



Isetan Company Limited

Annual Report 2007

Isetan Gives New Meaning to Fashion



Since our founding in 1886, the Isetan Group has continued to give new meaning to fashion primarily through our department store business. 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, and we are keen to continue meeting their needs through our business activities.

Disclaimer regarding Forward-looking Statements

The Isetan Annual Report 2007 provides information on Isetan Group's business results and strategy. It is not meant to solicit the buying or selling of shares of Isetan or any of its Group companies. Certain of the statements in this document are forward-looking statements, which are based on management's current assumptions and beliefs. These statements involve risks, uncertainties and other factors, which may cause our actual results to differ from any future results.

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Financial Highlights

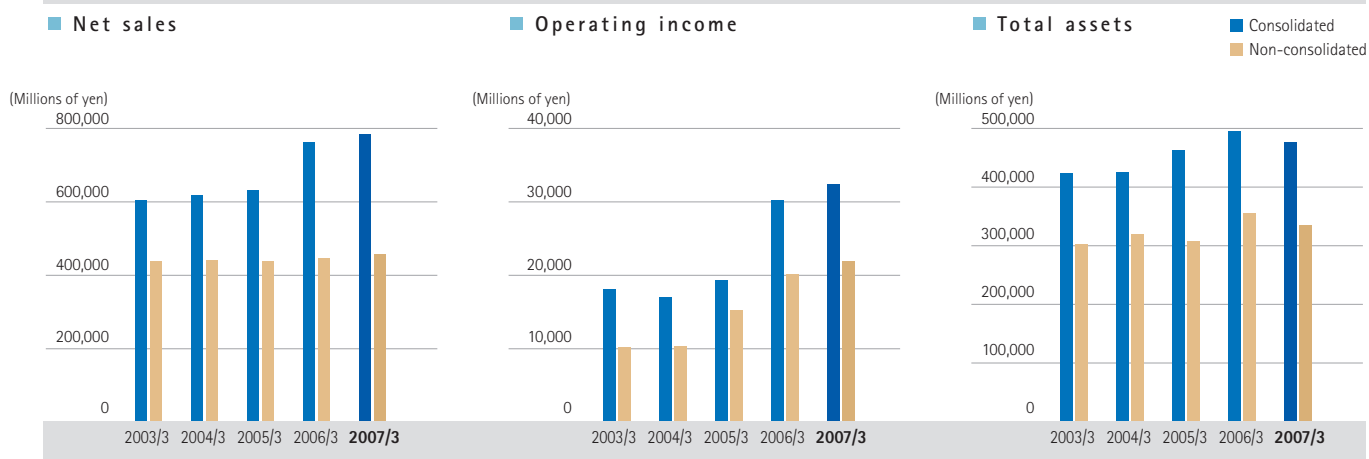
Isetan Company Limited and its Consolidated Subsidiaries and Affiliates
Years Ended March 31

Consolidated

	Millions of yen	
	March 31, 2006	March 31, 2007
Net sales	760,038	781,798
Operating income	30,061	32,252
Recurring income	30,925	33,416
Net income	18,710	18,291
Net assets	194,789	213,194
Total assets	493,553	474,895
	Yen	
Book-value per share (BPS)	867.91	901.87
Earnings per share (EPS)	83.23	82.43
	%	
Equity ratio	39.5	41.8
Return on equity (ROE)	10.4	9.3

Non-consolidated

	Millions of yen	
	March 31, 2006	March 31, 2007
Net sales	444,263	454,951
Operating income	20,019	21,823
Recurring income	21,629	22,832
Net income	13,147	12,383
Net assets	159,858	156,760
Total assets	353,057	333,255
	Yen	
Book-value per share (BPS)	712.19	710.78
Earnings per share (EPS)	58.34	55.81
	%	
Equity ratio	45.3	46.9
Return on equity (ROE)	8.9	7.8



Staying true to the spirit of “The customer always in giving new meaning to fashion, Isetan aims to among customers.



A handwritten signature in black ink, which appears to read "Nobukazu Muto". The signature is stylized and includes a small circular mark at the end.

Nobukazu Muto
President & CEO
Isetan Company Limited

Solid Start in the First Year of the “New Consolidated Business Vision”

During the year ended March 31, 2007 (fiscal 2006), the Japanese economy was characterized by robust capital investment and personal spending spurred by recovery in corporate results and improved business confidence. The economy as a whole continued to rebound albeit moderately due notably to signs of change in the prolonged deflationary period.

In the department store sector, competition for customers intensified between department stores and other retail formats. Certain companies responded to this competitive environment by conducting large-scale refurbishments at urban department stores and expanding operations through business mergers. Amid a climate forcing even greater corporate efforts, there was a slow plod toward resurgence in general consumption, and the overall condition of the entire industry continued to seesaw.

The Isetan Group formulated a ten-year business vision from a long-term perspective that takes us up to 2015, and in fiscal 2006 we launched a new business plan based on this. As part of the ten-year vision, the Group aims to be a “total life attendant” that provides solutions for customers in all areas of their lives by providing both tangible and intangible solutions. As the first step toward the realization of this vision, we are working to establish a group management structure designed to rebuild relationships of trust with customers and to deliver outstanding customer satisfaction.

Specifically, in order to create appropriate merchandise lines and transmit information based on the policy of putting the customer first at stores, the Group introduced new systems for merchandise management and customer data in August 2006. Also, as a measure to strengthen the group management structure, the Group promoted integration of such systems with Iwataya Co., Ltd., a consolidated subsidiary, and expansion of I Card usage, on which the Group’s key customer strategy is based, to Meitetsu Department Store Co., Ltd, with which we have a business tie-up.

As part of efforts to forge alliances with companies in the same industry (Isetan alliances), which is a strategic issue of the Group, Isetan Co., Ltd., Tokyu Department Store Co., Ltd. and its parent company Tokyu Corporation reached an agreement concerning a comprehensive business alliance

comes first” be “my own store”

between Isetan Co., Ltd. and Tokyu Department Store Co., Ltd. and entered into a basic agreement. From now on, the partners will take strategic actions to improve the precision of overall sales operations through mutual cooperation based on the strength of the store networks of Isetan and Tokyu Department Store and to achieve rationalization.

Meanwhile, in order to concentrate the Group's resources on the department store business, which is the core business of the Group, so as to accord priority to enhancing its superior position in the marketplace, we sold our entire stake in Barneys Japan Co., Ltd. and part of its stake in Isetan Travel Service, Inc., both of which were consolidated subsidiaries.

As a result, consolidated net sales amounted to ¥781.7 billion, up 2.9%, consolidated operating income was ¥32.2 billion, up 7.3%, and consolidated recurring income was ¥33.4 billion, up 8.1%. All of these financial indicators represented historic highs for Isetan. Net income for the period totaled ¥18.2 billion, down 2.2%, due to the recording of extraordinary loss such as impairment loss on fixed assets.

Putting the Corporate Philosophy of the Isetan Group into Practice

Isetan welcomed the 120th anniversary of our founding in 2006. It has been a year in which we have felt deep gratitude for the true "bonds" we have cultivated anew with the many people that have supported our group.

The Isetan Group Corporate Philosophy "The Isetan Way" is the foundation for our corporate activities. The Isetan Way revolves around four key concepts, which originate in the concept of "The customers comes first": "our corporate objective," "our corporate slogan," "our corporate vision," and "our corporate stance." These form the ideal way of thinking for all employees who work in the Isetan Group. We are ardent about ensuring that employees understand these principles and have the energy and intent to put them into practice, and this is reflected throughout the entire group, from the various scenarios of daily work to the business plans for the group as a whole.

The Isetan Way and "Four Pillars"



Steps Towards Achieving New Consolidated Business Vision

The ten-year vision for the Isetan Group running up until 2015 complies with the spirit of The Isetan Way. This vision expresses the form for making even greater efforts to determine the direction of the department store business as our core business, sustain continual growth, and determine what the strengths of the Isetan Group are that form the cornerstone from which the corporate group develops sufficient creativity to be able to steer the course correctly while remaining exquisitely sensitive to changes in each era.

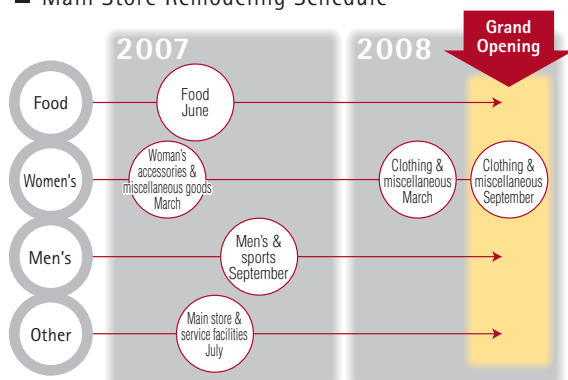
We regard the initial three years from fiscal year ended March 2007 to fiscal year ended March 2009 as the initial step in achieving the ten-year vision and see these years as the time to create the foundation for the achievement of our goals. We will then reap the results of our actions in the next four years and, during the final three years, intend to establish our position as 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." Our financial aim is to be a business group that can generate consolidated operating income of ¥50 billion over a sustained period.

The status of the strategic initiatives that constitute the first step toward achieving the ten-year vision is as follows:

1. Securing an Overwhelmingly Preeminent Position for Isetan Main Store

We have been working on remodeling our main store since the fiscal year ended March 2006 with our eye on the increase in customers that will result from Fukutoshin Line for the Tokyo Metro scheduled to begin operating in June 2008. Following construction of the woman's accessories and miscellaneous goods floor in March 2007, remodeling construction for this fiscal year is proceeding on food (opened June 2007), one section of the men's annex

■ Main Store Remodeling Schedule



■ Ten-Year Vision for the Isetan Group

Step 1:
2006-2008

"Rebuild relationships of trust with customers"
"Establish a group management structure that proactively seeks to deliver customer satisfaction"

Step 2:
2009-2012

"Devise sophisticated solutions"
"Turn Isetan know-how into genuine profits"

Step 3:
2013-2015

"Establish a position as "my own store"
"Prepare for the next stage of growth"

(scheduled to open in September 2007), and women's clothing (scheduled to open the first phase in March 2008), with the goal of holding the grand opening in September 2008 (representing a total investment of ¥14-15 billion).

2. Creating a Business in New Solutions

We are striving to develop policies that will raise the level of satisfaction experienced by providing solutions that will meet the psychological desires of our customers as well as their material needs (for products). To be specific, we have begun providing new services for Icard customers such as car leases and free insurance consultations. These services are expanding our opportunities to interact with customers in ways that were not previously available.

3. Attaining Market Competitiveness in Each and Every Service Offered by the Isetan Group

We will create an environment where each business can concentrate on pursuing customer satisfaction by expanding shared services laterally throughout the group. Headquarter functions were updated in April 2007. An integrated accounting system was introduced to the accounting division of Isetan and to key group companies. The scope of this will be expanded to companies with which we have alliances in the future, and we are also working to improve the efficiency of operations while simultaneously establishing internal controls. We also expect to derive the benefit of creating more marketing time for the entire group by introducing a system for personnel operations in the future and reorganizing the operational flow anew from the perspective of what is optimal for the group as a whole.

We are working actively on these efforts – taking them, not as just basic maintenance measures, but as tools and opportunities to improve operations in a way that will improve productivity for the entire group.

4. Improving Productivity and the Quality of Marketing

We will work to build relationships of trust through

Status of Progress on the Ten-year Vision (Establishing the Foundation)



communication between our customers and sales representatives in our stores and will maximize customer satisfaction through the service provided by each and every sales representative to create new customer satisfaction. In August 2006, we renovated Isetan's core systems and merchandising system and established a new base for information system functions to back up these efforts. This improved the system so that the sales representatives in the stores can ascertain the opinions of customers in their own blocks, themselves. This system will enable us to increase the accuracy and speed of producing and verifying assumptions and will enable us to realize our customer's desires even more rapidly than before.

Aiming to Improve Profitability for the Entire Group Through an Aggressive Schedule of Store Openings

The recreation of the Isetan main store will get fully underway in the fiscal year ending March 2008 and we are targeting a grand opening in September 2008 to capitalize on the commencement of operations for Fukutoshin line for the Tokyo Metro. We will also exert every effort to create stores that delve more deeply into customer psychology. Isetan will strive to maximize sales while working to minimize the impact of store closings during construction for remodeling and working to improve sales productivity. Overseas, we opened the Isetan Chengdu in Sichuan, China in May 2007. We plan to open the Isetan Shenyang in Liaoning, China at the end of 2007 and The Gardens store in Malaysia in the autumn of 2007. Preparations are being made for the opening of the Isetan Beijing (provisional name) in the autumn of 2008 in response to the impressive appetite for consumption in China.

We project that these measures will produce consolidated sales of ¥786.0 billion for the fiscal year ending March 2008 and forecast consolidated operating income of ¥31.0 billion, consolidated recurring income of ¥31.0 billion, and consolidated net income of ¥14.5 billion, due to

increased investment for renovations and rising selling and administrative expenses.

Conducting Ourselves as Good Corporate Citizens and Working to Increase Corporate Value

Isetan has continued to take on the challenge of creating a newness that surpasses the era through "originality and ingenuity" since we began as a kimono fabric shop in 1886. Isetan's history is the history of creating new markets in fashion. Our history also speaks of being the first to offer the latest fashions from around the world.

The Isetan Group has continued to add more abundance to the lifestyles of individuals through offering fashion, our core business. We have engaged in corporate activities throughout our 120-year history that have not only contributed on the operating front, but have also focused on contributing to society from social and environmental perspectives as well. We also believe that our system of management must be fair and transparent, and that building a system that enables swift decision-making are essential to earning the trust of our customers and society. We have built the entire management structure on the Isetan Group Corporate philosophy and are also establishing a system of internal controls based on risk management and compliance.

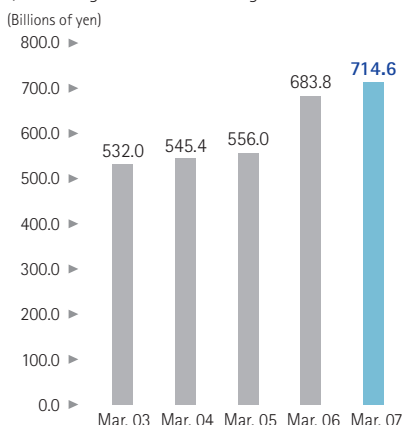
We will manage the company in a socially responsible manner, heighten corporate competitiveness, fulfill our social responsibilities as a good corporate citizen, build good relationships with all of our stakeholders, and increase corporate value based on these actions. It is our intention to become a highly profitable company and fully meet the expectations of our shareholders, keeping operating results that enable sustained dividends in mind.

Allow us to ask for your continued understanding and guidance.

August 2007

Department Store Business

Trend in Sales for the Department Store Business (Excluding internal inter-segment sales and returns)



Key consolidated companies:

Isetan Company Limited	Tianjin Isetan Co., Ltd.
Shizuoka Isetan Company Limited	Jinan Isetan Co., Ltd.
Niigata Isetan Company Limited	Chengdu Isetan Co., Ltd.
Kokura Isetan Company Limited	Isetan (Singapore) Ltd.
Iwataya Co., Ltd.	Isetan (Thailand) Co., Ltd.
Isetan of Japan Ltd.	Isetan of Japan Sdn. Bhd.
Shanghai Mei Long Zhen Isetan Department Store Co., Ltd.	

Affiliated companies accounted for under the equity method:

West Japan Railway Isetan Ltd.
Ta Lee Isetan Department Store Co., Ltd.

Favorable Sales Benefiting from the Remodeling of the Main Store and Urawa Store as well as for the Various Domestic and Overseas Stores

During fiscal 2006, the department store industry saw sales continue to fall below previous year sales overall due to the impact of a record warm winter and intensifying competition with other store formats. Faced with such an environment, the Isetan Group concentrated operating resources on our core department store business and gave highest priority to securing an even better competitive position.

Isetan Company Limited pursued redevelopment plans for the Isetan main store, remodeled and opened part of the food floor and the women's accessories and miscellaneous goods floor. Sales increased over the previous year despite the reduction in retail space caused by the construction.

The Urawa store, which was remodeled and opened in March 2006, also contributed significantly to consolidated operating results for the current fiscal year with yearly sales of ¥52.7 billion, representing 10% year-on-year growth.

Among the domestic group department stores, growth over last year was posted by Shizuoka Isetan Company Limited, Niigata Isetan Company Limited and Kokura Isetan Company Limited (Iwataya Co., Ltd. was consolidated with a 13-month fiscal year due to a change in the fiscal year end). Among overseas department stores, Isetan (Singapore) Ltd. posted growth in sales over last year's level for all branches due to especially strong growth in the economy, and Isetan of Japan Sdn. Bhd. in Malaysia also posted strong sales as the company improved measures for employee mobility and simultaneously took comprehensive action to strengthen sales and service.

The above factors led to consolidated sales of ¥715.5 billion for the department store business, 104.6% of last year's level, and consolidated operating income of ¥26.5 billion, representing 9.1% year-on-year growth.

Business Focus

Grand Opening in the Autumn of 2008 Following the Remodeling of Women's Accessories and Miscellaneous Goods for the Main Store

We began remodeling the main store in fiscal March 2006 to prepare for the opening of Fukutoshin Line for the Tokyo Metro in June 2008. Store sales at the main store were 2.3% up on the previous year's sales despite the impact of the floor closings for construction during the fiscal year ended March 2007. This was because we maximized the benefits of remodeling by staggering the opening period.

For the remodeling of the main store, we freed ourselves of existing concepts focusing on products and brands and remodeled to pursue the customers' psychology even more ardently. On the first floor of the main store, which is the floor for accessories and miscellaneous goods, we displayed products in the three zones of "prestigious," "highly impressive" and "purpose-driven" in line with the degree of interest among customers. We reconfigured the sales environment and provided services matching the unique purchasing characteristics of each item.

During 2007, the food floor is first scheduled to open in June, followed by the second, sixth and eighth floors of the men's annex. Part of the women's clothing and miscellaneous goods section is scheduled to open in March 2008.

As we prepare for the grand opening in the autumn of 2008, we are working to increase the value of the Isetan brand by repeatedly verifying our assumptions for each remodeling in pursuit of making the qualities of "Isetan-like" and "because it is Isetan" even better.



Business Focus

Making the Urawa Store the “My Own Store” by Local Customers through the Concept of “It Begins with Customer”



At the Isetan store in Urawa, we undertook the remodeling of the entire store, the largest remodeling since the store opened in 1981 in pursuit of “creating a store closely matched to the local community and the customers” and a look that was “department store-like” and “Isetan-like.” The newly remodeled store was opened in March 2006 and posted yearly sales of ¥52.7 billion (110% of the previous year’s level), surging past the ¥50.0 billion level for the first time in four years. The store contributed significantly to the parent operating results for Isetan in the fiscal year ended March 2007.

The store was remodeled based on the concept of “it begins with the customer” for all aspects of the products, service and environment, giving preference to the concerns of the customers and addressing the high aspirations of the customers who have frequented our Urawa store for many, long years. As “My Own Store” for customers who live near the store, we offer high quality products that are trendy and fashionable, something that is a matter of course for Isetan.

The remodeling of the Isetan Urawa store is one prototype for a suburban format. We will use our repeated verification of assumptions and the results produced to benefit the remodeling of branch and domestic group stores in the future.



Business Focus

Isetan Tianjin: The First Full Merchandising Store in China



Isetan Tianjin was relocated with increased floor space and opened in Tianjin, China in September 2006.

Isetan Tianjin was renovated in the format of products that local people from Tianjin yearn for and carries a product line of highly fashionable products, the first specially selected brand for Tianjin City, and products that can only be purchased at Isetan. It has the first food floor in the People’s Republic of China, and features three types of fresh produce (vegetables, meat and fresh fish), grocery items and delicatessen foods. A product line-up of clothing, food and household items make it a full merchandising store.

The store also offers an advanced shopping environment with comprehensive service offered under the keyword of “people-friendly,” barrier-free facilities, a special lounge for women, concierge services to respond to the needs of customers, and other features.

Isetan Chengdu opened in China on May 19, 2007. The Isetan Shenyang will also open at the end of 2007 and Isetan Beijing (tentative name) is scheduled to open in metropolitan Beijing in the autumn of 2008 as the largest store in China.

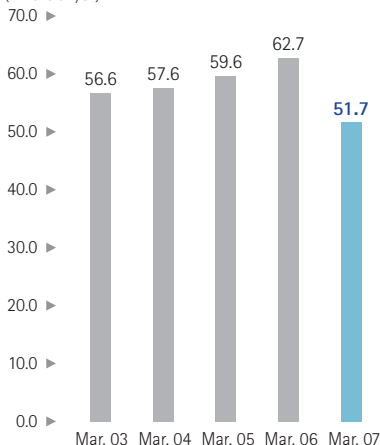
Review of Operations

Retail & Specialty Store Business

Trend in Sales for Retail & Specialty Stores (Consolidated)

(Excluding internal inter-segment sales and returns)

(Billions of yen)



Group Companies:

Queen's Isetan Company Limited
Mamma Co., Ltd.

Addressing Diversifying Needs By Strengthening Brands and Introducing a New Business Format

In November 2006, Queen's Isetan Company Limited opened the Yokohama store, its first store in Kanagawa Prefecture and the largest of its stores. Active efforts were made to increase sales with specialty shops reminiscent of department store basements and an added eat-in corner.

Sales for Mamma Co., Ltd. were strong, primarily for the company's key brands, Netto di Mamma and Anna Sui. The Anna Sui brand, which was in its tenth year in Japan, was featured in 20 stores in total: 13 directly managed stores and seven department store shops. Both Queen's Isetan and Mamma recorded growth in both sales and operating income.

All shares in the consolidated subsidiary, Barney's Japan, were sold in August 2006 to concentrate operating resources on the department store business and the company was excluded from consolidation.

This resulted in sales of ¥61.7 billion for the retail and specialty store business, 82.6% of last year's level, and operating income of ¥1.2 billion, representing a decline of 10.3% year-on-year.

Increasing the Opportunities for Contact between the Isetan Group and Our Customers with Three Store Business Categories

Queen's Isetan opened the Queen's I Fujisawa Store on April 25, 2007. This had a new business format and was connected directly to the JR Fujisawa Station. Queen's then opened the Hibrigaoka Store in Saitama Prefecture on May 30, 2007, based on initiatives in the Yokohama Store. Queen's Isetan will continue to meet the diversifying needs of customers by increasing the number of opportunities for

contact between the Isetan Group and our customers through providing choice, top-quality foods that are safe, secure and healthy, and centered around the three core pillars of supermarket business such as that offered by the Yokohama store and the Hibrigaoka store, small shop business with a new format similar to the Queen's I Fujisawa store, and the supermarket business inside group department stores.



Queen's Isetan
Hibrigaoka store



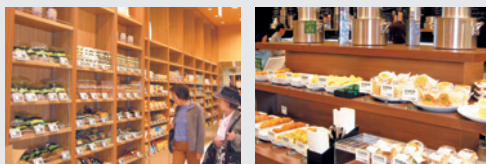
Queen's Isetan
Yokohama Store

Business Focus

Queen's I, a Small Shop with a New Format



Queen's I Fujisawa Store

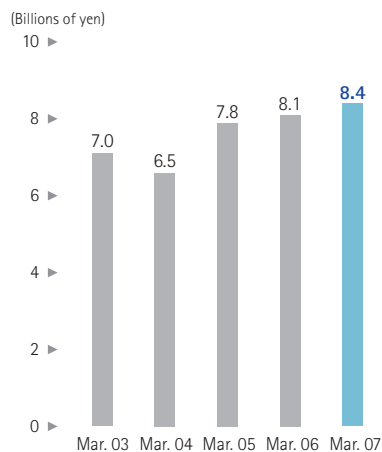


The Queen's I Fujisawa store opened on April 25, 2007 inside Lumine Fujisawa, which is connected directly to the JR Fujisawa Station. This store marks a first trial for Queen's Isetan. The goodness of Queen's Isetan was made more compact, offering a product line-up revolving around delicatessen foods, groceries, wine, cheese, and other products, but not offering fresh produce.



Credit Finance Business

Trend in Sales for the Credit Finance Business
(Excluding internal inter-segment sales and returns)



Group Companies:
Isetan I Card Co., Ltd.
IZUTSUYA WithCard Co., Ltd.

Securing a Customer Base through Steady Expansion of the I Card

The shopping volume handled through Isetan I Card Co., Ltd. is growing steadily. Payments made with the Icard as a percentage of total shopping grew to 52.6%, with I Card sales of ¥239.2 billion at the main Isetan store for the fiscal year ended March 2007. The I Card was introduced at the affiliated Meitetsu Department Store in September 2006 and a Meitetsu Department Store I Card was issued. Marui Imai Inc. plans to issue a house card through I Card Co., Ltd. from the autumn of 2007.

In September 2006, a permanent insurance consultation counter was established in the Shinjuku Isetan building for consultations with an I Card financial planner in



conjunction with offering the I Card cashing service. We regard this as the first strategic move toward "providing solutions" to resolve the various concerns of customers as "my own store" for our customers, rather than just offering products. We also obtained (principle) membership in VISA International in June of 2007 and will be offering an I Card with the international VISA brand affixed in the autumn of 2008. We will continue to work actively to increase

the number of opportunities for contact between the Isetan Group and our customers.

The above factors resulted in sales of ¥14.1 billion for the credit finance business, 104.1% of last year's level, and operating income of ¥4.1 billion, growth of 8.7% year-on-year.



Corporate Social Responsibility: Socially Responsible Management

CSR

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. We are promoting corporate governance and fulfilling our responsibilities as a corporation to society in addition to reforming business structures.

The Views of the Isetan Group on Corporate Social Responsibility

The corporate philosophy "The Isetan Way" of the Isetan Group already address the issue of building relationships of trust with our stakeholders. We strive to create a corporation that is sustainable in perpetuity by engaging in economic, social and environmental activities based on The Isetan Way and being accountable for our actions, thereby earning the trust and understanding of our stakeholders. In other words, putting The Isetan Way into practice leads to corporate social responsibility.



Corporate Governance

In fiscal 2001, Isetan clarified the structure for management oversight and the structure for execution of duties and implemented reforms such as: (1) introducing an executive officer system, (2) electing external directors and establishing the executive remuneration committee for nominating candidates and designating compensation, (3) clarifying authorities and responsibilities and implementing organizational reform (such as the establishment of a management strategy conference), and (4) reforming the system of compensation.

Establishing a system of internal controls and disclosure were required under the Company Law enacted in May 2006, so we focused on socially responsible corporate management and continued improvements to our system of corporate governance in addition to addressing these issues. We will continue to fulfill our responsibilities to society as a corporation.

Establishing a System of Internal Controls

We have been working to establish a system of internal controls to ensure proper execution of duties following the enactment of the Company Law in May 2006. We are also making progress on establishing a system of internal controls for the financial reporting required under the Japanese version of the Sarbanes-Oxley Act, beginning with the introduction of an integrated system for accounting (ERP).

Risk Management

We are emphasizing organizational response and preventative measures for risk management. Isetan has established the Risk Management Committee as an advisory body to the Business Strategy Council to strengthen the risk management capabilities of the Company, and to oversee the establishment of a system of internal

regulations to prevent adverse events. We have assigned a legal risk management supervisor to the general administrative division to create plans and promote planning in light of the increasing importance of risk management for the Isetan Group as a whole.

Compliance

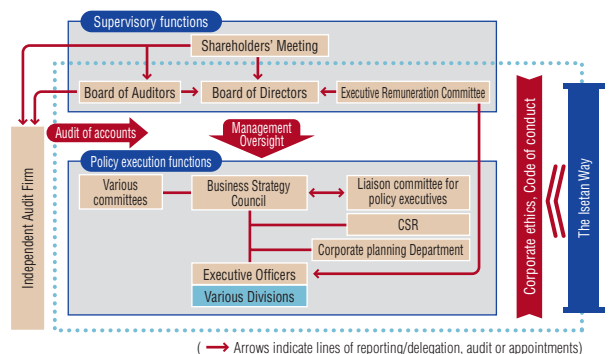
The Isetan Group regards compliance as a priority management issue.

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.

We have also produced the Compliance Guidebook, which presents the guiding principles for compliance and details specific points of compliance. We also conduct training and educational activities in addition to distributing this guidebook.

The Isetan Group Hotline has also been established as a helpline aimed at swiftly discovering illegal and inappropriate conduct within the company and taking self-directed remedial action.

Flow Chart for Internal Controls



Efforts to Protect Personal Information

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. We have established a Personal Information Protection Committee and have 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 issued the Isetan Personal Information Rule Book and the Isetan Personal Information Protection Manual in April 2005. The content of the pocketbook version was revised in March 2006 and distributed to employees who work at Isetan. In 2006, we conducted training for all newly appointed Sales Managers & Buyers and all Sales Managers & Buyers for the main store to ensure thorough understanding of the daily management rules and to improve understanding regarding the protection of personal information. We are working to ensure comprehensive oversight of this through such means as concluding memorandums of understanding on the handling of customer data with all suppliers.

Living in Harmony with Local Communities

Isetan headquarters and our various branches will fulfill their responsibilities and roles as productive members of the local community and strive to be "a department store intimately connected to the local community." Isetan is striving to create a safe, vital and beautiful local community where people gather by living in harmony with the local community.



Eco Bags Save the Earth (March 2006)

We sell shopping bags designed by world-renowned artists and young creators. The ¥2.7 million in funds derived from the sale of these during the period was donated to UNICEF Japan.



Bonds with Designers Charity T-shirt Exhibit (May 2006)

Fifty-one designers throughout the world participated in a designer T-shirt exhibit based on the theme of "bonds." The ¥19.6 million in funds collected was donated to the Japanese Red Cross Society to aid communities damaged by natural disasters.



* A.D.O.: All Nippon Department Stores Development Organization

Merry Green Christmas Charity Campaign

(November–December 2006)

Main store and branch stores department stores affiliated with the group, and the various A.D.O. shops* staged Christmas charity events. The total of ¥34.0 million in funds collected from the sale of goods was donated to the Scandinavian government's Green Santa Foundation.

Environmental Initiatives

We are promoting environmental activities involving corrective action based on long-term planning (the final goal is fiscal year 2010) in addition to activities that take the environment into consideration based on the Isetan Environmental Policy set forth in 2002.



"I Garden" Rooftop Garden Opens (March 2006)

The I Garden opened on the rooftop of the Isetan main store in June 2006. By planting greenery on 2,050m² of rooftop, we expect to lower the ground temperature and achieve benefits in energy conservation and the reduction of electricity use, in addition to providing a comfortable, relaxing space for our customers.



Ecology Exhibit Sponsored

We sponsored an ecology exhibit in the I Garden on the rooftop of the main building in June 2006 for Environmental Awareness Month. We touted Isetan's environmental initiatives to customers.



Installation of a Solar Panel

Isetan installed a solar panel on the rooftop of the main store in March 2007 as one means of reducing CO₂. The panel generates 28,294kwh of electricity per year and we expect it to reduce CO₂ by 8.93 tons.

● Please read the CSR Report posted on our home page for further information on our CSR activities:

<http://www.isetan.co.jp/icm2/jsp/isetan/company/index.jsp>

Financial Section

Consolidated Balance Sheets

ISETAN COMPANY LIMITED AND SUBSIDIARIES
As of March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S.dollars(Note3)
	2007	2006	2007
Current Assets:			
Cash and bank deposits (Note 4)	¥ 33,673	¥ 37,162	\$ 285,240
Marketable securities (Note 10)	1,235	1,447	10,462
Notes and accounts receivable:			
Trade	80,659	79,195	654,372
Other	131	114	30,004
	80,791	79,309	684,375
Less: Allowance for doubtful accounts	(2,716)	(3,784)	(23,005)
	78,075	75,525	661,370
Inventories	35,483	36,306	300,576
Deferred tax assets-current (Note 7)	6,517	7,547	55,204
Other current assets	14,389	15,369	121,887
Total current assets	169,371	173,356	1,434,739
Investments and Advances:			
Investments in securities (Note 10)	49,247	55,315	417,242
Investments in and advances to unconsolidated subsidiaries and affiliates	7,183	6,248	60,784
Total investments and advances	56,431	61,563	478,026
Property and Equipment:			
Land and leasehold	52,072	52,403	441,097
Buildings and structures	202,101	204,129	1,711,998
Furniture and fixtures	36,685	35,388	310,757
Construction in progress	232	950	1,966
	291,090	292,870	2,465,819
Less: Accumulated depreciation	(128,427)	(127,214)	(1,087,908)
Total property and equipment, net	162,662	165,656	1,377,911
Other Aseets:			
Fixed leasehold deposits	61,733	69,378	522,940
Long-term loans	1,432	1,603	12,129
Deferred tax assets-non-current (Note 7)	2,548	2,036	21,588
Deferred assets	405	797	3,432
Other assets	21,655	21,733	183,437
Less: Allowance for doubtful accounts	(1,342)	(2,568)	(11,366)
Total other assets	86,431	92,979	732,159
Total Assets (Note 15)	¥474,896	¥493,554	\$4,022,835

The accompanying notes are an integral part of these financial statements.

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LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S.dollars(Note3)
	2007	2006	2007
Current Liabilities:			
Short-term borrowings (Note 9)	¥ 27,486	¥ 29,522	\$ 232,832
Current portion of long-term debt	20,000	21,990	169,420
Notes and accounts payable:			
Trade	70,462	67,268	596,881
Other	49,317	45,855	420,497
	119,779	113,123	1,017,377
Income taxes payable	9,872	9,988	84,844
Accrued expenses	17,942	16,972	151,983
Deferred tax liabilities-current	11	10	93
Other current liabilities	19,313	19,593	159,652
Total current liabilities	214,403	211,198	1,816,201
Long-term Debt (Note 9):	13,000	37,659	110,123
Reserve for Accrued Employees' Retirement Benefits (Note 8)	23,404	25,260	198,255
Retirement Allowance for Directors and Corporate Auditors	739	623	6,264
Deferred Tax Liabilities-Non-current (Note 7)	7,567	10,039	64,097
Other Long-term Liabilities	2,589	2,086	21,929
Minority Interests in Consolidated Subsidiaries	—	11,899	—
Shareholders' Equity:			
Common stock	—	36,122	—
Authorized: 800,000,000 shares			
Issued: 224,360,003 shares at March 31, 2006, respectively			
Additional paid-in capital	—	42,703	—
Retained earnings	—	100,058	—
Unrealized gain on other securities, net of tax	—	17,529	—
Foreign currency translation adjustments	—	(1,531)	—
	—	194,881	—
Less: Treasury stock	—	(91)	—
Total shareholders' equity	—	194,790	—
Total Liabilities and Shareholders' Equity Contingent Liabilities (Note 11)	—	¥493,554	—
Shareholders' Equity:			
Common stock	36,600	—	310,040
Authorized: 800,000,000 shares			
Issued: 225,179,103 shares at March 31, 2007 respectively			
Additional paid-in capital	43,181	—	365,785
Retained earnings	114,895	—	973,271
Less: Treasury stock	(9,598)	—	(81,307)
Total shareholders' equity	185,078	—	1,567,790
Valuation and Translation Adjustments			
Unrealized gain on other securities, net of tax	13,362	—	113,190
Deferred gains on hedges	20	—	167
Foreign currency translation adjustments	41	—	351
Total revaluation and translation adjustments	13,423	—	113,708
Stock Acquisition Rights	318	—	2,697
Minority Interests in Consolidated Subsidiaries	14,375	—	121,772
Total net assets	213,194	—	1,805,967
Total Liabilities and Shareholders' Equity Contingent Liabilities (Note 11)	¥474,896	—	\$4,022,835

The accompanying notes are an integral part of these financial statements.

Financial Section

Consolidated Statements of Income and Retained Earnings

ISETAN COMPANY LIMITED AND SUBSIDIARIES

Year ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S.dollars(Note3)
	2007	2006	2007
Net Sales (Note 15)	¥ 781,799	¥ 760,038	\$ 6,622,607
Cost of Sales	556,162	538,365	4,711,238
Gross profit	225,637	221,673	1,911,370
Selling, General and Administrative Expenses (Note 12)	193,385	191,612	1,638,159
Operating income (Note 15)	32,253	30,061	273,211
Other Income:			
Interest and dividend income	1,344	1,010	11,384
Rental income	1,978	1,034	16,752
Gain on receipt of property and equipment	1,064	1,450	9,014
Gain on sales of property and equipment	–	8,579	–
Gain on sales of investment securities	–	1,225	–
Gain on reversal of allowance for doubtful accounts	1,219	–	10,327
Gain on sales of an affiliated company's business	860	–	7,285
Other	4,007	4,990	33,941
	10,471	18,288	88,703
Other Expenses:			
Interest expenses	(1,061)	(1,413)	(8,990)
Loss on disposal of property and equipment	(2,538)	(2,366)	(21,501)
Loss on sales of property and equipment	–	(456)	–
Loss on impairment of property and equipment (Note 5)	(3,227)	(3,438)	(27,333)
Loss on sales of investments in securities	(24)	–	(206)
Other	(3,629)	(3,492)	(30,738)
	(10,479)	(11,165)	(88,768)
Income before income taxes and minority interests	32,245	37,184	273,146
Income Taxes (Note 7):			
Current	(11,292)	(13,032)	(95,658)
Deferred	(578)	(3,214)	(4,897)
	(11,871)	(16,246)	(100,555)
Minority Interests	2,083	2,228	17,644
Net income	18,292	18,710	154,947
Retained Earnings:			
Balance at beginning of the year	–	84,089	–
Appropriations:			
Cash dividends	–	(2,673)	–
Directors and corporate auditors' bonuses	–	(68)	–
Balance at end of the year (Note 13)	–	¥ 100,058	–
		Yen	U.S.dollars(Note3)
Per Share (Note 2 (9)):			
Net income			
Basic	¥ 82.43	¥ 83.23	\$ 0.70
Diluted	82.02	82.71	0.69
Cash dividends	14.00	14.00	0.12

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

ISETAN COMPANY LIMITED AND SUBSIDIARIES

Year ended March 31, 2007

	Millions of yen	Thousands of U.S.dollars(Note3)
	2007	2007
Shareholders' Equity:		
Common stock:		
Balance at beginning of year	¥ 36,122	\$ 305,991
Issuance of new shares	478	4,049
Balance at end of year	36,600	310,040
Capital surplus		
Balance at beginning of year	42,703	361,739
Issuance of new shares	478	4,046
Balance at end of year	43,181	365,785
Retained earnings		
Balance at beginning of year	100,058	847,593
Net income	18,292	154,947
Cash dividends	(3,116)	(26,398)
Bonuses to directors and corporate auditors	(129)	(1,089)
Effect from changes of consolidated subsidiaries, net	(210)	(1,782)
Balance at end of year	114,895	973,271
Less treasury stock, at cost:		
Balance at beginning of year	(92)	(776)
Acquisition of treasury stock	(9,507)	(80,531)
Balance at end of year	(9,598)	(81,307)
Total shareholders' equity	185,078	1,567,790
Valuation, translation adjustments and others		
Net unrealized holding gains on securities available-for-sale:		
Balance at beginning of year	17,528	148,483
Net (loss) gain	(4,166)	(35,293)
Balance at end of year	13,362	113,190
Deferred gains on hedges		
Balance at beginning of year	-	-
Net change during the year	20	167
Balance at end of year	20	167
Foreign currency translation adjustments:		
Balance at beginning of year	(1,531)	(12,973)
Translation adjustments	1,573	13,324
Balance at end of year	41	351
Total valuation, translation adjustments and others	13,423	113,708
Stock Acquisition Rights:		
Balance at beginning of year	-	-
Net change during the year	318	2,697
Balance at end of year	318	2,697
Minority interests:		
Balance at beginning of year	11,899	100,798
Net decrease	2,476	20,974
Balance at end of year	14,375	121,772
Net assets (Notes 13)	¥ 213,194	\$ 1,805,967

The accompanying notes are an integral part of these financial statements.

Financial Section

Consolidated Statements of Cash Flows

ISETAN COMPANY LIMITED AND SUBSIDIARIES

Year ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S.dollars(Note3)
	2007	2006	2007
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 32,245	¥ 37,184	\$ 273,146
Adjustments for:			
Depreciation and amortization	11,049	10,690	93,598
Loss on Impairment of property and equipment	3,227	3,438	27,333
Provision for (Reversal of) allowance for doubtful accounts	(2,287)	1,283	(19,375)
Reversal of retirement benefits to employees	(4,214)	(2,875)	(35,699)
Provision for retirement allowance to directors and corporate auditors	117	103	988
Provision for allowance for point cards	262	171	2,217
Interest and dividend income	(1,344)	(1,010)	(11,384)
Interest expenses	1,061	1,413	8,990
Foreign exchange earnings	(97)	(28)	(818)
Equity in earnings of affiliated companies	(454)	(579)	(3,847)
Gain on sales of property and equipment	(25)	(8,123)	(210)
Loss on disposal of property and equipment	2,538	2,367	21,501
(Gain) loss on sales of investment securities	24	(1,225)	206
Gain on sales of an affiliated company's business	(860)	–	(7,285)
Increase in receivables	(2,181)	(2,618)	(18,477)
Increase in inventories	(1,431)	(1,358)	(12,120)
Increase in payables	2,859	5,858	24,217
Others, net	6,325	1,867	53,581
Sub-total	46,814	46,558	396,561
Interest and dividend income received	1,106	587	9,371
Interest expenses paid	(1,025)	(1,192)	(8,686)
Income taxes paid	(11,375)	(10,394)	(96,360)
Net cash provided by operating activities	35,520	35,559	300,887
Cash Flows from Investing Activities:			
Payments for purchase of marketable securities and investments in securities	(603)	(2,137)	(5,110)
Proceeds from sales of marketable securities and investments in securities	280	2,319	2,368
Payments for purchase of property and equipment	(16,168)	(11,114)	(136,961)
Proceeds from sales of property and equipment	1,244	10,410	10,540
Proceeds from purchase of shares of consolidated subsidiaries, accompanied by changes in scope of consolidation	1,240	695	10,506
Payments for security deposit guarantees	(1,853)	–	(15,700)
Proceeds from the return of payments for security deposit guarantees	9,217	–	78,074
Payments for purchase of other investments	(1,706)	(4,075)	(14,453)
Proceeds from sales of other investments	7,110	5,942	60,230
Others, net	283	(687)	2,396
Net cash used in (provided by) investing activities	(957)	1,353	(8,109)
Cash flows from Financing Activities:			
Decrease in short-term borrowings	(4,791)	(5,513)	(40,587)
Proceeds from borrowings of long-term debt	–	19,417	–
Repayment of long-term debt	(6,990)	(36,752)	(59,216)
Redemption of bonds	(15,000)	–	(127,065)
Dividends paid	(3,116)	(2,673)	(26,398)
Payment for purchase of own shares	(9,507)	–	(80,531)
Others, net	570	1,833	4,829
Net cash provided by financing activities	(38,835)	(23,688)	(328,968)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	968	892	8,197
Net (decrease) increase in Cash and Cash Equivalents	(3,305)	14,116	(27,993)
Cash and Cash Equivalents at Beginning of the Year (Note 4)	36,342	22,226	307,856
Cash and Cash Equivalents of Excluding Consolidated Subsidiaries at End of the Year	(14)	–	(121)
Cash and Cash Equivalents at End of the Year (Note 4)	¥ 33,024	¥ 36,342	\$ 279,742

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

ISETAN COMPANY LIMITED AND SUBSIDIARIES

As of March 31, 2007 and 2006

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 34 subsidiaries at March 31, 2007 (37 at March 31, 2006). The consolidated financial statements include the accounts of the Company and 29 of its subsidiaries in respect of the year ended March 31, 2007 (32 subsidiaries for 2006). The Company and these consolidated subsidiaries are hereinafter referred to as the "Companies." The 29 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 12 subsidiaries: Shanghai Mei Long Zhen Isetan Department Store Co., Ltd., Tianjin Isetan Co., Ltd., Shanghai Jinjian Isetan Co., Ltd., Jinan Isetan Co., Ltd., Chengdu Isetan Co., Ltd., Isetan of Japan Ltd., Isetan (Singapore) Ltd., Isetan (Thailand) Co., Ltd., Isetan of

Japan Sdn. Bhd., Isetan (Italia) S.r.l, Lexim (Singapore) pte. Ltd. and Izutsuya Withcard Co., Ltd.

Shanghai Mei Long Zhen Isetan Department Store Co., Ltd., Tianjin Isetan Co., Ltd., Shanghai Jinjian Isetan Co., Ltd., Jinan Isetan Co., Ltd., Chengdu Isetan Co., Ltd., Isetan of Japan Ltd., Isetan (Singapore) Ltd., Isetan (Thailand) Co., Ltd., Isetan of Japan Sdn. Bhd., 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.

Izutsuya Withcard Co., Ltd. has fiscal years ending at the end of February of each year and the financial statements of this subsidiary at the end of February of each year has been used with necessary adjustments for significant transactions during the period between the end of February and March 31.

Consolidated subsidiaries Iwataya Co., Ltd. and Iwataya Tomonokai Co., Ltd. changed their fiscal years, and their most-recent fiscal term was the six-month period from October 1, 2006 to March 31, 2007. In preparing the consolidated financial statements, a 13-month period from March 1, 2006 to March 31, 2007 has been used for presenting their business results and the last day of this fiscal year was used for presenting their financial condition.

The accounts of the remaining 5 (5 for 2006) 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.

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	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)	90.0	US\$2.10 million
Shanghai Jinjian Isetan Co., Ltd. (China)	63.0	RMB23.75 million
Jinan Isetan Co., Ltd. (China)	100.0	US\$2.65 million
Chengdu Isetan Co., Ltd. (China) (*2)	100.0	US\$5.73 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
Mamma Co., Ltd.	100.0	¥400.00 million
Queen's Isetan Company Limited	100.0	¥255.00 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	EURO.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, 2007

(*2) Newly consolidated, effective from the year ended March 31, 2007 due to an increase in shares of those subsidiaries.

(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, 2007, the Company had 8 affiliates (7 at March 31, 2006).

The equity method is applied to the investments in 8 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., R&I Dining Co., Ltd., Shinjuku Underground Parking Co., Ltd., and

JTB ISETAN TRAVEL SERVICE, INC. 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, 2007 (5 for 2006) 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

Financial Section

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 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) Reserves for Directors' Bonuses

To provide for the payment of bonuses to directors, a reserves for directors' bonuses is recorded in an amount corresponding to estimated directors' bonuses to be paid in the consolidated fiscal year.

(e) Allowance for Point Cards

Kokura Isetan Co., Ltd., Iwataya Co., Ltd. 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. Result in 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) Accounting Standard for Directors' Bonuses

Effective from this consolidated fiscal year, the Company has adopted "Accounting Standard for Directors' Bonus" (ASBJ Statement No. 4, issued on November 29, 2005). As a result, operating income and income before income taxes and minority interests decreased by ¥103 million, respectively. The impact on segment information is shown in the relevant parts of the notes to the consolidated financial statements.

(14) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from this consolidated fiscal year, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5, issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8, issued on December 9, 2005). The amount that corresponds to former stockholders' equity is ¥198,481 million. Due to the revision in the regulations for consolidated financial statements, the consolidated financial statements have been produced based on the revised regulations for consolidated financial statements.

(15) Accounting Standard for Stock Options

Effective from this consolidated fiscal year, the Company has adopted Financial Accounting Standard No.8 "Accounting Standard for Share-based Payments" issued on December 27, 2005 by the Accounting Standards Board Japan, and its Implementation Guidance No. 11 "Guidance on Accounting Standard for Share-based Payment" issued on May 31, 2006 by the Accounting Standards Board of Japan. As a result, operating income and income before income taxes and minority interests decreased by ¥318 million, respectively. The impact on segment information is shown in the relevant parts of the notes to the consolidated financial statements.

(16) 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.

(17) Change in Classification

System usage fee revenues from affiliated department stores were traditionally deducted from Selling, General and Administrative (SG&A) expenses as a portion of shared expenses assuming joint use of systems. From this consolidated fiscal year, however, the Company changed to a method of recording these revenues within sales. This change resulted from a decision to make the strengthening of alliances, centering on system integration, a strategic task under the Isetan Group's 10-Year Vision and to classify system usage fee revenues from affiliated department stores as revenue generated by operating activities. As a result, net sales increased ¥718 million, but there was no effect on operating income and income before income taxes and minority interests. The impact on segment information is shown in the relevant parts of the notes to the consolidated financial statements.

(18) Change in Presentation Method

From this consolidated fiscal year, in Cash Flows from Investing Activities, "Payments for security deposit guarantees" (¥1,952 million in the previous fiscal year) included in "Payments for purchases in other investments" in the previous consolidated fiscal year and "Proceeds from the return of payments for security deposit guarantees" (¥4,631 million in the previous fiscal year) included in "Proceeds from sales of other investments" are classified as separate items due to their increased importance.

From this consolidated fiscal year, in Cash Flows from Financing Activities, "Payments for purchases of treasury stock" (¥19 million in the previous fiscal year) included in "Other, net" in the previous consolidated fiscal year is classified as a separate item due to its increased importance.

Financial Section

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 ¥118.05 = US\$1, the approximate rate of

exchange in effect on March 31, 2007. 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 Flows Information

Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on 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(Note3)
	2007	2006	2007
Cash and cash equivalents consisting of:			
Cash and bank deposits	¥33,673	¥37,162	\$285,240
Time deposits with maturity of over 3 months	(649)	(820)	(5,498)
Cash and cash equivalents	¥33,024	¥36,342	\$279,742

5. Loss on 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(Note3)
			2007	2007
Isetan Company Limited (Tachikawa-shi, Tokyo)	Retail stores,Other	Building	¥3,195	\$27,062
Other	Retail stores,Other	Building	32	271

The Company and its consolidated subsidiaries primarily group assets into the smallest cash flow-generating units, with retail stores as the basic unit. The book values of asset groups that continued to record

losses in operating activities were written down to recoverable amounts, and thus an impairment loss of ¥3,227 million (\$27,333 thousand) was recorded.

Breakdown of Impairment Loss

Location	Millions of yen	Thousands of U.S.dollars(Note3)
	2007	2007
Isetan Company Limited	¥3,195 (Building 3,195)	\$27,062 (Building 27,062)
Other	¥ 32 (Building 32)	\$ 271 (Building 271)

The recoverable value of these assets groups is measured by the net realizable value whereas the value of critical asset groups is

determined by a real estate appraiser based on Japanese real estate appraisal standards.

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 acquisition cost, accumulated depreciation, and net book value of leased assets:

	Millions of Yen		Thousands of U.S.Dollars(Note3)
	2007	2006	2007
Equipment:			
Acquisition cost	¥9,907	¥9,127	\$83,919
Accumulated depreciation	¥4,730	3,886	40,069
Net book value	¥5,176	¥5,241	\$43,850

2. The amounts of outstanding future lease payments:

	Millions of Yen		Thousands of U.S.Dollars(Note3)
	2007	2006	2007
Within one year	¥1,906	¥1,771	\$16,144
Over one year	¥3,271	3,470	27,706
Total	¥5,176	¥5,241	\$43,850

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 included the portion of interests thereon.

3. Lease rental expenses and amount equivalent to depreciation :

	Millions of Yen		Thousands of U.S.Dollars(Note3)
	2007	2006	2007
Lease rental expenses	¥2,013	¥1,838	\$17,054
Amount equivalent to depreciation	¥2,013	1,838	17,054

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(Note3)
	2007	2006	2007
Within one year	¥ 5,924	¥ 6,401	\$ 50,180
Over one year	¥48,609	65,688	411,770
Total	¥54,533	¥72,089	\$461,950

Financial Section

7. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2007 and 2006 was 40.7%.

At March 31, 2007 and 2006, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S.Dollars(Note3)
	2007	2006	2007
Deferred tax assets:			
Allowance for doubtful accounts	¥ 1,974	¥ 2,106	\$ 16,723
Accrued bonuses	3,567	3,571	30,214
Reserve for employees' retirement benefits	6,028	7,687	51,060
Depreciation in excess of tax deductible limit	4,354	1,797	36,884
Write-down of investments in securities	1,349	1,313	11,425
Undeducted loss on impairment of property and equipment	1,104	2,557	9,354
Tax loss carryforwards	4,422	3,077	37,458
Other	4,363	4,155	36,959
Total	27,160	26,263	230,076
Valuation allowance	(9,266)	(6,725)	(78,491)
Total deferred tax assets	17,895	19,538	151,585
Deferred tax liabilities:			
Reserve for deferred capital gain on property	(5,754)	(6,734)	(48,745)
Unrealized gain on other securities	(8,105)	(10,218)	(68,661)
Other	(2,547)	(3,052)	(21,577)
Total deferred tax liabilities	(16,407)	(20,004)	(138,983)
Net deferred tax assets(liabilities)	¥ 1,488	¥ (466)	\$ 12,603

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

	Millions of Yen		Thousands of U.S.Dollars(Note3)
	2007	2006	2007
Current assets - deferred tax assets	¥ 6,517	¥ 7,547	\$ 55,204
Fixed assets - deferred tax assets	2,548	2,036	21,588
Current liabilities - deferred tax liabilities	(11)	(10)	(93)
Long-term liabilities - deferred tax liabilities	(7,567)	(10,039)	(64,097)

For the years ended March 31, 2007 and 2006, the reconciliation of the statutory tax rate to the respective effective income tax rate is as follows:

	2007	2006
Statutory tax rate	40.7%	40.7%
Increase (decrease) in taxes resulting from		
Permanent differences, net	0.1	0.3
Inhabitants tax - per capita levy	0.2	0.2
Net loss of subsidiaries	2.0	4.9
Amortization of consolidation goodwill	-	(0.2)
Equity earnings of affiliates	(0.6)	(0.6)
Valuation allowance	(4.1)	(1.0)
Other	(1.5)	(0.6)
Effective income tax rate	36.8	43.7

8. Retirement Benefit Plan

The Company and its domestic consolidated subsidiaries have defined benefit pension plans, i.e., welfare pension plans, taxqualified 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, 2007 and 2006 is analyzed as follows:

	Millions of yen		Thousands of U.S.dollars(Note3)
	2007	2006	2007
Projected benefit obligations	¥(43,160)	¥(44,873)	\$(365,606)
Plan assets	29,797	28,206	252,407
	(13,363)	(16,667)	(113,199)
Unrecognized actuarial differences	(796)	655	(6,742)
Unrecognized prior service costs	(2,341)	(4,821)	(19,830)
	(16,500)	(20,833)	(139,772)
Prepaid pension costs	6,904	4,427	58,483
Accrued retirement benefits	¥(23,404)	¥(25,260)	\$(198,255)

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 the retirement benefits for the years ended March 31, 2007 and 2006 are analyzed as follows:

	Millions of yen		Thousands of U.S.dollars(Note3)
	2007	2006	2007
Service costs	¥1,745	¥1,841	\$ 14,778
Interest costs	1,113	1,123	9,432
Expected return on plan assets	(833)	(704)	(7,057)
Amortization of actuarial differences	601	997	5,092
Amortization of prior service costs	(2,477)	(2,489)	(20,982)
Payments for defined contribution pension plan	939	943	7,955
Other	94	83	798
Net pension expense	¥1,183	¥1,794	\$ 10,017

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

	As of March 31, 2007	As of March 31, 2006
Discount rate	2.00–2.50%	2.00–2.50%
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

Financial Section

9. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S.dollars(Note3)
	2007	2006	2007
Short-term bank loans	¥24,427	¥29,522	\$206,918
Long-term bank loans due within one year	3,059	6,990	25,915
Total	¥27,486	¥36,512	\$232,832

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S.dollars(Note3)
	2007	2006	2007
Long-term loans from banks and other financial institutions	¥ 6,059	¥14,649	\$ 51,327
Less: portion due within one year	(3,059)	(6,990)	(25,915)
Sub-total	3,000	7,659	25,413
Bonds:			
2.825% bonds due November 28, 2007	20,000	20,000	169,420
0.67% bonds due August 15, 2008	10,000	10,000	84,710
0.61% bonds due September 8, 2006	—	10,000	—
0.44% bonds due February 26, 2007	—	5,000	—
	30,000	45,000	254,130
Less: due within one year	20,000	15,000	169,420
Sub-total	10,000	30,000	84,710
Total	¥13,000	¥37,659	\$110,123

The aggregate annual maturities of long-term loans outstanding at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S.dollars(Note3)
	2007	2007
Year ending March 31, 2008	¥3,000	\$25,413

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, 2007 was as follows:

	Millions of yen	Thousands of U.S.dollars(Note3)
	2007	2007
Available credit lines	¥25,000	\$211,775
Used credit lines	—	—
Unused credit lines	¥25,000	\$211,775

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, 2007 and 2006 were as follows:

	March 31, 2007			
	Millions of yen			Thousands of U.S. dollars(Note3)
	Acquisition cost	Book Value	Unrealized gain (loss)	Unrealized gain (loss)
(1) Securities with book value exceeding acquisition cost:				
Corporate stock	¥25,497	¥46,490	¥20,993	\$177,828
(2) Securities with book value under acquisition cost:				
Corporate stock	201	181	(20)	(171)

	March 31, 2006			
	Millions of yen			Thousands of U.S. dollars(Note3)
	Acquisition 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)

II. Total sales of available-for-sale securities sold in the year ended March 31, 2007 amounted to ¥13 million (\$108 thousand), and related gains amounted to ¥7 million (\$62 thousand).

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).

III. The carrying amounts of available-for-sale securities for which market quotations were unavailable at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars(Note3)
	2007	2006	2007
	Other securities	¥3,811	¥3,382

IV. Maturities of available-for-sale securities at March 31, 2007 are as follows:

	Millions of yen			
	2007			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Corporate bonds	¥1,087	¥621	¥310	¥2,018
Total	¥1,087	¥621	¥310	¥2,018

	Thousands of U.S. dollars(Note3)			
	2007			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Corporate bonds	\$9,204	\$5,259	\$2,630	\$17,093
Total	\$9,204	\$5,259	\$2,630	\$17,093

Financial Section

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, 2007, the total unused credit available to card members was ¥150,681 million (\$1,276,421 thousand).

II. Contingent liabilities

The Company had contingent liabilities for guarantees of housing loans borrowed by employees in the amount of ¥1,166 million (\$9,875 thousand) and ¥1,591 million at March 2007 and 2006, respectively.

12. Breakdown of Selling, General and Administrative Expenses

Selling, general and administrative expenses during the two years ended March 31, 2007 and 2006 included the following:

	Millions of yen		Thousands of U.S.dollars(Note3)
	2007	2006	2007
Salaries and payroll costs	¥64,080	¥66,068	\$542,819
Pension expense	¥ 1,147	¥ 1,794	\$ 9,718
Advertising	¥13,989	¥13,259	\$118,504
Depreciation (and amortization)	¥10,895	¥10,745	\$ 92,290

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 28, 2007.

	Millions of yen	Thousands of U.S.dollars(Note3)
	2007	2007
Retained earnings:		
Balance at March 31	¥114,895	\$973,271
Appropriations:		
Cash dividends (¥9.0 per share)	(1,981)	(16,780)
Balance to be carried forward	¥112,914	\$956,491

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 (*2)	Term of the option	Exercise price
(1) Approved by shareholders at meeting held on June 29, 2000 Directors (19)	53,000 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)	475,000 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)	396,700 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)	148,300 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)	424,000 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)	212,000 shares	from August 9,2008 to August 8,2013	¥1,829
(10) Approved by shareholders at meeting held on June 28, 2007 Directors (8)	211,600 shares	from August 8,2009 to August 7,2014	¥1,952
(11) Approved by shareholders at meeting held on June 28, 2007 Operating officer (19)	331,400 shares	from August 8,2009 to August 7,2014	¥1,952
(12) Approved by shareholders at meeting held on June 28, 2007 Employees (52)	208,000 shares	from August 8,2009 to August 7,2014	¥1,952

(*1) Each exercise price of the option was determined according to the market quotation at 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.

(*2) As of June 30, 2007

Financial Section

15. Segment Information

I. Industry Segment Information

The Companies operate primarily in four lines of business:

- Department stores business
- Credit & Finance business

- Other retailing and speciality stores 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, 2007 and 2006 classified by business segments are presented below.

Millions of yen							
2007							
	Department stores business	Credit & finance business	Other retailing and speciality stores business	Other business	Total	Elimination	Consolidated Total
Net Sales:							
Outside customers	¥ 714,684	¥ 8,406	¥ 51,738	¥ 6,971	¥ 781,799	¥ -	¥ 781,799
Inter-segment sales	879	5,762	9,992	33,181	49,814	(49,814)	-
	715,563	14,168	61,730	40,152	831,613	(49,814)	781,799
Operating costs and expenses	689,007	10,019	60,518	39,734	799,278	(49,732)	749,546
Operating income	¥ 26,556	¥ 4,149	¥ 1,212	¥ 418	¥ 32,335	¥ (83)	¥ 32,253
Assets	¥ 425,174	¥ 69,711	¥ 14,741	¥ 43,988	¥ 553,614	¥ (78,718)	¥ 474,896
Depreciation	¥ 10,024	¥ 188	¥ 813	¥ 26	¥ 11,051	¥ (1)	¥ 11,049
Impairment loss	¥ 3,225	¥ -	¥ 1	¥ -	¥ 3,227	¥ -	¥ 3,227
Capital expenditures	¥ 15,783	¥ 139	¥ 1,343	¥ 44	¥ 17,309	¥ (485)	¥ 16,824

Millions of yen							
2006							
	Department stores 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

Thousands of U.S.dollars(Note3)

	2007						Consolidated Total
	Department stores business	Credit & finance business	Other retailing and speciality stores business	Other business	Total	Elimination	
Net Sales:							
Outside customers	\$6,054,078	\$ 71,211	\$438,270	\$ 59,048	\$6,622,607	\$ -	\$6,622,607
Inter-segment sales	7,444	48,808	84,646	281,080	421,977	(421,977)	-
	6,061,522	120,019	522,916	340,128	7,044,585	(421,977)	6,622,607
Operating costs and expenses	5,836,565	84,873	512,650	336,586	6,770,674	(421,278)	6,349,397
Operating income	\$ 224,956	\$ 35,146	\$ 10,267	\$ 3,541	\$ 273,910	\$ (700)	\$ 273,211
Assets	\$3,601,642	\$590,520	\$124,867	\$372,626	\$4,689,654	\$(666,819)	\$4,022,835
Depreciation	\$ 84,914	\$ 1,595	\$ 6,884	\$ 218	\$ 93,610	\$ (13)	\$ 93,598
Impairment loss	\$ 27,322	\$ -	\$ 11	\$ -	\$ 27,333	\$ -	\$ 27,333
Capital expenditures	\$ 133,695	\$ 1,177	\$ 11,380	\$ 372	\$ 146,624	\$ (4,105)	\$ 142,519

(1) Effective from this consolidated fiscal year, the Company has adopted "Accounting Standard for Directors' Bonus" (ASBJ Statement No. 4, issued on November 29, 2005). Along with this change, consolidated operating costs and expenses increased by ¥93 million in the Department stores business and by ¥10 million in the Other retailing and specialty stores business, and operating income decreased by corresponding amounts, respectively, compared with when applying the previous accounting method.

(2) Effective from this consolidated fiscal year, the Company has adopted Financial Accounting Standard No.8 "Accounting Standard for Share-based Payments" issued on December 27, 2005 by the Accounting Standards Board Japan, and its Implementation Guidance No. 11 "Guidance on Accounting Standard for Share-based Payment" issued on May 31, 2006 by the Accounting Standards Board of Japan. Along with this change, consolidated operating costs and expenses increased by ¥318 million in the Department stores business and operating income decreased by a corresponding amount compared with when applying the previous accounting method.

(3) System usage fee revenues from affiliated department stores were traditionally deducted from SG&A expenses as a portion of shared expenses assuming joint use of systems. From this consolidated fiscal year, however, the Company changed to a method of recording these revenues within sales. This change resulted from a decision to make the strengthening of alliances, centering on system integration, a strategic task under the Isetan Group's 10-Year Vision and to classify system usage fee revenues from affiliated department stores as revenue generated by operating activities. As a result of this change, net sales in the Department stores business increased by ¥718 million and operating costs and expenses increased by a corresponding amount.

(4) From this consolidated fiscal year, the Company changed name of the "Other retailing, speciality stores and the restaurant business" segment, the name used up to the previous fiscal year, to the "Other retailing and speciality stores business" segment. This change was made because R&I Dining Co., Ltd., which engages in the restaurant business, was converted from a consolidated subsidiary to an equity-method affiliate in the previous consolidated fiscal year.

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, 2007 and 2006 as classified by geographical segment, are presented below:

	Millions of yen				
	Within Japan	Outside Japan	Total	Elimination	Consolidated Total
	2007				
Net Sales:					
Outside customers	¥718,356	¥63,443	¥781,799	¥ -	¥781,799
Inter-segment sales	656	88	744	(744)	-
	719,012	63,531	782,543	(744)	781,799
Operating costs and expenses	689,498	60,860	750,358	(812)	749,546
Operating income	¥ 29,513	¥ 2,672	¥ 32,185	¥ 68	¥ 32,253
Assets	¥440,387	¥37,270	¥477,657	¥(2,761)	¥474,896

Financial Section

	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)	-
	704,168	56,437	760,605	(567)	760,038
Operating costs and expenses	677,056	53,501	730,557	(580)	729,977
Operating income	¥ 27,112	¥ 2,936	¥ 30,048	¥ 13	¥ 30,061
Assets	¥464,047	¥31,805	¥495,852	¥(2,298)	¥493,554

	Thousands of U.S.dollars(Note3)				
	2007				
	Within Japan	Outside Japan	Total	Elimination	Consolidated Total
Net Sales:					
Outside customers	\$6,085,185	\$537,422	\$6,622,607	\$ -	\$6,622,607
Inter-segment sales	5,554	749	6,304	(6,304)	-
	6,090,739	538,172	6,628,911	(6,304)	6,622,607
Operating costs and expenses	5,840,731	515,541	6,356,272	(6,875)	6,349,397
Operating income	\$ 250,008	\$ 22,631	\$ 272,639	\$ 572	\$ 273,211
Assets	\$3,730,510	\$315,715	\$4,046,225	\$(23,390)	\$4,022,835

Overseas sales information for the years ended March 31, 2007 and 2006 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.

(1) Effective from this consolidated fiscal year, the Company has adopted "Accounting Standard for Directors' Bonus" (ASBJ Statement No. 4, issued on November 29, 2005). Along with this change, consolidated operating costs and expenses in Japan during the fiscal year increased by ¥103 million and operating income decreased by a corresponding amount compared with when applying the previous accounting method.

(2) Effective from this consolidated fiscal year, the Company has adopted Financial Accounting Standard No.8 "Accounting Standard for Share-based Payments" issued on December 27, 2005 by the Accounting Standards Board Japan, and its Implementation Guidance No. 11 "Guidance on Accounting Standard for Share-based Payment" issued on May 31, 2006 by the Accounting Standards Board of Japan. Along with this change, consolidated operating costs and expenses

during the fiscal year in Japan increased by ¥318 million and operating income decreased by a corresponding amount compared with when applying the previous accounting method.

(3) System usage fee revenues from affiliated department stores were traditionally deducted from SG&A expenses as a portion of shared expenses assuming joint use of systems. From this consolidated fiscal year, however, the Company changed to a method of recording these revenues within sales. This change resulted from a decision to make the strengthening of alliances, centering on system integration, a strategic task under the Isetan Group's 10-Year Vision and to classify system usage fee revenues from affiliated department stores as revenue generated by operating activities. As a result of this change, net sales in Japan increased by ¥718 million and operating costs and expenses increased by a corresponding amount.

Set out above is an English translation of the report issued in the Japanese language by Misuzu Audit Corporation on the consolidated financial statements of the company for the year ended March 31 2007. The financial statements presented in this report are a translation of the Japanese language consolidated financial statements. In preparing the translation of the financial statements, certain items have been reclassified for the convenience of readers outside Japan.

No audit report has been issued on the translated financial statements. In all matters of interpretation of information, views or opinions, the original language versions of the consolidated financial statements and the report of the auditors take precedence over this translation.

Main store and branch stores



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: ¥256,980 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: ¥40,535 million
Opened: Oct. 10, 1947



Kichijoji store

Since its inception, the Kichijoji store has enjoyed the patronage of customers from the Musashino District. 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: ¥18,274 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: ¥29,010 million
Opened: Apr. 19, 1974



Urawa store

The Urawa store reopened on March 1 2006 after a full remodeling. 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: ¥52,775 million
Opened: Apr. 22, 1981



Sagamiyara store

Opened in 1990, the Sagamiyara 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 Sagamiono, Sagamiyara-shi, Kanagawa 228-0803 Japan +81-42-740-1111
Total selling floor area: 40,906m² Annual sales: ¥32,490 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. With completion of the third section of redevelopment in 2006, there has been a rush in new apartment complex construction, which has led to an increase in customers to the store.

1-41-2 Miyamachi, Fuchu-shi, Tokyo 183-0023 Japan +81-42-334-1111
Total selling floor area: 34,102m² Annual sales: ¥24,884 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. We celebrated our 30th anniversary in 2007.

1-7 Gohukucho, Sizuoka-shi, Shizuoka
420-0031 Japan +81-54-251-2211
Annual sales: ¥24,500 million Founded: Jun. 10, 1948
Affiliated: 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, Chuo-ku, Niigata-shi, Niigata 950-0909 Japan
+81-25-242-1111
Annual sales: ¥39,857 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: ¥17,029 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, Chuo-ku, Fukuoka-shi, Fukuoka 810-8680 Japan
+81-92-721-1111
Annual sales: ¥114,323 million
Founded: 1754 Established: May 8, 1935



West Japan Railway Isetan Ltd. (Equity-method affiliate)

901 Higashishikoujijimachi, Karasumadori-shiokouji-kudaru, Simogyo-ku, Kyoto-shi, 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)

Isetan opened two new stores in 2007 and now boasts a network of 18 in the Tokyo region.

4F H&I Bldg., 5-17-18 Shinjuku, Shinjuku-ku, Tokyo 160-0022 Japan
+81-3-5273-5380 Annual sales: ¥49,739 million

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
Annual sales: ¥7,913 million



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

Isetan Institute Co., Ltd. (Researching)

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

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

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

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 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

R&I Dining Co., Ltd. (Restaurants) (Equity-method affiliate)

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

JTB ISETAN TRAVEL SERVICE, INC. (Travel services) (Equity-method affiliate)

6F Shizgin Bldg., 2-19-12 Shinjuku, Shinjuku-ku, Tokyo 160-0022 Japan
+81-3-3356-3411

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

5-16-10 Shinjuku, Shinjuku-ku, Tokyo 160-0022 Japan
+81-3-3225-0626

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

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)

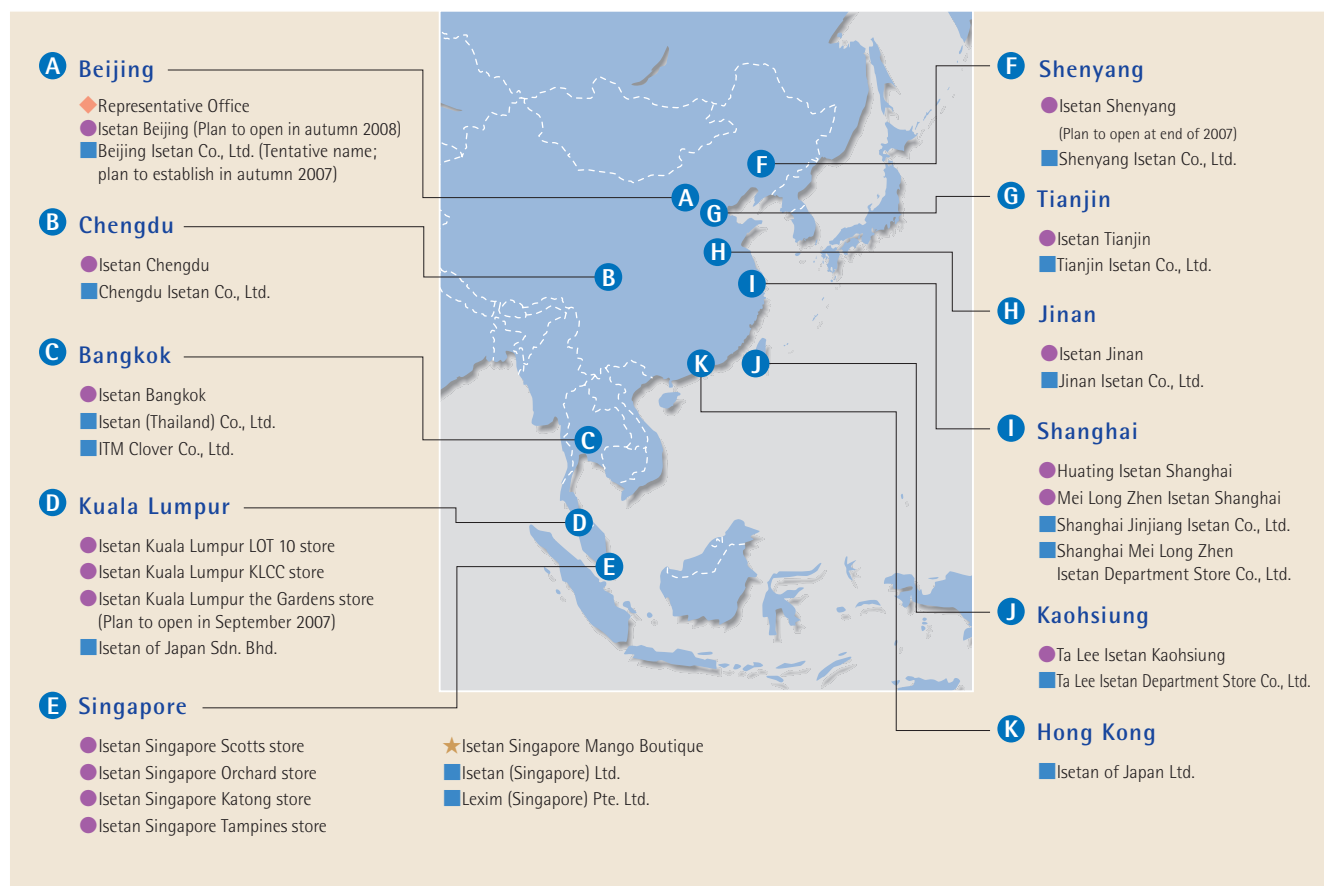
2-3F H&I Bldg., 5-17-18 Shinjuku, Shinjuku-ku, Tokyo 160-0022 Japan
+81-3-5273-6500

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

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



Overseas Companies (As of June 2007)



Isetan Singapore Scotts store



Isetan Singapore Katong store



Isetan Kuala Lumpur LOT 10 store



Isetan Kuala Lumpur KLCC store



Isetan Bangkok



Huating Isetan Shanghai



Mei Long Zhen Isetan Shanghai



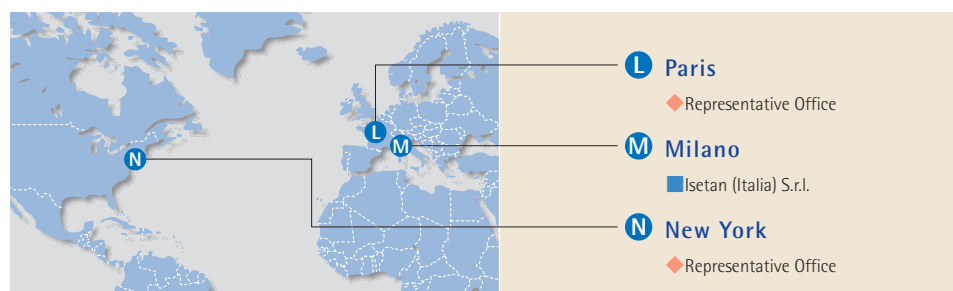
Isetan Tianjin



Isetan Jinan



Isetan Chengdu



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

Corporate Data (As of March 2007)

Name: Isetan Company Limited
 Founded: Nov 5, 1886
 Established: Sep 30, 1930
 Representative director and chief executive officer: Nobukazu Muto
 Capital: ¥36,600 million
 Headquarters: 14-1, Shinjuku 3-chome, Shinjuku-ku, Tokyo 160-0022, Japan
 Phone: +81-3-3352-1111

Principal business: Department store business
 Number of stores: 7
 The total retail floor space: 262,586m²
 Accounting term: March

Board of Directors and Corporate Auditors

(As of June 2007)

Chairman

Kazumasa Koshiba

President & CEO

Nobukazu Muto

Senior Executive Vice President, Director

Mikio Hashimoto

Executive Vice Presidents, Directors

Chihiro Nihashi

Keinosuke Okawa

Shinya Takada

Directors

Shotaro Watanabe

Takeshi Yano

Corporate Auditors

Etsuro Ishizuya

Ikuo Nihei

Yasumasa Gomi

Sumio Iijima

Senior Executive Officers

Tatsumasa Matsui

Haruki Fujiwara

Toshihiko Nakagome

Executive Officers

Jun Sekine

Naoki Ueno

Kenichi Nagasaki

Hiroshi Omata

Susumu Sugiura

Toshiaki Nakagawa

Hiroyoshi Oshima

Shinichi Matsuura

Hiroshi Onishi

Hidetoshi Yamaoka

Keiichi Kurosawa

Fumio Hijikata

Tsutomu Kumagai

Yoji Naka

Tatsuya Ito

Shigeki Yamazaki

Business Relationship Among Isetan Group Companies

(As of June 2007)

