

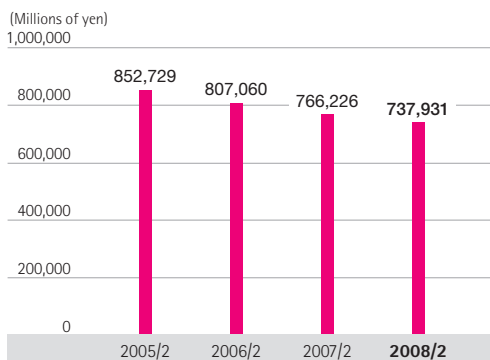
Financial Data

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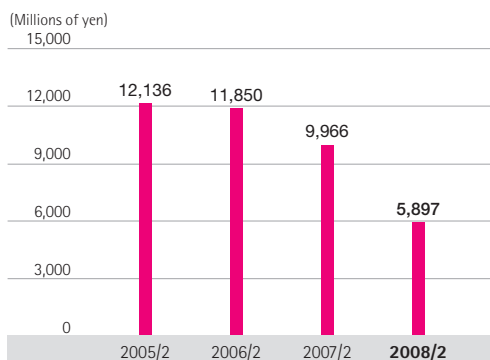
## Overview of Business Results for the Mitsukoshi Group

During the year ended February 29, 2008, in the mainstay Department store business, sales were lackluster owing to sluggish personal consumption in view of the uncertain economic outlook and because it took time for the impact of the investment in refurbishment to become evident. Thus, there was a considerable gap between the results and the profit plan. Net sales were ¥773,964 million, a decrease of 3.8% from the previous year; operating income was ¥8,455 million, a 33.0% decline; recurring profit was ¥12,258 million, a 28.0% decrease; and net income was ¥4,427 million, a decline of 65.8%.

### ■ Sales in Department Store Business



### ■ Operating Income in Department Store Business



### Department Store Business

During fiscal 2007, we implemented measures based on the evolved New Mitsukoshi Model in order to achieve further growth and prosperity of Mitsukoshi in the rapidly changing marketplace. Of particular note, we aimed to boost sales and profits from "priority sales floors\*1" and "priority zones\*2" by firmly putting into place a sales floor operation model, which clarifies the details of necessary work at sales floors in order to maximize customer satisfaction.

Sales from priority sales floors were 4.4% short of our sales target and were 0.7% below the level recorded in the previous fiscal year. Nonetheless, sales from such priority sales floors as Fashion Parts (casual accessory shops), Basic Casual (women's wear shops) and *Kayuan* (shops offering assortments of patisserie, confectionery and Japanese-style sweets) significantly exceeded both the targets and previous year's results. Looking at second-half results, sales are recovering and increased 1.8% versus the previous fiscal year.

Furthermore, we invested ¥5.9 billion for refurbishing our existing 14 stores. Sales from refurbished sales floors greatly exceeded the previous year's sales, although results at some sales floors fell short of targets.

At the Nihonbashi main store, we worked to realize a high-grade, hospitable ambience symbolizing the Mitsukoshi brand by incrementally refurbishing the accessories floor and the basement food floor and making these areas barrier free.

Meanwhile, we continued to implement cost reduction measures, including reform of our logistics system, integration of back office operations and reform of procurement by introducing bidding. Through these initiatives, we achieved a 3.9% reduction in selling, general and administrative (SG&A) expenses from the previous fiscal year, as the positive effects of cost reduction measures emerge.

As a result of the previous factors, sales in the Department store business amounted to ¥737,931 million, a 3.7% decrease from the previous year, and operating income was ¥5,897 million, a decline of 40.8%.

\*1 Priority sales floors consist of shops offering independently selected merchandise assortments befitting Mitsukoshi.

\*2 Priority zones are sales corners positioned around core priority sales floors and offer brands based on concepts related to the priority sales floors.

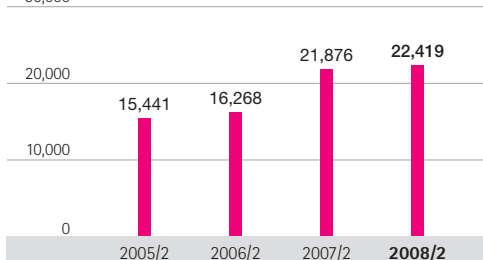
## Real Estate Business

In the Real estate business, sales to external customers were favorable, as Mitsukoshi Kankyo Design Co., Ltd. received orders for hotels and other large projects. Cleaning and parking lot operations, which are outsourced by Mitsukoshi to Group companies, provided high-quality services that contributed to the enhancement of the value of the Mitsukoshi brand.

As a result, segment sales amounted to ¥22,419 million, an increase of 2.5% from the fiscal previous year, and operating income amounted to ¥1,502 million, a decrease of 5.9%.

### ■ Sales in Real Estate Business

(Millions of yen)



### ■ Operating Income in Real Estate Business

(Millions of yen)

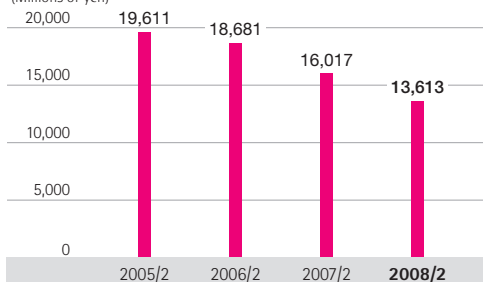
Fiscal Year	Operating Income (Millions of yen)
2005/2	1,681
2006/2	2,304
2007/2	1,596
2008/2	1,502

## Other Businesses

In Other businesses, in April 2007 restaurant operations were separated from Niko, Ltd. and Nagoya Building Service Co., Ltd. and part of the stake in these operations was sold to Royal Holdings Co., Ltd. We will work to realize a higher level of customer satisfaction by integrating the know-how of Mitsukoshi and Royal Holdings. Also, JP Logistics Partners Co., Ltd., a joint venture between Mitsukoshi and Japan Post Service Co., Ltd., which is a part of Japan Post Holdings Co., Ltd., began operation in November 2007.

### ■ Sales in Other Businesses

(Millions of yen)



### ■ Operating Income in Other Businesses

(Millions of yen)

Fiscal Year	Operating Income (Millions of yen)
2005/2	1,458
2006/2	1,434
2007/2	1,136
2008/2	1,083

\* Segment sales exclude intra-company sales and transfers.

## Consolidated Balance Sheets

Mitsukoshi, Ltd. and Consolidated Subsidiaries

ASSETS	February 29 or 28,		
	2008	2007	Thousands of U.S. dollars (Note 2)
<b>Current Assets:</b>			
Cash and deposits (Note 3) .....	¥ 19,548	¥ 17,230	\$ 186,171
Trade notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates .....	445	227	4,238
Other .....	34,108	34,637	324,838
Less allowance for doubtful accounts .....	(121)	(106)	(1,152)
Inventories (Note 5) .....	38,587	39,103	367,495
Deferred tax assets (Note 13) .....	2,787	4,060	26,543
Other current assets .....	8,312	9,615	79,162
<b>Total current assets .....</b>	<b>103,667</b>	<b>104,768</b>	<b>987,305</b>
<b>Property and Equipment (Note 6):</b>			
Land .....	231,812	232,987	2,207,733
Buildings and structures .....	260,445	270,310	2,480,429
Machinery, equipment and fixtures .....	25,263	28,526	240,600
Construction in progress .....	9,289	4,419	88,467
	526,810	536,243	5,017,238
Less accumulated depreciation .....	(180,138)	(183,903)	(1,715,600)
<b>Property and equipment, net .....</b>	<b>346,672</b>	<b>352,340</b>	<b>3,301,638</b>
<b>Investments and Other Assets:</b>			
Investments in unconsolidated subsidiaries and affiliates .....	39,001	42,091	371,438
Other investments in securities (Note 4) .....	11,731	13,784	111,724
Leasehold and other deposits .....	40,101	38,981	381,914
Deferred tax assets (Note 13) .....	122	111	1,162
Other assets (Note 6) .....	29,429	25,594	280,276
<b>Total investments and other assets .....</b>	<b>120,386</b>	<b>120,563</b>	<b>1,146,533</b>
<b>Total Assets .....</b>	<b>¥570,727</b>	<b>¥577,672</b>	<b>\$5,435,495</b>

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

Liabilities and Net Assets	February 29 or 28,		
	2008	2007	Thousands of U.S. dollars (Note 2)
	Millions of yen		
<b>Current Liabilities:</b>			
Bank overdrafts and short-term bank loans (Notes 3 and 7)	¥ 14,857	¥ 12,790	\$ 141,495
Current portion of long-term debt (Note 8)	76,138	52,573	725,124
Trade notes and accounts payable	40,472	42,566	385,448
Advances from customers	35,537	31,118	338,448
Accrued income taxes	1,067	1,147	10,162
Gift certificates	28,373	29,986	270,219
Deferred tax liabilities (Note 13)	138	97	1,314
Allowance for point card certificates	253	161	2,410
Deposits	29,429	–	280,276
Accrued expenses and other current liabilities	14,833	46,012	141,267
<b>Total current liabilities</b>	<b>241,100</b>	<b>216,455</b>	<b>2,296,190</b>
<b>Long-term Liabilities:</b>			
Long-term debt (Note 8)	80,770	106,008	769,238
Accrued retirement benefits (Note 9)	39,340	39,929	374,667
Deferred tax liabilities (Note 13)	43,149	44,192	410,943
Other long-term liabilities	7,132	8,246	67,924
<b>Total long-term liabilities</b>	<b>170,393</b>	<b>198,376</b>	<b>1,622,790</b>
Contingent liabilities (Note 15)			
<b>Net Assets:</b>			
<b>Shareholders' Equity (Note 10):</b>			
Common stock:			
Authorized – 1,500,000,000 shares			
Issued – 515,022,356 shares in 2008 and 2007	37,404	37,404	356,229
Capital surplus	41,949	41,933	399,514
Retained earnings	72,207	69,257	687,686
Less treasury stock, at cost	(651)	(515)	(6,200)
<b>Total shareholders' equity</b>	<b>150,908</b>	<b>148,078</b>	<b>1,437,219</b>
<b>Valuation and Translation Adjustments:</b>			
Unrealized holding gain on securities, net of deferred income taxes	6,656	12,197	63,390
Unrealized holding gain on hedging derivatives	(4)	0	(38)
Translation adjustments (Note 1(c))	1,199	2,141	11,419
<b>Total valuation and translation adjustments</b>	<b>7,852</b>	<b>14,340</b>	<b>74,781</b>
Share subscription rights (Note 11)	35	25	333
Minority interests in consolidated subsidiaries	437	395	4,162
<b>Total net assets</b>	<b>159,233</b>	<b>162,840</b>	<b>1,516,505</b>
<b>Total Liabilities and Net Assets</b>	<b>¥570,727</b>	<b>¥577,672</b>	<b>\$5,435,495</b>

## Consolidated Statements of Income

Mitsukoshi, Ltd. and Consolidated Subsidiaries

	Year ended February 29 or 28,		
	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
Net sales .....	<b>¥773,964</b>	¥804,120	<b>\$7,371,086</b>
Cost of sales .....	<b>567,486</b>	585,467	<b>5,404,629</b>
<b>Gross profit</b> .....	<b>206,477</b>	218,652	<b>1,966,448</b>
Selling, general and administrative expenses (Note 11) .....	<b>198,022</b>	206,034	<b>1,885,924</b>
<b>Operating Income</b> .....	<b>8,455</b>	12,617	<b>80,524</b>
<b>Other Income (expenses):</b>			
Interest and dividend income .....	<b>615</b>	544	<b>5,857</b>
Interest expense .....	<b>(2,472)</b>	(2,285)	<b>(23,543)</b>
Equity in earnings of affiliates .....	<b>5,084</b>	5,931	<b>48,419</b>
Other, net (Notes 6 and 12) .....	<b>(5,096)</b>	(3,314)	<b>(48,533)</b>
	<b>(1,868)</b>	875	<b>(17,790)</b>
<b>Income before Income Taxes and Minority Interests</b> .....	<b>6,586</b>	13,493	<b>62,724</b>
<b>Income Taxes (Note 13):</b>			
Current .....	<b>1,255</b>	1,331	<b>11,952</b>
Deferred .....	<b>858</b>	(790)	<b>8,171</b>
	<b>2,113</b>	541	<b>20,124</b>
<b>Minority Interests in Earnings of Consolidated Subsidiaries</b> .....	<b>(45)</b>	(15)	<b>(429)</b>
<b>Net Income (Note 17)</b> .....	<b>¥ 4,427</b>	¥ 12,936	<b>\$ 42,162</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

Mitsukoshi, Ltd. and Consolidated Subsidiaries

	Millions of yen				
	February 29, 2008				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at beginning of year	¥37,404	¥41,933	¥69,257	¥(515)	¥148,078
Cash dividends	—	—	(1,478)	—	(1,478)
Net income	—	—	4,427	—	4,427
Acquisition of treasury stock	—	—	—	(137)	(137)
Disposition of treasury stock	—	16	—	1	17
Net changes in items other than shareholders' equity	—	—	—	—	—
<b>Balance at End of Year</b>	<b>¥37,404</b>	<b>¥41,949</b>	<b>¥72,207</b>	<b>¥(651)</b>	<b>¥150,908</b>

	Millions of yen						
	February 29, 2008						
	Valuation and translation adjustments				Share subscription rights	Minority interests in consolidated subsidiaries	Total net assets
Unrealized holding gain on securities, net of deferred income taxes	Unrealized holding gain on hedging derivatives	Translation adjustments	Total valuation and translation adjustments				
Balance at beginning of year	¥12,197	¥ 0	¥2,141	¥14,340	¥25	¥395	¥162,840
Cash dividends	—	—	—	—	—	—	(1,478)
Net income	—	—	—	—	—	—	4,427
Acquisition of treasury stock	—	—	—	—	—	—	(137)
Disposition of treasury stock	—	—	—	—	—	—	17
Net changes in items other than shareholders' equity	(5,541)	(4)	(941)	(6,487)	9	41	(6,436)
<b>Balance at End of Year</b>	<b>¥ 6,656</b>	<b>¥(4)</b>	<b>¥1,199</b>	<b>¥ 7,852</b>	<b>¥35</b>	<b>¥437</b>	<b>¥159,233</b>

	Thousands of U.S. dollars (Note 2)				
	February 29, 2008				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at beginning of year	\$356,229	\$399,362	\$659,590	\$(4,905)	\$1,410,267
Cash dividends	—	—	(14,076)	—	(14,076)
Net income	—	—	42,162	—	42,162
Acquisition of treasury stock	—	—	—	(1,305)	(1,305)
Disposition of treasury stock	—	152	—	10	162
Net changes in items other than shareholders' equity	—	—	—	—	—
<b>Balance at End of Year</b>	<b>\$356,229</b>	<b>\$399,514</b>	<b>\$687,686</b>	<b>\$(6,200)</b>	<b>\$1,437,219</b>

	Thousands of U.S. dollars (Note 2)						
	February 29, 2008						
	Valuation and translation adjustments				Share subscription rights	Minority interests in consolidated subsidiaries	Total net assets
Unrealized holding gain on securities, net of deferred income taxes	Unrealized holding gain on hedging derivatives	Translation adjustments	Total valuation and translation adjustments				
Balance at beginning of year	\$116,162	\$ 0	\$20,390	\$136,571	\$238	\$3,762	\$1,550,857
Cash dividends	—	—	—	—	—	—	(14,076)
Net income	—	—	—	—	—	—	42,162
Acquisition of treasury stock	—	—	—	—	—	—	(1,305)
Disposition of treasury stock	—	—	—	—	—	—	162
Net changes in items other than shareholders' equity	(52,771)	(38)	(8,962)	(61,781)	86	390	(61,295)
<b>Balance at End of Year</b>	<b>\$ 63,390</b>	<b>\$(38)</b>	<b>\$11,419</b>	<b>\$ 74,781</b>	<b>\$333</b>	<b>\$4,162</b>	<b>\$1,516,505</b>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Net Assets

Mitsukoshi, Ltd. and Consolidated Subsidiaries

	Millions of yen				
	February 28, 2007				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at beginning of year	¥37,404	¥41,899	¥57,799	¥(400)	¥136,702
Cash dividends	—	—	(1,478)	—	(1,478)
Net income	—	—	12,936	—	12,936
Acquisition of treasury stock	—	—	—	(116)	(116)
Disposition of treasury stock	—	33	—	1	34
Net changes in items other than shareholders' equity	—	—	—	—	—
<b>Balance at End of Year</b>	<b>¥37,404</b>	<b>¥41,933</b>	<b>¥69,257</b>	<b>¥(515)</b>	<b>¥148,078</b>

	Millions of yen						
	February 28, 2007						
	Valuation and translation adjustments				Share subscription rights	Minority interests in consolidated subsidiaries	Total net assets
Unrealized holding gain on securities, net of deferred income taxes	Unrealized holding gain on hedging derivatives	Translation adjustments	Total valuation and translation adjustments				
Balance at beginning of year	¥ 2,039	¥—	¥1,276	¥ 3,316	¥ —	¥384	¥140,403
Cash dividends	—	—	—	—	—	—	(1,478)
Net income	—	—	—	—	—	—	12,936
Acquisition of treasury stock	—	—	—	—	—	—	(116)
Disposition of treasury stock	—	—	—	—	—	—	34
Net changes in items other than shareholders' equity	10,158	0	864	11,023	25	11	11,060
<b>Balance at End of Year</b>	<b>¥12,197</b>	<b>¥0</b>	<b>¥2,141</b>	<b>¥14,340</b>	<b>¥25</b>	<b>¥395</b>	<b>¥162,840</b>

# Consolidated Statements of Cash Flows

Mitsukoshi, Ltd. and Consolidated Subsidiaries

	Year ended February 29 or 28,		
	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
<b>Operating Activities</b>			
Income before income taxes and minority interests	¥ 6,586	¥13,493	\$ 62,724
Depreciation and amortization	12,652	12,404	120,495
Impairment loss	5,942	15,393	56,590
Equity in earnings of affiliates	(5,084)	(5,931)	(48,419)
Provision for allowance for doubtful accounts	23	(131)	219
Provision for retirement benefits, less payments	(141)	(595)	(1,343)
Interest and dividend income	(615)	(544)	(5,857)
Interest expense	2,472	2,285	23,543
Gain on sales of property and equipment, net	(6,053)	(15,294)	(57,648)
Reversal of recovery cost	–	(759)	–
Loss on disposal of property and equipment	1,878	2,151	17,886
Gain on sales of investments in securities	(17)	(714)	(162)
Gain on sales of investments in subsidiaries	(762)	–	(7,257)
Loss on devaluation of investments in securities	146	42	1,390
Costs related to office reorganization	1,263	–	12,029
Loss on store closings	–	192	–
Loss on early retirement incentive plan with special benefits	–	1,461	–
Loss on devaluation of investments in affiliated companies	112	–	1,067
Costs related to business integration	1,085	–	10,333
Decrease in trade notes and accounts receivable	0	3,432	0
(Increase) decrease in inventories	562	(1,272)	5,352
Decrease in trade notes and accounts payable	(1,937)	(143)	(18,448)
Increase in consumption taxes payable	1,339	285	12,752
Other, net	(1,966)	2,625	(18,724)
Subtotal	17,486	28,381	166,533
Interest and dividends received	2,569	2,073	24,467
Interest paid	(2,651)	(2,354)	(25,248)
Payments of early retirement incentive plan with special benefits	(1,675)	(4,357)	(15,952)
Payments resulting from store closings	(91)	(673)	(867)
Income taxes paid	(1,371)	(1,158)	(13,057)
<b>Net Cash Provided by Operating Activities</b>	<b>14,266</b>	<b>21,911</b>	<b>135,867</b>
<b>Investing activities</b>			
Increase in time deposits	(909)	(92)	(8,657)
Proceeds from time deposits	81	145	771
Increase in investments in securities	(122)	(197)	(1,162)
Proceeds from sales of investments in securities	826	1,149	7,867
Proceeds from sales of investments in subsidiaries resulting in changes in consolidation	708	–	6,743
Additions to property and equipment, and intangible assets	(18,614)	(20,540)	(177,276)
Proceeds from sales of property and equipment, and intangible assets	8,690	29,992	82,762
Other, net	(2,124)	1,699	(20,229)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(11,464)</b>	<b>12,157</b>	<b>(109,181)</b>
<b>Financing activities</b>			
Increase (decrease) in bank overdrafts and short-term bank loans	1,428	3,957	13,600
Proceeds from issuance of long-term debt	52,500	42,100	500,000
Repayment of long-term debt	(53,473)	(56,583)	(509,267)
Redemption of convertible bonds	–	(28,000)	–
Cash dividends paid	(1,484)	(1,492)	(14,133)
Other, net	(120)	(81)	(1,143)
<b>Net Cash Used in Financing Activities</b>	<b>(1,149)</b>	<b>(40,099)</b>	<b>(10,943)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(76)</b>	<b>147</b>	<b>(724)</b>
<b>Decrease in Cash and Cash Equivalents</b>	<b>1,576</b>	<b>(5,882)</b>	<b>15,010</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>17,082</b>	<b>22,965</b>	<b>162,686</b>
<b>Cash and Cash Equivalents at End of Year (Note 3)</b>	<b>¥18,658</b>	<b>¥17,082</b>	<b>\$177,695</b>

The accompanying notes are an integral part of these statements.

## Notes to Consolidated Financial Statements

Mitsukoshi, Ltd. and Consolidated Subsidiaries  
February 29, 2008 and February 28, 2007

### 1. Summary of Significant Accounting Policies

#### (a) Basis of presentation

The accompanying consolidated financial statements of Mitsukoshi, Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its foreign consolidated subsidiaries, in conformity with those of their respective countries of domicile, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

As permitted by the regulations under the Financial Instruments and Exchange Act, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

#### (b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliated companies

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in significant affiliates are accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation. The necessary adjustments were made to the financial statements of the Company to reflect any significant transactions from January 1 to February 29.

Investments in unconsolidated subsidiaries and affiliates, not significant in amount, are principally stated at cost or less. Where there has been a permanent impairment in the value of such investments, the Company has written them down to reflect this decline in value.

#### (c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date, except for assets and liabilities hedged by forward foreign exchange contracts.

All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The balance sheet accounts of the foreign consolidated subsidiaries, except for the components of net assets excluding minority interests which are translated at their historical exchange rates, are translated into yen at the rates of exchange in effect at the balance sheet date. Revenue and expense accounts are also translated at the rates of exchange in effect at the balance sheet date.

#### (d) Cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased and certain bank overdrafts to be cash equivalents.

#### (e) Securities

The accounting standard applicable to securities requires that all securities be classified into three categories: trading, held-to-maturity or other securities.

Marketable securities classified as other securities are stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving average method.

The capital contributions made to limited liability partnerships and similar partnerships are treated as "securities" on the consolidated balance sheets in the amount proportional to the contributions made to the partnerships. The changes in the Company's share of the interest in the partnerships are adjusted based on the Company's share at the latest report date accordingly.

#### (f) Derivatives

Derivatives are stated at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes is deferred and included directly in net assets. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at their corresponding contract rates.

#### (g) Inventories

Merchandise in stores is mainly stated at cost determined principally by the retail inventory method. Other merchandise, including goods in transit, is stated at individual identified cost.

Finished products, work in process and raw materials are stated mainly at the lower of cost or market, cost being determined principally by the moving average method or individual identified cost.

#### (h) Property and equipment

Property and equipment is stated principally on the basis of cost.

Depreciation of buildings is calculated principally by the straight-line method based on the estimated useful lives of the respective assets.

Depreciation of property and equipment except for buildings is calculated principally by the declining-balance method based on the estimated useful lives of the respective assets.

Maintenance and minor repairs are charged to income as incurred; major renewals and improvements are capitalized at cost.

Property and equipment acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporation tax law.

The effect of this treatment was to decrease income before income taxes and minority interests for the year ended February 29, 2008 by ¥104 million (\$990 thousand).

#### **(i) Leases**

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

#### **(j) Accrued employees' retirement benefits**

Accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation less the fair value of the pension plan assets and the retirement benefit trust assets at the balance sheet date, as adjusted for unrecognized actuarial gain or loss, unrecognized prior service cost and unrecognized net retirement benefit obligation at transition. The retirement benefit obligation has been attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees. The net retirement benefit obligation at transition is being amortized as incurred by the straight-line method principally over 10 years. Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss was recognized, primarily by the straight-line method and principally over 13 years. Prior service cost is amortized as incurred by the straight-line method principally over 13 years.

The Company and certain consolidated subsidiaries have defined contribution pension plans.

## **2. U.S. Dollar Amounts**

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥105 = U.S.\$1.00, the approximate rate of exchange in effect on February 29, 2008. This translation should not

#### **(k) Allowance for point card certificates**

Allowance for point card certificates is provided for the estimated future costs of issuance of point card certificates based on the outstanding points awarded at the year end.

#### **(l) Income taxes**

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

#### **(m) Appropriation of retained earnings**

Dividends and other appropriations of retained earnings with respect to a fiscal year are approved by the Board of Directors at a meeting held subsequent to the end of the fiscal year to which such appropriations are applicable. The accounts for that period do not, therefore, reflect such appropriations.

#### **(n) Accounting Standard for Business Combination**

Effective March 1, 2007, the Company has adopted "Accounting Standard for Business Combination" (Business Accounting Council opinion issued on October 31, 2003) and "Accounting Standard for Business Divestitures and the related Implementation" (Accounting Standards Board of Japan (ASBJ) Statement No. 7 issued on December 27, 2005), "Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on December 27, 2005).

be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

### 3. Cash and Cash Equivalents

A reconciliation of cash and deposits and cash and cash equivalents at February 29, 2008 and February 28, 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and deposits .....	<b>¥19,548</b>	¥17,230	<b>\$186,171</b>
Time deposits .....	<b>(889)</b>	(86)	<b>(8,467)</b>
Bank overdrafts .....	–	(61)	–
Cash and cash equivalents .....	<b>¥18,658</b>	¥17,082	<b>\$177,695</b>

### 4. Securities

(a) Marketable securities classified as other securities at February 29, 2008 and February 28, 2007 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	February 29, 2008					
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock .....	<b>¥1,968</b>	<b>¥3,700</b>	<b>¥1,731</b>	<b>\$18,743</b>	<b>\$35,238</b>	<b>\$16,486</b>
Other .....	<b>14</b>	<b>15</b>	<b>1</b>	<b>133</b>	<b>143</b>	<b>10</b>
Subtotal .....	<b>1,982</b>	<b>3,715</b>	<b>1,732</b>	<b>18,876</b>	<b>35,381</b>	<b>16,495</b>
Securities whose acquisition cost exceeds their carrying value:						
Stock .....	<b>2,437</b>	<b>1,902</b>	<b>(509)</b>	<b>23,210</b>	<b>18,114</b>	<b>(4,848)</b>
Other .....	–	–	–	–	–	–
Subtotal .....	<b>2,437</b>	<b>1,902</b>	<b>(509)</b>	<b>23,210</b>	<b>18,114</b>	<b>(4,848)</b>
Total .....	<b>¥4,420</b>	<b>¥5,644</b>	<b>¥1,223</b>	<b>\$42,095</b>	<b>\$53,752</b>	<b>\$11,648</b>

	Millions of yen		
	February 28, 2007		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock .....	¥2,344	¥4,926	¥2,582
Other .....	14	21	7
Subtotal .....	2,358	4,948	2,589
Securities whose acquisition cost exceeds their carrying value:			
Stock .....	2,065	1,902	(163)
Other .....	–	–	–
Subtotal .....	2,065	1,902	(163)
Total .....	¥4,424	¥6,850	¥2,425

(b) Sales of securities classified as other securities for the years ended February 29, 2008 and February 28, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Sales .....	<b>¥826</b>	¥1,109	<b>\$7,867</b>
Aggregate gain .....	<b>17</b>	708	<b>162</b>
Aggregate loss .....	-	0	-

## 5. Inventories

Inventories at February 29, 2008 and February 28, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Merchandise .....	<b>¥36,254</b>	¥36,483	<b>\$345,276</b>
Finished products .....	<b>1,279</b>	1,493	<b>12,181</b>
Work in process .....	<b>189</b>	158	<b>1,800</b>
Raw materials and supplies .....	<b>863</b>	967	<b>8,219</b>
	<b>¥38,587</b>	¥39,103	<b>\$367,495</b>

## 6. Loss on Impairment of Fixed Assets

The Company recognized an impairment loss on fixed assets including land, buildings and structures in stores and other for the years ended February 29, 2008 and February 28, 2007.

The Company and consolidated subsidiaries identify groups of assets on a store basis which is the smallest identifiable group of assets generating cash inflows from continuing use and is largely independent of cash inflows from other assets or groups of assets.

The impairment loss consisted of the following assets:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Buildings and structures .....	<b>¥4,824</b>	¥ 9,685	<b>\$45,943</b>
Land .....	-	3,939	-
Other .....	<b>1,118</b>	1,768	<b>10,648</b>
Total .....	<b>¥5,942</b>	¥15,393	<b>\$56,590</b>

The recoverable amounts of the property groups and land were measured at net realizable value and posted price, respectively.

An impairment loss was recognized on store assets and land which declined significantly in terms of profitability and/or market price. Total impairment loss of ¥5,942 million (\$623,910 thousand) and ¥15,393 million, which represents the total amount by which the carrying amounts of these assets exceeded their respective recoverable amounts, was recognized as other expense for the years ended February 29, 2008 and February 28, 2007, respectively.

A discount rate of 5% was used for the calculation of the present value of future cash flows.

## 7. Bank Overdrafts and Short-term Bank Loans

Bank overdrafts and short-term bank loans (represented by notes maturing generally within one year) were primarily unsecured. The interest rates applicable to the overdrafts and loans at February 29,

2008 and February 28, 2007 ranged from 1.0400% to 6.3300% and from 0.8820% to 5.3250%, respectively.

## 8. Long-term Debt

At February 29, 2008 and February 28, 2007, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans from banks, insurance companies and government agencies at interest rates ranging from 1.1309% to 2.1025%:			
Unsecured, due through 2012 .....	<b>¥156,908</b>	¥158,581	<b>\$1,494,362</b>
	<b>156,908</b>	158,581	<b>1,494,362</b>
Less current portion .....	<b>(76,138)</b>	(52,573)	<b>(725,124)</b>
	<b>¥ 80,770</b>	¥106,008	<b>\$ 769,238</b>

Long-term debt payments which fall due subsequent to February 29, 2008 are summarized as follows:

Year ending February 28 or 29,	Millions of yen	Thousands of U.S. dollars
2009 .....	¥ 76,138	\$ 725,124
2010 .....	62,670	596,857
2011 .....	11,000	104,762
2012 .....	5,600	53,333
2013 .....	1,500	14,286
	<b>¥156,908</b>	<b>\$1,494,362</b>

## 9. Accrued Retirement Benefits

The Company and four domestic consolidated subsidiaries have both defined contribution plans and defined benefit plans, i.e., lump-sum payment plans, covering substantially all eligible employees, the amounts of which are determined by reference to their basic rates of pay, length of service and the conditions under which termination occurs.

Certain domestic subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans, covering

substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service and the conditions under which termination occurs. Certain overseas subsidiaries have defined contribution pension plans.

The Company has contributed securities to the employees' retirement benefit trust.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at February 29, 2008 and February 28, 2007 for the Company's and the subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Retirement benefit obligation	¥(51,801)	¥(53,686)	\$(493,343)
Plan assets at fair value	3,607	4,286	34,352
Retirement benefit trust at fair value	3,328	4,823	31,695
Unfunded retirement benefit obligation	(44,865)	(44,576)	(427,286)
Unrecognized prior service cost	(2,544)	(2,829)	(24,229)
Unrecognized actuarial loss	8,123	7,520	77,362
Unrecognized net retirement benefit obligation at transition	56	75	533
Prepaid pension cost	(111)	(119)	(1,057)
Accrued retirement benefits	¥(39,340)	¥(39,929)	\$(374,667)

The components of retirement benefit expenses for the years ended February 29, 2008 and February 28, 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥2,089	¥2,081	\$19,895
Interest cost	1,037	1,073	9,876
Amortization of prior service cost	(285)	(285)	(2,714)
Amortization of net retirement benefit obligation at transition	18	18	171
Amortization of actuarial loss	659	593	6,276
Additional retirement benefit expenses	95	61	905
Other	928	988	8,838
Total	¥4,544	¥4,532	\$43,276

The component of "Other" in retirement benefit expenses for the years ended February 29, 2008 and February 28, 2007 primarily

represents the employers' contributions to the defined pension plans.

The assumptions used in accounting for the above plans were as follows:

	2008	2007
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	0.0%	0.0%

## 10. Shareholders' Equity

Retained earnings include a legal reserve provided in accordance with the Corporation Law of Japan (the "Law"). The Law provides that neither capital surplus nor the legal reserve is, in principle, available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Law, however, does provide that if the total amount of capital surplus and the legal reserve exceeds 25% of the common stock account, the

excess is available for appropriation by resolution of the shareholders.

Retained earnings also include retained earnings appropriated to special reserves in accordance with the Special Taxation Measures Law and the Law. The reserves are deducted from taxable income when provided and are to be reversed to taxable income in subsequent years through direct appropriations of retained earnings.

## 11. Stock Option Plans

Stock option expenses included in selling, general and administrative expenses was ¥9 million (\$86 thousand) and ¥25 million for the

years ended February 29, 2008 and February 28, 2007, respectively.

The Company's stock option plans are summarized as follows:

	June 2004	June 2005	June 2006
Number of covered persons:			
Directors .....	6	10	7
Executive officers .....	7	4	3
Number of shares originally granted .....	124,000	134,000	72,000
Exercise price .....	1	1	1
Exercisable period .....	June 1, 2005 – May 31, 2014	June 1, 2006 – May 31, 2015	June 1, 2007 – May 31, 2016

Options activity under the stock option plans during the year ended February 29, 2008 was as follows:

	June 2004	June 2005	June 2006
Non-vested:			
February 28, 2007 .....	–	–	70,000
Granted .....	–	–	–
Cancelled .....	–	–	–
Vested .....	–	–	70,000
February 29, 2008 .....	–	–	–
Vested:			
February 28, 2007 .....	111,000	125,000	–
Vested .....	–	–	70,000
Exercised .....	13,000	11,000	–
Cancelled .....	–	–	–
February 29, 2008 .....	98,000	114,000	70,000

## 12. Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for the years ended February 29, 2008 and February 28, 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Gain on sales of investments in securities	¥ 17	¥ 714	\$ 162
Reversal of allowance for doubtful accounts	–	237	–
Gain on sales of investment in a subsidiary	762	–	7,257
Gains on forgiveness of liabilities, net	1,481	1,168	14,105
Loss on devaluation of investments in securities	(146)	(42)	(1,390)
Loss on devaluation of investments in affiliated companies	(112)	–	(1,067)
Inventory shrinkage	(336)	(410)	(3,200)
Gain on sales and disposal of property and equipment, net	4,174	13,142	39,752
Reversal of recovery cost	–	759	–
Loss on store closings	–	(192)	–
Costs related to office reorganization	(1,263)	–	(12,029)
Loss on early retirement incentive plan with special benefits	–	(1,461)	–
Impairment loss	(5,942)	(15,393)	(56,590)
Costs related to business integration	(1,085)	–	(10,333)
Other, net	(2,645)	(1,837)	(25,190)
	¥(5,096)	¥ (3,314)	\$(48,533)

## 13. Income Taxes

Income taxes applicable to the Company for the years ended February 29, 2008 and February 28, 2007 comprised corporation tax,

inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 40.69%.

The effective tax rates reflected in the consolidated statements of income for the years ended February 29, 2008 and February 28, 2007 differ from the statutory tax rate for the following reasons:

	2008	2007
Statutory tax rate	40.69%	40.69%
Effect of:		
Expenses not deductible for income tax purposes	8.25	2.14
Per capita portion of inhabitants' taxes	2.57	1.14
Equity in earnings of affiliates	(18.27)	(17.89)
Undistributed earnings of an affiliate	0.41	1.32
Unrecognized tax effect on unrealized intercompany profit	1.51	5.64
Changes in valuation allowance	(7.07)	(27.85)
Other, net	3.99	(1.18)
Effective tax rates	32.08%	4.01%

Significant components of the Company's deferred tax assets and liabilities at February 29, 2008 and February 28, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29 or 28,		
	2008	2007	2008
Deferred tax assets:			
Allowance for doubtful accounts .....	¥ 335	¥ 392	\$ 3,190
Accrued enterprise tax .....	170	209	1,619
Accrued retirement benefits .....	16,539	16,757	157,514
Depreciation .....	6,705	4,820	63,857
Tax loss carryforwards .....	16,992	18,436	161,829
Devaluation of assets on merger .....	12,640	15,567	120,381
Other, net .....	5,569	4,354	53,038
Gross deferred tax assets .....	58,953	60,538	561,457
Valuation allowance .....	(23,416)	(24,211)	(223,010)
Total deferred tax assets .....	35,537	36,327	338,448
Deferred tax liabilities:			
Unrealized holding gain on securities .....	(388)	(1,056)	(3,695)
Contributions deducted from acquisition costs of property .....	(339)	(339)	(3,229)
Revaluation of assets on merger .....	(73,277)	(73,310)	(697,876)
Other, net .....	(1,909)	(1,738)	(18,181)
Total deferred tax liabilities .....	(75,914)	(76,444)	(722,990)
Net deferred tax liabilities .....	¥(40,377)	¥(40,117)	\$(384,543)

## 14. Leases

### (a) Finance leases

#### (1) Lessees' accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation, accumulated impairment loss and net book value of the leased property at February 29, 2008 and February 28, 2007, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition costs:			
Buildings and structures	¥ 42	¥ 42	\$ 400
Machinery, equipment and fixtures	10,834	10,942	103,181
Other	106	72	1,010
	<b>¥10,982</b>	<b>¥11,057</b>	<b>\$104,590</b>
Accumulated depreciation:			
Buildings and structures	¥ 16	¥ 11	\$ 152
Machinery, equipment and fixtures	6,024	5,357	57,371
Other	46	16	438
	<b>¥ 6,087</b>	<b>¥ 5,385</b>	<b>\$ 57,971</b>
Accumulated impairment loss:			
Machinery, equipment and fixtures	¥ 308	¥ 273	\$ 2,933
Net book value:			
Buildings and structures	¥ 25	¥ 31	\$ 238
Machinery, equipment and fixtures	4,501	5,311	42,867
Other	60	55	571
	<b>¥ 4,587</b>	<b>¥ 5,398</b>	<b>\$ 43,686</b>

Lease payments relating to finance leases accounted for as operating leases amounted to ¥2,249 million (\$21,419 thousand) and ¥2,381

million for the years ended February 29, 2008 and February 28, 2007, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to February 29, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending February 28 and 29,	Millions of yen	Thousands of U.S. dollars
	2009	¥1,805
2010 and thereafter	3,038	28,933
Total	<b>¥4,843</b>	<b>\$46,124</b>

**(2) Lessors' accounting**

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property relating to finance leases accounted for as operating leases at February 29, 2008 and February 28, 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition costs:			
Machinery, equipment and fixtures .....	—	¥13	—
Accumulated depreciation:			
Machinery, equipment and fixtures .....	—	¥13	—
Net book value:			
Machinery, equipment and fixtures .....	—	¥ 0	—

Lease income relating to finance leases accounted for as operating leases amounted to ¥0 million and ¥5 million for the years ended February 29, 2008 and February 28, 2007, respectively.

**(b) Operating leases**

Future minimum lease payments subsequent to February 29, 2008 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 and 29,		
2009 .....	¥ 4,295	\$ 40,905
2010 and thereafter .....	35,333	336,505
Total .....	¥39,629	\$377,419

Future minimum lease income subsequent to February 29, 2008 for noncancelable operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 and 29,		
2009 .....	¥2,101	\$20,010
2010 and thereafter .....	1,212	11,543
Total .....	¥3,314	\$31,562

## 15. Contingent Liabilities

At February 29, 2008, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of loans for:		
Employees .....	¥1,778	\$16,933

## 16. Derivatives

The Company and its consolidated subsidiaries have entered into foreign currency hedging transactions and interest-rate swap agreements to reduce their exposure to the risk arising from adverse fluctuation in foreign exchange rates relating to their receivables and payables denominated in foreign currencies as well as to adverse fluctuation in interest rates.

### *Currency-related transactions*

At February 29, 2008 and February 28, 2007, the disclosure of fair value information for forward foreign exchange contracts has been

omitted since all forward foreign exchange contracts have been accounted for as hedges for payables denominated in foreign currencies which have been translated and are reflected at their corresponding contracted rates in the accompanying consolidated balance sheets.

### *Interest-rate related transactions*

At February 29, 2008 and February 28, 2007, the disclosure of fair value information for interest-rate related derivatives positions has been omitted since all derivatives were accounted for as hedges.

## 17. Amounts Per Share

Amounts per share of basic net income, diluted net income, cash dividends and net assets for the years ended February 29, 2008 and February 28, 2007 were as follows:

<b>(a) Net income – basic</b>	Yen	U.S. dollars
	<b>2008</b>	<b>2007</b>
	<b>¥8.99</b>	<b>\$0.086</b>
	¥26.45	
<b>(b) Net income – diluted</b>	Yen	U.S. dollars
	<b>2008</b>	<b>2007</b>
	<b>¥8.98</b>	<b>\$0.086</b>
	¥24.51	
<b>(c) Cash dividends applicable to the year</b>	Yen	U.S. dollars
	<b>2008</b>	<b>2007</b>
	<b>¥3</b>	<b>\$0.029</b>
	¥3	
<b>(d) Net assets</b>	Yen	U.S. dollars
	<b>2008</b>	<b>2007</b>
	<b>¥321.40</b>	<b>\$3.061</b>
	¥329.85	

Basic net income per share for the years ended February 29, 2008 and February 28, 2007 was computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share for the years ended February 29, 2008 and February 28, 2007 was computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock

outstanding during each year after giving effect to the dilutive potential of the shares of common stock to be issued upon the conversion of convertible bonds and the exercise of stock acquisition rights. Amounts per share of net assets at the balance sheet dates were computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the balance sheet dates.

## 18. Segment Information

The Company and its consolidated subsidiaries operate primarily in the department store segment and the real estate segment. The "Other" segment in the following table comprises various businesses

which include manufacturing, wholesale businesses and other services.

The business segment information of the Company and its consolidated subsidiaries for the years ended February 29, 2008 and February 28, 2007 is outlined as follows:

	Millions of yen					
	Year ended February 29, 2008					
	Department store	Real estate	Other	Total	Eliminations	Consolidated
I. Net sales, operating expenses and operating income:						
Sales to third parties .....	¥737,931	¥22,419	¥13,613	¥773,964	¥ -	¥773,964
Intergroup sales and transfers .....	1,066	22,587	51,608	75,262	(75,262)	-
Net sales .....	738,997	45,007	65,222	849,226	(75,262)	773,964
Operating expenses .....	733,099	43,504	64,138	840,743	(75,234)	765,509
Operating income .....	¥ 5,897	¥ 1,502	¥ 1,083	¥ 8,483	¥ (28)	¥ 8,455
II. Identifiable assets, depreciation and amortization, impairment loss and capital expenditures:						
Identifiable assets .....	¥522,449	¥47,824	¥24,853	¥595,126	¥(24,399)	¥570,727
Depreciation and amortization .....	11,375	322	1,211	12,909	(256)	12,652
Impairment loss .....	5,854	56	136	6,047	(105)	5,942
Capital expenditures .....	19,888	200	1,465	21,554	(327)	21,227

Thousands of U.S. dollars						
Year ended February 29, 2008						
	Department store	Real estate	Other	Total	Eliminations	Consolidated
I. Net sales, operating expenses and operating income:						
Sales to third parties	\$7,027,914	\$213,514	\$129,648	\$7,371,086	\$ –	\$7,371,086
Intergroup sales and transfers	10,152	215,114	491,505	716,781	(716,781)	–
Net sales	7,038,067	428,638	621,162	8,087,867	(716,781)	7,371,086
Operating expenses	6,981,895	414,324	610,838	8,007,076	(716,514)	7,290,562
Operating income	\$ 56,162	\$ 14,305	\$ 10,314	\$ 80,790	\$ (267)	\$ 80,524
II. Identifiable assets, depreciation and amortization, impairment loss and capital expenditures:						
Identifiable assets	\$4,975,705	\$455,467	\$236,695	\$5,667,867	\$(232,371)	\$5,435,495
Depreciation and amortization	108,333	3,067	11,533	122,943	(2,438)	120,495
Impairment loss	55,752	533	1,295	57,590	(1,000)	56,590
Capital expenditures	189,410	1,905	13,952	205,276	(3,114)	202,162

Millions of yen						
Year ended February 28, 2007						
	Department store	Real estate	Other	Total	Eliminations	Consolidated
I. Net sales, operating expenses and operating income:						
Sales to third parties	¥766,226	¥21,876	¥16,017	¥804,120	¥ –	¥804,120
Intergroup sales and transfers	1,573	26,290	56,373	84,237	(84,237)	–
Net sales	767,799	48,166	72,391	888,357	(84,237)	804,120
Operating expenses	757,833	46,569	71,254	875,657	(84,154)	791,502
Operating income	¥ 9,966	¥ 1,596	¥ 1,136	¥ 12,699	¥ (82)	¥ 12,617
II. Identifiable assets, depreciation and amortization, impairment loss and capital expenditures:						
Identifiable assets	¥524,330	¥55,390	¥26,732	¥606,453	¥(28,781)	¥577,672
Depreciation and amortization	10,922	340	1,353	12,616	(211)	12,404
Impairment loss	10,485	4,056	912	15,454	(61)	15,393
Capital expenditures	21,598	203	1,416	23,218	(3,395)	19,823

As net sales and total assets of the overseas operations of the Company and its consolidated subsidiaries constituted less than 10% of the consolidated totals for both the years ended February 29, 2008

and February 28, 2007, the disclosure of both geographical segment information and overseas sales information has been omitted.

## 19. Related Party Transactions

The Company entered into transactions with one of its directors who was concurrently a chairman of Sumitomo Mitsui Banking Corporation (the "Bank"). The Company sold its merchandise to, borrowed from and paid interest to the director in his capacity as a chairman of the Bank. The terms of the transactions were determined on an arm's-length basis. Amounts of the transactions and balances for the years ended February 29, 2008 and February 28, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29 or 28,		
	2008	2007	2008
Sales .....	¥ 186	¥ 185	\$ 1,771
Borrowings of loans .....	17,000	16,000	161,905
Interest .....	869	556	8,276
Accounts receivable .....	13	41	124
Short-term bank loans .....	34,598	16,128	329,505
Long-term debt .....	22,700	38,298	216,190
Accrued expenses .....	120	178	1,143

## 20. Business Combination

### Sales of restaurant operations

Effective April 1, 2007, two consolidated subsidiaries spun off their restaurant operations and jointly established a company. Effective April 2, 2007, these two consolidated subsidiaries sold 66.6% of their shares of the new company and distributed 33.4% of their shares of the new company to the Company.

The Company recorded a gain on sale of investments in subsidiaries of ¥762 million (\$7,257 thousand) which is included in "Other, net" in the consolidated statement of income for the year ended February 29, 2008.

## 21. Subsequent Events

### (a) Establishment of Joint Holding Company through a Stock Transfer

The establishment of Isetan Mitsukoshi Holdings Ltd. as the parent company through a joint stock transfer by Mitsukoshi, Ltd. and Isetan Co., Ltd. was approved at an Extraordinary Meeting of Shareholders held on November 20, 2007. Accordingly, Isetan

Mitsukoshi Holdings Ltd. was established on April 1, 2008, and the Company is a wholly owned subsidiary of the holding company.

Name: Isetan Mitsukoshi Holdings Ltd.  
Address: 4-6-16 Ginza, Chuo-ku, Tokyo

Representative: Nobukazu Muto, Chairman and CEO  
Capital: ¥50,000 million (\$499,052 thousand)

Details of Business: Management planning and management of subsidiaries and Group companies engaged in the department store and other business as well as the handling of all related operations

Main reason for transfer of stock: Integrate management to raise corporate value by effectively utilizing the management resources and know-how of each company

Stock transfer date: April 1, 2008

### (b) Appropriation of retained earnings

The following appropriation of retained earnings, which has not been reflected in the accompanying consolidated financial statements, was approved at a meeting of the Board of Directors of the Company held on March 28, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3 = \$0.029 per share) .....	¥1,477	\$14,067

### (c) Cancellation of treasury stock

On March 28, 2008, the Board of Directors of the Company approved the cancellation of treasury stock in accordance with the Article 178 of the Corporation Law of Japan.

1) Class of shares to be cancelled	Common stock
2) Number of shares to be cancelled	22,400,000 shares (4.35% of issued shares)
3) Scheduled date of cancellation	March 31, 2008
4) Number of issued shares after cancellation	492,622,356 shares (scheduled)
5) Number of treasury stock after cancellation	116,363 shares (scheduled)

### (d) Transfer of the new store branch business

Once the Company decided Upon deciding to open a new branch store (Osaka branch) at the board meeting held on October 13, 2005, the Board of Directors of the Company approved the transfer of this business to West Japan Railway Isetan Ltd. on

April 8, 2008. Assets of this business total ¥4,502 million (\$42,876 thousand) as of February 29, 2008. The details of the transfer contract are undecided.

## Report of Independent Auditors



■ Certified Public Accountants  
Hibiya Kokusai Bldg.  
2-2-3, Uchisaiwai-cho  
Chiyoda-ku, Tokyo, Japan 100-0011  
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100  
Fax: 03 3503 1197

## Report of Independent Auditors

The Board of Directors  
Mitsukoshi, Ltd.

We have audited the accompanying consolidated balance sheets of Mitsukoshi, Ltd. and consolidated subsidiaries as of February 29, 2008 and February 28, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsukoshi, Ltd. and consolidated subsidiaries at February 29, 2008 and February 28, 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 29, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

May 22, 2008

*Ernst & Young Shin Nihon*