Opened: Apr. 3, 1996

Domestic Group Companies and Affiliated Stores

Shizuoka Isetan Company Limited

Aiming to be the fashion leader in the region, the store reopened after a full remodeling in September 2003. It will celebrate its 30th anniversary in 2007.

1-7 Gohukucho, Sizuoka-shi, Shizuoka
420-0031 Japan +81-54-251-2211
Annual sales: ¥22,641 million Founded: Jun. 10, 1948
Opened: Nov. 28, 1971



Niigata Isetan Company Limited

One of the leading department stores in the region - and arguably, along the entire northern coast of Japan - the store celebrated its 20th anniversary in 2004. It also conducted a successful renovation as well as reform of sales staff approach and services.

1-6-1 Yachiyo, Niigata-shi, Niigata 950-0909 Japan
+81-25-242-1111
Annual sales: ¥39,529 million Founded: Feb. 21, 1980
Opened: Apr. 3, 1984



Kokura Isetan Co., Ltd.

Opened in February 2004, this store offers a highly fashionable range of merchandise, showcasing goods from Tokyo as well as those developed locally on the island of Kyushu in a comfortable, open space with friendly service. This store aims to vitalize the Kita Kyushu region and Kokura town.

3-1-1 Kyomachi, Kokurakita-ku, Kita-Kyusyu-shi,
Fukuoka 802-8508 Japan +81-93-514-1111
Annual sales: ¥16,147 million
Founded: Apr. 16, 2003
Opened: Feb. 10, 2004



Iwataya Co., Ltd.

In celebration of its 250th anniversary, Iwataya combined its main building and a new building to open a new flagship store in March 2004. Its ultimate aim is to be the leading fashion store in Kyushu.

2-5-35 Tenjin, Fukuoka 810-8680 Japan
+81-92-721-1111
Annual sales: ¥104,846 million
Founded: 1754
Established: May 8, 1935



West Japan Railway Isetan Ltd.

(Equity-method affiliate)

901 Higashishiojoumichi,
Karasumarudori-shiojouji-kudaru,
Simogyo-ku, Kyoto 600-8216 Japan
+81-75-352-1111
Annual sales: ¥64,558 million
Founded: Oct. 1, 1990
Opened: Sep. 11, 1997



Queen's Isetan Company Limited (Supermarkets)

The Yokohama store is scheduled to open on basement floor of Sotetsu Joinus, in the western district of Yokohama City by end of 2006

4F H&I Bldg., 5-17-18 Shinjuku,
Shinjuku-ku, Tokyo 160-0022 Japan
+81-3-5273-5380



Mamma Co., Ltd.

(Specialty stores for women's)

5F H&I Bldg., 5-17-18 Shinjuku,
Shinjuku-ku, Tokyo 160-0022 Japan
+81-3-5286-1050



Isetan Dining Company Limited (Restaurants)

(Equity-method affiliate)

4F Shizgin Bldg., 2-19-12 Shinjuku, Shinjuku-ku,
Tokyo 160-0022 Japan
+81-3-3357-5981

Isetan Kaikan Co., Ltd. (Real estate services)

6F Isetan Kaikan, 3-15-17 Shinjuku, Shinjuku-ku,
Tokyo 160-0022 Japan +81-3-3352-8711

Isetan Clover Circle Company Limited (Customer organization management)

7F Isetan Kaikan, 3-15-17 Shinjuku, Shinjuku-ku, Tokyo
160-0022 Japan +81-3-3354-5802

Century Trading Company Limited (Wholesale trade operations)

4F Hakuhou Bldg., 5-17-11 Shinjuku, Shinjuku-ku, Tokyo
160-0022 Japan +81-3-3208-5881

Isetan Travel Service, Inc. (Travel services)

4F H&I Bldg., 5-17-18 Shinjuku, Shinjuku-ku, Tokyo
160-0022 Japan +81-3-5273-5391

Isetan Swing Inc. (Management of sports facilities)

4F Shinjuku Underground Parking Bldg., 1-2-2 Kabukicho,
Shinjuku-ku, Tokyo 160-0021 Japan +81-3-3207-2851

Isetan Institute Co., Ltd. (Researching)

6F H&I Bldg., 5-17-18 Shinjuku, Shinjuku-ku, Tokyo
160-0022 Japan +81-3-5273-5341

Isetan Data Center Co., Ltd. (Data processing services)

Isetan Ochiai Center, 2-18-20 Nishiochiai, Shinjuku-ku, Tokyo
161-0031 Japan +81-3-5996-5112

Isetan I Card Co., Ltd. (Credit & Finance)

2-3F H&I Bldg., 5-17-18 Shinjuku,
Shinjuku-ku, Tokyo 160-0022 Japan
+81-3-5273-6500



IZUTSUYA Withcard Co., Ltd. (Credit & Finance)

1-1 Senbacho, Kokurakita-ku, Kita-Kyusyu-shi,
Fukuoka 802-8511 Japan +81-93-522-3550

Isetan Career Design Co., Ltd. (Temporary personnel services)

1F H&I Bldg., 5-17-18 Shinjuku, Shinjuku-ku, Tokyo
160-0022 Japan +81-3-5273-1881

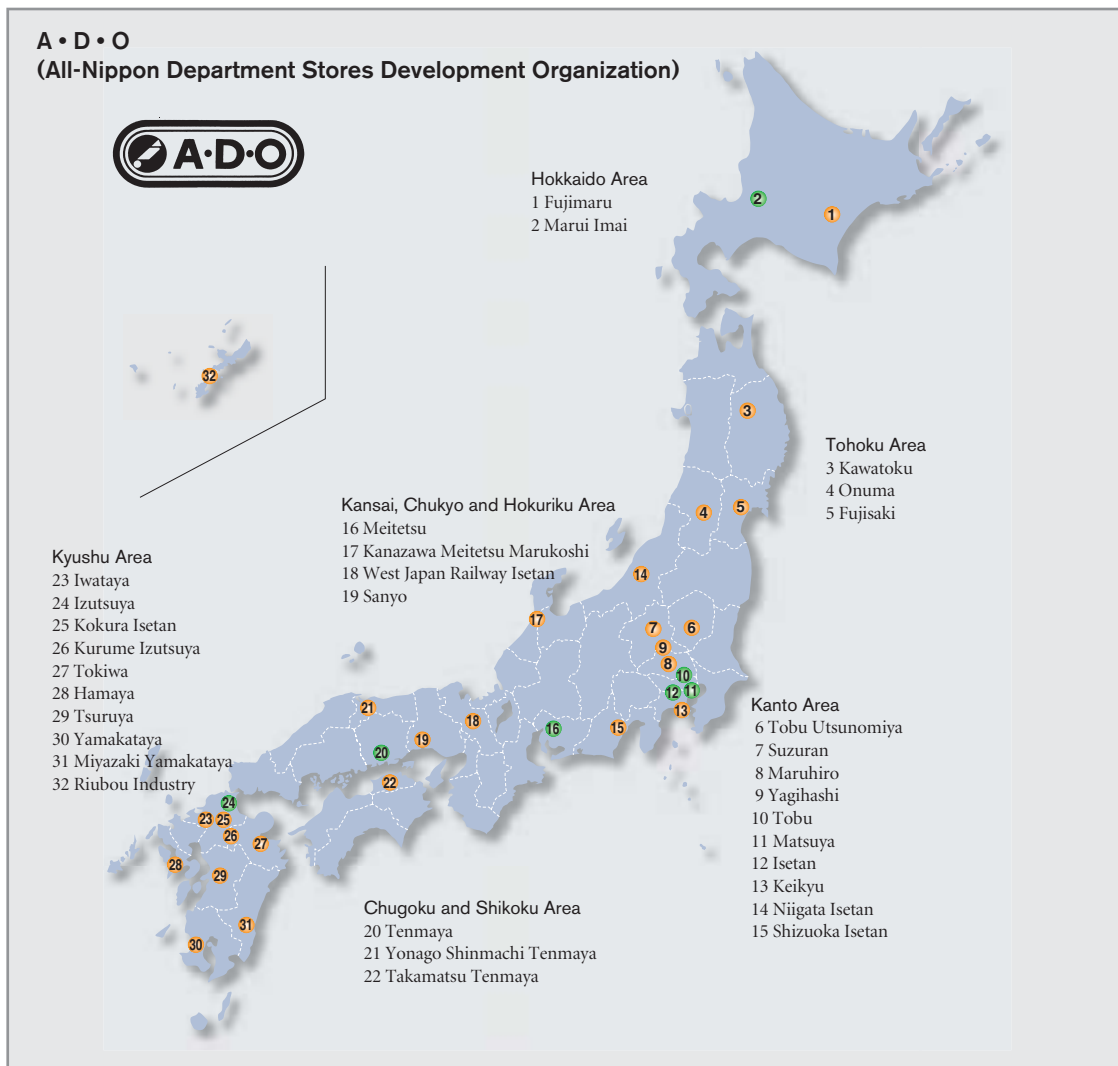
Isetan Building Management Service Co., Ltd. (Building maintenance services)

8F H&I Bldg., 5-17-18 Shinjuku, Shinjuku-ku, Tokyo
160-0022 Japan +81-3-5273-5770

Isetan Business Support Co., Ltd. (Logistics services)

5F H&I Bldg., 5-17-18 Shinjuku, Shinjuku-ku, Tokyo
160-0022 Japan +81-3-3207-8521

A • D • O (All-Nippon Department Stores Development Organization) was established in March 1973 as an alliance covering many of Japan's department stores. It is the leading development organization within the Japanese department store industry. Alliance-member store sales totaled ¥2,000 billion in FY2005. As of April 2006, A • D • O comprised 32 companies and a total network of 66 stores, with Isetan as the leading core member of the group.



Collaborative Efforts with Other Department Stores

Business Alliance with Galleries Lafayette

In November 2005, we opened an Isetan customer service counter as part of the resident Japanese customer service counter staffed by Japanese people on the first floor of main department store for Galleries Lafayette (in Paris, France).

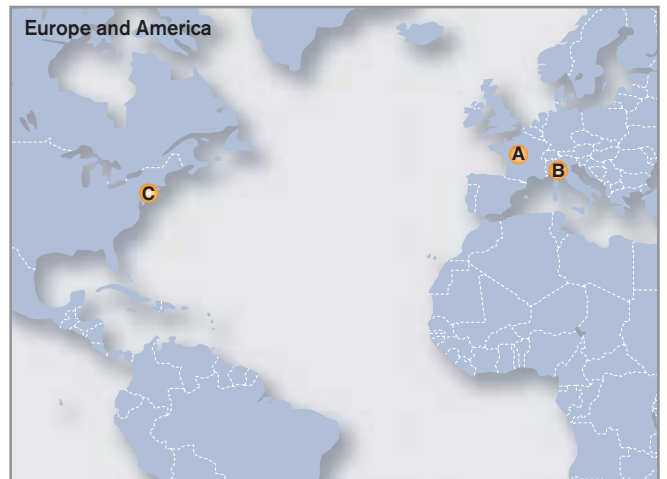
Our intention in allying with Galleries Lafayette, a department store group with a strong brand image in France, is to improve services for customers holding the ICARD, Isetan's proprietary card, while also improving Isetan's brand image, and to facilitate the development of a product line-up that is even more unique than is currently case by exchanging product information with Galleries Lafayette.

Business Alliance with Hankyu Department Stores, Inc.

In July 1996, Isetan entered into a business alliance with Hankyu, another leading department store chain with a premier reputation for fashion retailing. Under the auspices of this alliance, Isetan and Hankyu are pooling expertise in a variety of fields with the aim of raising customer satisfaction. Initiatives include joint product development and information-sharing campaigns. Since fall 1999, the two companies have also established common single-item inventory systems, cooperated on BPR programs, and integrated various aspects of their food gift operations.

Hankyu Department Stores, INC. Address: 8-7, Kakuda-cho, Kita-ku, Osaka 530-8350 Japan Phone: +81-6-6361-1381

Overseas Companies



A Paris
◆ Representative Office

B Milano
※ Isetan (Italia) S.r.l.

C New York
◆ Representative Office

D Singapore
● Isetan Singapore Scotts store
● Isetan Singapore Orchard store
● Isetan Singapore Katong store
● Isetan Singapore Tampines store
★ Isetan Singapore Mango Boutique
※ Isetan (Singapore) Ltd.
※ Lexim (Singapore) Pte. Ltd.

E Kuala Lumpur
● Isetan Kuala Lumpur LOT 10 store
● Isetan Kuala Lumpur KLCC store
※ Isetan of Japan Sdn. Bhd.

F Bangkok
● Isetan Bangkok
※ Isetan (Thailand) Co., Ltd.
※ ITM Clover Co., Ltd.

G Kaohsiung
● Ta Lee Isetan Kaohsiung
※ Ta Lee Isetan Department Store Co., Ltd.

H Hong Kong
※ Isetan of Japan Ltd.

I Beijing
◆ Representative Office

J Shanghai
● Huating Isetan Shanghai
● Mei Long Zhen Isetan Shanghai
※ Shanghai Jinjiang Isetan Co., Ltd.
※ Shanghai Mei Long Zhen Isetan Department Store Co., Ltd.

K Tianjin
● Isetan Tianjin
※ Tianjin Isetan Co., Ltd.
(Relocated store with expanded floor space opened in September 2006.)

L Jinan
● Isetan Jinan
※ Jinan Isetan Co., Ltd.

● Overseas department stores
★ Overseas specialty stores and gift shops
※ Overseas subsidiaries and affiliates
◆ Representative Office



Isetan Singapore Scotts store



Isetan Singapore Katong store



Isetan Kuala Lumpur LOT 10 store



Isetan Kuala Lumpur KLCC store



Isetan Bangkok



Ta Lee Isetan Kaohsiung



Huating Isetan Shanghai



Mei Long Zhen Isetan Shanghai



Isetan Tianjin (New store opened in September 2006)



Isetan Jinan

120 Years of Isetan Fashion

“New Experiment in Creativity and Ingenuity”
Now in its 120th Year...

Celebrating Our 120th Anniversary in 2006

Throughout our history, we have sought to provide a unique Isetan style that pervades every facet of life. And we will continue to give new meaning to fashion with our customers.



120th
anniversary

ISETAN
www.isetan.co.jp

● **November 1886**
Establishes Iseya Tanji Kimono Store in Hatago-cho, Kanda

Kosuge Tanji opened his store, the Iseya Tanji Kimono Store, in Hatago-cho (currently, Soto Kanda 1-chome, Chiyoda-ku, Tokyo) in front of Kanda Myojin Shrine in the Kanda district of Tokyo on November 5, 1886. The entranceway to the store was 3.6 meters wide with warehouses full of kimono fabrics and miscellaneous goods on either side; he started the store with two employees, himself and his younger brother Hosoda Hanzaburo. At the time, Hatago-cho in Kanda was a burgeoning commercial district situated close to the society of geisha and was no place to establish a fabric store. They adopted a policy of “cash price with no markdowns” and their guiding principle was to run an ethical business without speculative pursuit of profit.



● **Circa 1901**
Creates the Goshuden Design

The Goshuden design was created as a motif of the elegance and nobility of the Fujiwara period. This motif was used in the Kimonos for Yanagibashi geisha dancers, chorus and instrument players on the occasion of spring dance festival, and then unveiled at Kamekiyo pavilion in Yanagibashi, it gained high acclaim. The store also won acclaim for selling kimono, obi and under collars decorated with the Goshuden design for the fireworks festivals in Ryogoku and came to be known as “Isetan, known for its obi” and “Isetan, known for its designs.”



● **September 1933**
Main Store in Shinjuku Opens

The Shinjuku store was completed on September 15, 1933. A banquet was held for guests and long-term clients after holding a ceremony to announce the completion before the tomb of the first generation Kosuge Tanji at the Nippori Hongyo Temple. The first day the store opened for general business on the 28th, it was so crowded that entrance had to be restricted and the Economic Markets November 1933 issue noted, “The actual count of visitors was 130,000 people on the initial opening day.” The Shinjuku department store flourished with visitors at capacity day after day; the Kanda store ultimately closed its doors on September 11th and the headquarters was moved from Kanda to Shinjuku in October.



● Isetan Co., Ltd. established in September 1930

● Tachikawa store (gift shop) opens in October 1947

1900_s

1930_s

Posters and advertisements depicting Isetan's history



Grand opening of the Shinjuku store (1933)



Sold to commemorate the completion of the annex for the old Hoteiya section (1936)

● Summer 1956
Teenager Shop Opens

The Ready-To-Wear of the time included children's clothing and women's clothing, but virtually no clothing appropriate for youth aged 13-17. The fact that the American clothing industry called this age range teenagers drew the attention of Isetan and the company began test sales targeted at teenagers on the second floor retail section of its main building during the summer of 1956. The teenager shop became one of Isetan's representative markets as product sales grew.



● October 1957
Baby Shop Opens

The baby product market at the time centered on clothing. Other products necessary for babies were sold at separate shops. Customers had to walk from the top floor of the store to the bottom floor to obtain what they wanted. All products needed for babies were pulled from throughout the store at the time the store expansion was completed in October 1957 and a baby shop was opened that offered a complete line of baby products.



● Spring 1957
Casual Shop Opens

In contrast to the haute couture fashions primarily offered by the clothing industry up to this point, Isetan offered fashionable, ready-made clothing that was casual and could be worn for everyday living. The following year Isetan began offering color coordinates centered on a main theme color for the season. At the time, these were not called color coordinates, but "match mates."



● 1960
Introduction of International Fashion

A Pierre Cardin fashion show was held in 1958. Focusing on the fact that Italians and Japanese shared similar national characteristics and that the exquisite sense of color would appeal to Japanese as well, Isetan began to put serious effort into international fashion. The company sent a buyer to Italy in 1960. Isetan concluded contracts with Irene Galitzine and Emilio Pucci and commenced clothing sales in June with the catch phrase, "Italian fashion is for you."



● November 1963
Standardization of Ready-To-Wear Sizing

Ready-wear sizing was generally sized as small, medium and large in Japan, but Isetan institution such as the Clothing and Accessories Research Institute assimilated American techniques and created a sizing scheme that included 5, 7, 9, 11, 13, 15 to fit Japanese body types. Isetan then sought the cooperation of apparel manufacturers and the department store industry; Takashimaya and Seibu Department Store agreed to cooperate. A press conference to announce the standardization of clothing sizes was held at a metropolitan hotel in November 1963 and the standard sizing of the three companies became the "department store sizing."



1950_s

1960_s



Teenager Shop (1956)



Completion of the Addition (1957)



Women's Ready-To-Wear Sizing (1963)



Spring fashion campaign (1968)

● September 1968
Men's New Annex Opens

Construction of the new annex began around the time the Shinjuku Marubutsu store on the north side of the main building was closed. The third generation Kosuge Tanji decided that the theme of the new annex should be the "Men's Annex." The fact that men had begun to take an interest in fashion and that Shinjuku's reputation as a fashion center and town for the young was increasing underpinned this. This was acclaimed as the first attempt at a men's department in Japan and the rest of Asia as well.



● April 1971
Missy Casual Shop Opens

Isetan, which had ceaselessly continued to re-evaluate the product lines and development of its shops and to differentiate customer classes, focused on "Missy" clientele in order to target working women and young married women. In April of 1971, Isetan presaged the industry in opening a Missy Casual Shop to completely differentiate the second floor casual shop directed at young women in terms of patterns, sizing and pricing.



● 1980
Remodeled Flagship Store Opens

The flagship store was newly remodeled and reopened in an effort to create an enjoyable shopping environment and a line-up of quality products desired by customers at reasonable prices. Each floor of the newly remodeled store featured a refreshment corner such as a cafe terrace or a tea room as well as lounges, to create a leisurely shopping experience.



● September 1968
Lady Clover Shop Opens

The "Ladies Main Annex" debuted along with the Men's Annex. Isetan put effort into a size shop to feature Ready-To-Wear for larger-framed clientele and opened the Lady Clover Shop for large framed women's sizes on the third floor in September 1968, by rechristening the "E-size Shop." The name, clover, came from the four-leaf clover used on the wrapping paper in the department store at that time.



● 1975
Enriching the Private Label Line
(Calvin Klein, Karl Lagerfeld, Franco Moschino)

Missy casual was flooding many department stores, so Calvin Klein, an upcoming designer who was born in New York, drew Isetan's attention as a way to differentiate itself from other stores and Isetan introduced the Calvin Klein line in 1975. Isetan was the first to introduce New York fashion to the domestic Japanese market. With this as a start, Isetan then concluded contracts with Karl Lagerfeld and Franco Moschino.



● September 1970
Newly relocated
Tachikawa store opens

● November 1971
Kichijoji store opens
Alliance with Tanakaya Store
(now Shizuoka Isetan)

● April 1974
Matsudo store
opens

● April 1981
Urawa store
opens

1960s

1970s

1980s

● Posters and advertisements depicting Isetan's history



Men's New Annex opens (1968)



Two-day weekend campaign (1972)



Autumn fashion campaign (1974)



Autumn fashion campaign (1975)

● September 1985
Cinderella City Opens

This was the time of the societal phenomena of the “Cinderella syndrome” and the “Peter Pan syndrome” where women wished to transform themselves and children did not wish to grow up. Isetan wanted to make this reality by making one floor a “city” which gave the impression of a large city. Cinderella City was born to incorporate this idea. As a cultured town directed toward girls who were pure and young, it consisted of a shop with six new brands and 19 DC brands.



● September 1990
IQ (Isetan Quality) is Born

IQ products were born of a desire to eliminate the mismatch between the price range of product lines in stores and the price range desired by customers. IQ, a basic concept that price = quality, enabled Isetan to exceed the expectations of customers by decreasing prices without changing product quality. In 1992, IQ products received a top award from the Nikkei Marketing Journal.



● September 1993
Only I is Born

Only I was born of customer demands for “products that can only be purchased at Isetan.” Debuting in the autumn of 1993, Only I was presented as a product that differentiated Isetan from other department stores with the intent of reacquainting customers with Isetan’s charm. It remains a keystone of Isetan’s uniqueness even today.



● February 1994
Kai-ho-ku (meaning “Freedom Zone”) Zone Opens

Opened at the main store as one means of fulfilling Isetan’s corporate slogan, “Isetan gives new meaning of fashion.” Kai-ho-ku was established as a space to collect and display the collections of new designers and to transmit information. Designs change with the seasons and it continues to impact the fashion industry as an incubator for new designers.



● April 1984
Niigata Isetan opens

● September 1990
Sagamihara store opens

● April 1993
Sagamihara Store Annex
A & B open

1990s



Newly remodeled flagship store opens (1980)



New lifestyle campaign (1980)



100 year anniversary message (1986)



Autumn & Winter fashion campaign (1990)

● **March 1996**
Main Store Remodeled and Women's Apparel Expanded

Isetan's aim in remodeling the main store in 1996 was to clarify the image of the clientele, establish new customer categories and aim for the form that the department store should take in the twenty-first century, while simultaneously responding to changes in the environment surrounding department stores. Women's apparel was expanded to the fourth floor and Isetan's character was presented by establishing "Re-style," aimed at women in their 30s who were highly fashion conscious. Isetan was reborn as a brightly lit and enjoyable department store.



● **February 2000**
The Unit Shop, News Square, Opens

Unit shops that were standardized for every branch were opened with the goal of being the "number one favorite store in each region." These shops were developed with the intention of increasing customer satisfaction and the profitability of each branch; product lines, sales and displays were all re-evaluated to reflect the concerns of branch customers and central control over a structure that would produce profitability was exercised. A product line suited to the needs of suburban clientele was a key feature.



● **January 2003**
Salon du Chocolat Fair

A new "Chocolat mode" arose with the early introduction to Japan of the new film "Chocolat," which debuted worldwide. The presentation of food as fashion has continued since the opening of Salon du Chocolat, France's largest chocolate festival, in Japan in January 2003. Isetan is taking up the challenge of presenting a cultural concept of presenting an enjoyable time and space through "Chocolat."



● **March 2000**
BPQC Opens

BPQC opens on sub-level two as a new concept never seen before. It emerged as a "floor displaying lifestyles" and provided a new sense of consistency across all scenarios of life by using the perceptual filter of a "concept of comfortable living." This differed from the floor plans according to product and category employed up to this point. BPQC is an abbreviation for the French phrase, Bon Prix, Bonne Qualite, Bon Chic, or "high quality, reasonably priced and fashionable."



● **October 1995**
 New Annex to the Matsudo store opens

● **April 1996**
 Fuchu store opens

● **September 1997**
 J.R. Kyoto Isetan store opens

● **January 2001**
 Newly relocated Tachikawa store opens

1990s

2000s

● **Posters and advertisements depicting Isetan's history**



Autumn & Winter fashion campaign (1990)



Autumn & Winter fashion campaign (1995)



Autumn & Winter fashion campaign (2000)

● **September 2003**
ISETAN MEN'S

The entire store was remodeled for the first time in 35 years since the Men's Annex was first opened in 1968. The name was changed from Men's New Annex to ISETAN MEN'S as Isetan welcomed the 70th anniversary of the establishment of the Shinjuku store with an emphasis on men's preferences and fashions that are top-notch worldwide. Isetan's goal is to have male clientele with discriminating taste come to the store and enjoy shopping.



● **August 2004**
Accessories are Remodeled

The internal store environment was remodeled in a consistent art deco theme and an accessory counter was opened on the first floor of the main building as a corner for independent accessorizing. Jewelry designers of note were selected and displayed in a space that looked like a museum.



● **March 2005**
CC Cinderella City Opens

Isetan took advantage of the 20th anniversary of Cinderella City's debut on the second floor of the main building of the main store has remodeled it and restarted as CC Cinderella City. This shop displays highly unique products for highly fashion conscious customers who are oriented toward luxury, high quality, and genuine goods.



● **February 2005 to March 2006**
Re-style's progress

Re-style Baby, a shop offering mix-and-match baby clothing collected from famous brands worldwide opened in February 2005 (photo). In February 2006, Re-style Sports, a sportswear shop for adult women, will open, followed by Re-style Kids, offering clothing for children ages four through eight, in March. These shops will meet the needs of highly fashion-sensitive customers who were not satisfied with existing products.



● **August 2005**
Main store remodeling begins

Remodeling of the main store began in August 2005, in conjunction even out the floor of the basement floor food floor scheduled for March 2008 in preparation for the inauguration of Subway Line #13. Part of the women's shoe section and hand bags section on the first floor of the main building opened in September 2006. We intend to steadily debut new shops this fall, the fresh food market (green produce) on the basement floor, among others.

● **February 2004**
Kokura Isetan opens

● **March 2004**
Iwataya new flagship store opens

● **March 2006**
Newly remodeled Urawa store opens

New challenges



120 years Anniversary
New Year Message
(2006)



Spring & Summer fashion
campaign
(2006)



Autumn & Winter fashion
campaign
(2006)

