

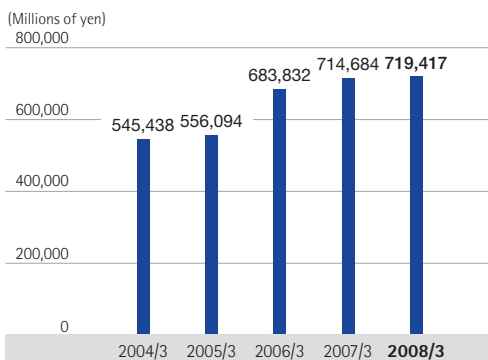
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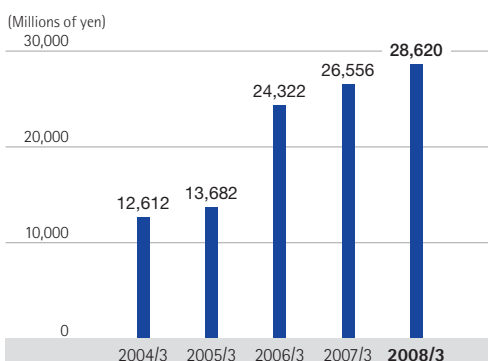
Overview of Business Results for the Isetan Group

During the fiscal year ended March 31, 2008, the Isetan Group recorded consolidated net sales of ¥785,839 million, an increase of 0.5% from the previous fiscal year, owing to favorable sales in the core Department store business. Thanks to higher consolidated net sales and a reduction of expenses, consolidated operating income increased 3.6% from the previous year to ¥33,417 million and recurring income edged up 0.8% to ¥33,685 million. However, consolidated net income decreased 24.8% to ¥13,761 million due to the recording of extraordinary losses.

■ Sales in Department Store Business



■ Operating Income in Department Store Business



Department Store Business

Sales in Isetan's Department store business amounted to ¥719,417 million, an increase of 0.7% from the previous fiscal year, and operating income amounted to ¥28,620 million, up 7.8%.

By making broad-ranging proposals for highly original clothing, food, and products and services, centering on the independently planned "Only I" brand, we were able to put into practice our slogan "Isetan gives new meaning to fashion."

At the Isetan main store, we worked to raise convenience for customers by remodeling the basement floor for foods in the Main Building as well as part of the ISETAN MEN'S (Men's Building), while concurrently making our utmost efforts to offer new products and services that match customer needs. By taking these measures, the Isetan main store achieved favorable sales.

Amid intensifying competition in regional areas, Unit Shops that standardize merchandise assortments and business operations at each branch store progressed with the development of original products that accurately address the needs of local customers. By doing so, Unit Shops continued to contribute to the enhancement of profitability at each branch store.

Shizuoka Isetan Co., Ltd. and Niigata Isetan Co., Ltd., which are affiliated companies, focused on establishing the foundation for a Group operating structure as well as strengthened their sales capabilities and raised operational efficiency. Iwataya Co., Ltd. posted robust sales by fortifying its sales base to better utilize the strengths of the Isetan Group. West Japan Railway Isetan Ltd., which marked its 10th anniversary in 2007, continued to record favorable sales by firmly securing customers by offering an assortment of products and services tailored to the needs of customers in the community it serves and implementing effective measures that fully utilize the features of a station building department store.

On March 31, 2008, Isetan Co., Ltd. transferred stock and management rights in Kokura Isetan Co., Ltd. to Izutsuya Co., Ltd. and recorded an extraordinary loss as a result of this transaction.

Overseas, in May 2007 Isetan Chengdu was opened in Chengdu, the capital

of Sichuan Province, and in March 2008 Isetan Shenyang was opened in Shenyang, the capital of Liaoning Province. Both stores provide a diverse assortment of clothing, food and household merchandise that are the first such products to be offered in those regions. At the same time, these stores have attracted attention and gained popularity among local customers by making specific proposals for attainable "Yearned-for Lifestyles."

Overall sales of department store subsidiaries in Singapore and Malaysia expanded against a background of robust economic growth in Asia. In September 2007, we opened our third Malaysian store, The Gardens, which posted favorable results.

Conversely, from the perspective of maintaining the overall corporate value of the Isetan Group, in July 2007 Jinan Isetan Co., Ltd. in China was dissolved, and we thus recorded a corresponding loss on liquidation of affiliates.

Credit & Finance Business

Isetan I Card Co., Ltd. recorded growth in transaction volumes for the I Card, which is a crucial component of the Isetan Group's customer strategy, while also working to enhance the convenience of the I Card at affiliated stores and raise the efficiency of credit provision operations. Moreover, to increase convenience for cardmembers, we acquired card-issuing rights from Visa International for that company's brand card and are preparing to switch over to a new-type card in autumn 2008.

As a result, sales in the Credit & Finance business after elimination amounted to ¥8,753 million, an increase of 3.8% from the previous fiscal year. Operating income amounted to ¥4,193 million, an increase of 1.1%.

Other Retail & Specialty Stores Business

Queen's Isetan Co., Ltd., which operates supermarkets, opened the Fujisawa store in April 2007, the Hibarigaoka store in May 2007, the Mitaka store in December 2007, the Setagayakinuta store in March 2008 and the Toyochō store in April 2008. By offering a high-quality product assortment that emphasizes health and "food safety and security," Queen's Isetan is earning the support of local customers.

As a result, segment sales after elimination were ¥51,210 million, a decrease of 1.0% year on year, and operating income was ¥585 million, a decline of 51.7%.

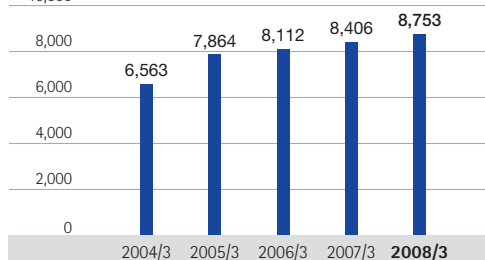
Other Businesses

The Group's logistics operations, building maintenance services and human resources development and recruitment services are outsourced to Isetan Business Support Co., Ltd., Isetan Building Management Services Co., Ltd. and Isetan Career Design Co., Ltd., respectively, which enables a higher degree of laterally integrated specialization.

Sales of Others businesses after elimination totaled ¥6,459 million, a decrease of 7.3% year on year. Operating income totaled ¥452 million, an increase of 8.2%.

Sales in Credit & Finance Business

(Millions of yen)



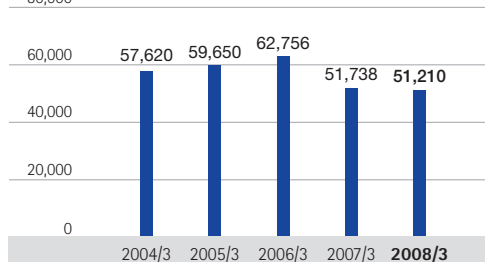
Operating Income in Credit & Finance Business

(Millions of yen)

Fiscal Year	2004/3	2005/3	2006/3	2007/3	2008/3
Operating Income	3,233	4,458	3,815	4,149	4,193

Sales in Other Retail & Specialty Stores Business

(Millions of yen)



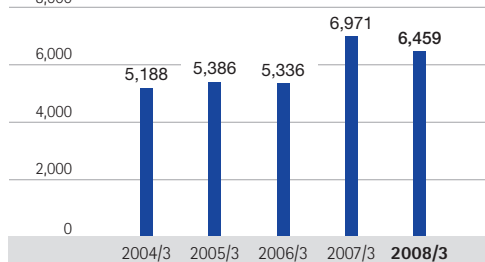
Operating Income (Loss) in Other Retail & Specialty Stores Business

(Millions of yen)

Fiscal Year	2004/3	2005/3	2006/3	2007/3	2008/3
Operating Income (Loss)	-103	-151	1,350	1,211	585

Sales in Other Businesses

(Millions of yen)



Operating Income in Other Businesses

(Millions of yen)

Fiscal Year	2004/3	2005/3	2006/3	2007/3	2008/3
Operating Income	244	146	219	418	452

* Segment sales exclude intra-company sales and transfers.

Consolidated Balance Sheets

ISETAN COMPANY LIMITED AND SUBSIDIARIES
As of March 31, 2008 and 2007

ASSETS	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Current Assets:			
Cash and bank deposits (Note 4)	¥ 27,628	¥ 33,673	\$ 275,757
Marketable securities (Note 10)	299	1,235	2,988
Notes and accounts receivable:			
Trade	79,731	80,659	795,802
Other	615	131	6,136
	80,346	80,791	801,938
Less: Allowance for doubtful accounts	(2,982)	(2,716)	(29,764)
	77,364	78,075	772,173
Inventories	36,186	35,483	361,170
Deferred tax assets—current (Note 7)	7,080	6,517	70,667
Other current assets	14,269	14,389	142,420
Total current assets	162,826	169,371	1,625,175
Investments and Advances:			
Investments in securities (Note 10)	39,334	49,247	402,865
Investments in and advances to unconsolidated subsidiaries and affiliates	7,363	7,183	63,217
Total investments and advances	46,697	56,431	466,082
Property and Equipment (Note 5):			
Land and leasehold	51,104	51,112	510,073
Buildings and structures	205,338	202,101	2,049,483
Furniture and fixtures	38,947	36,685	388,736
Construction in progress	964	232	9,620
	296,353	290,130	2,957,912
Less: Accumulated depreciation	(133,710)	(128,427)	(1,334,560)
Total property and equipment, net	162,644	161,702	1,623,352
Other Assets:			
Fixed leasehold deposits	59,091	61,733	589,786
Long-term loans	1,439	1,432	14,359
Deferred tax assets—non-current (Note 7)	3,112	2,548	31,062
Deferred assets	80	405	799
Other assets	31,921	22,614	318,607
Less: Allowance for doubtful accounts	(1,267)	(1,342)	(12,648)
Total other assets	94,375	87,391	941,965
Total Assets (Note 15)	¥466,542	¥474,896	\$4,656,574

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Current Liabilities:			
Short-term borrowings (Note 9)	¥ 23,713	¥ 27,486	\$ 236,681
Current portion of long-term debt (Note 9)	10,000	20,000	99,810
Notes and accounts payable:			
Trade	69,561	70,462	694,289
Other	49,344	49,317	492,507
	118,905	119,779	1,186,796
Income taxes payable	5,150	9,872	51,406
Accrued expenses	17,813	17,942	177,796
Gift vouchers	15,942	15,819	159,114
Deferred tax liabilities—current (Note 7)	13	11	135
Allowance for point cards	1,315	1,420	13,124
Allowance for loss from redemption of gift vouchers	2,544	—	25,392
Allowance for loss on interest repayment	362	—	3,613
Other current liabilities	10,813	2,075	107,925
Total current liabilities	206,571	214,403	2,061,792
Long-term Debt (Note 9):	11,000	13,000	109,791
Reserve for Accrued Employees' Retirement Benefits (Note 8)	20,015	23,404	199,772
Retirement Allowance for Directors and Corporate Auditors	845	739	8,438
Deferred Tax Liabilities—Non-current (Note 7)	4,083	7,567	40,748
Other Long-term Liabilities	5,312	2,589	53,016
Contingent Liabilities (Note 11)			
Shareholders' Equity:			
Common stock	36,763	36,600	366,934
Authorized: 800,000,000 shares			
Issued: 220,356,581 shares and 225,179,103 shares at March 31, 2008 and 2007, respectively			
Additional paid-in capital	43,344	43,181	432,615
Retained earnings	115,777	114,895	1,155,572
Less: Treasury stock, at cost, 1,368 shares and 5,080,342 shares at March 31, 2008 and 2007, respectively	(2)	(9,598)	(16)
Total shareholders' equity	195,882	185,078	1,955,105
Valuation and Translation Adjustments			
Unrealized gain on other securities, net of tax	6,789	13,362	67,761
Deferred gains on hedges	(2)	20	(24)
Foreign currency translation adjustments	975	41	9,734
Total valuation and translation adjustments	7,762	13,423	77,471
Stock Acquisition Rights	648	318	6,469
Minority Interests in Consolidated Subsidiaries	14,424	14,375	143,969
Total net assets	218,716	213,194	2,183,014
Total Liabilities and Shareholders' Equity Contingent Liabilities	¥466,542	¥474,896	\$4,656,574

Consolidated Statements of Income

ISETAN COMPANY LIMITED AND SUBSIDIARIES
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Net Sales (Note 15)	¥785,839	¥781,799	\$7,843,488
Cost of Sales	559,268	556,162	5,582,078
Gross profit	226,571	225,637	2,261,410
Selling, General and Administrative Expenses (Note 12)	193,154	193,385	1,927,873
Operating income (Note 15)	33,417	32,253	333,537
Other Income:			
Interest and dividend income	1,375	1,344	13,720
Rental income	1,777	1,978	17,738
Gain on receipt of property and equipment	1,094	1,064	10,916
Gain on sales of property and equipment	272	–	2,720
Gain on sales of investment securities	–	–	–
Gain on reversal of allowance for doubtful accounts	–	1,219	–
Gain on sales of an affiliated company's business	–	860	–
Others	3,304	4,007	32,976
	7,822	10,471	78,070
Other Expenses:			
Interest expenses	(1,037)	(1,061)	(10,353)
Loss on disposal of property and equipment	(2,134)	(2,538)	(21,299)
Loss on impairment of property and equipment (Note 5)	(1,156)	(3,227)	(11,539)
Provision of allowance for loss from redemption of gift vouchers	(1,304)	–	(13,018)
Loss on sales of investments in securities	(606)	(24)	(6,053)
Loss on revaluation of investment securities	(621)	–	(6,201)
Loss on liquidation of affiliates	(241)	–	(2,408)
Loss on sales of business of affiliates (Note 5)	(5,089)	–	(50,791)
Provision of allowance for loss from redemption of gift vouchers from prior periods	(2,281)	–	(22,767)
Others	(3,289)	(3,629)	(32,827)
	(17,759)	(10,479)	(177,257)
Income before income taxes and minority interests	23,480	32,245	234,350
Income Taxes (Note 7):			
Current	(8,715)	(11,292)	(86,987)
Deferred	523	(578)	5,216
	(8,193)	(11,871)	(81,772)
Minority Interests	1,526	2,083	15,230
Net income	¥ 13,761	¥ 18,292	\$ 137,348
		Yen	U.S.dollars (Note 3)
Per Share (Note 2 (9)):			
Net income			
Basic	¥ 62.49	¥ 82.43	\$ 0.62
Diluted	62.41	82.02	0.62
Cash dividends	14.00	14.00	0.14

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, 2008

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Shareholders' Equity:			
Common Stock:			
Balance at beginning of year	¥ 36,600	¥ 36,122	\$ 365,308
Issuance of new shares	163	478	1,626
Balance at end of year	36,763	36,600	366,934
Capital Surplus			
Balance at beginning of year	43,181	42,703	430,990
Issuance of new shares	163	478	1,624
Balance at end of year	43,344	43,181	432,615
Retained Earnings			
Balance at beginning of year	114,895	100,058	1,146,768
Net income	13,761	18,292	137,348
Cash dividends	(3,082)	(3,116)	(30,762)
Bonuses to directors and corporate auditors	–	(129)	–
Effect from changes of consolidated subsidiaries, net	(187)	(210)	(1,871)
Retirement of treasury stock	(9,609)	–	(95,911)
Balance at end of year	115,777	114,895	1,155,572
Less Treasury Stock, at Cost:			
Balance at beginning of year	(9,598)	(92)	(95,800)
Acquisition of treasury stock	(13)	(9,507)	(127)
Retirement of treasury stock	9,609	–	95,911
Balance at end of year	(2)	(9,598)	(16)
Total Shareholders' Equity	195,882	185,078	1,955,105
Valuation, translation adjustments and others			
Net unrealized holding gains on securities available-for-sale:			
Balance at beginning of year	13,362	17,528	133,367
Net (loss) gain	(6,573)	(4,166)	(65,606)
Balance at end of year	6,789	13,362	67,761
Deferred Gains on Hedges			
Balance at beginning of year	20	–	196
Net change during the year	(22)	20	(221)
Balance at end of year	(2)	20	(24)
Foreign Currency Translation Adjustments:			
Balance at beginning of year	41	(1,531)	414
Translation adjustments	934	1,573	9,321
Balance at end of year	975	41	9,734
Total Valuation, Translation Adjustments and Others	7,762	13,423	77,471
Stock Acquisition Rights:			
Balance at beginning of year	318	–	3,178
Net change during the year	330	318	3,291
Balance at end of year	648	318	6,469
Minority Interests:			
Balance at beginning of year	14,375	11,899	143,479
Net decrease	49	2,476	490
Balance at end of year	14,424	14,375	143,969
Net Assets (Note 13)	¥218,716	¥213,194	\$2,183,014

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

Consolidated Statements of Cash Flows

ISETAN COMPANY LIMITED AND SUBSIDIARIES
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥23,480	¥32,245	\$234,350
Adjustments for:			
Depreciation and amortization	12,843	11,049	128,183
Loss on impairment of property and equipment	1,156	3,227	11,539
Provision for (reversal of) allowance for doubtful accounts	192	(2,287)	1,914
Reversal of retirement benefits to employees	(3,235)	(4,214)	(32,284)
Provision for retirement allowance to directors and corporate auditors	106	117	1,058
(Reversal of) provision for allowance for point cards	(105)	262	(1,044)
Interest and dividend income	(1,375)	(1,344)	(13,720)
Interest expenses	1,037	1,061	10,353
Foreign exchange loss (earnings)	23	(97)	231
Equity in earnings of affiliated companies	(139)	(454)	(1,388)
Gain on sales of property and equipment	(246)	(25)	(2,455)
Loss on disposal of property and equipment	2,134	2,538	21,299
Loss on sales of investment securities	508	24	5,075
Loss on revaluation of investment securities	621	-	6,201
Loss (gain) on sales of an affiliated company's business	5,089	(860)	50,791
Increase in reserve for loss from redemption of gift vouchers	2,544	-	25,392
Decrease (increase) in receivables	4	(2,181)	38
Increase in inventories	(1,623)	(1,431)	(16,204)
(Decrease) increase in payables	(87)	2,859	(871)
Others, net	(739)	6,325	(7,373)
Sub-total	42,189	46,814	421,086
Interest and dividend income received	1,158	1,106	11,559
Interest expenses paid	(1,148)	(1,025)	(11,457)
Income taxes paid	(13,445)	(11,375)	(134,196)
Net cash provided by operating activities	28,754	35,520	286,993
Cash Flows from Investing Activities:			
Payments for purchase of marketable securities and investments in securities	(1,354)	(603)	(13,518)
Proceeds from sales of marketable securities and investments in securities	1,350	280	13,471
Payments for purchase of property and equipment	(25,715)	(16,168)	(256,666)
Proceeds from sales of property and equipment	326	1,244	3,255
Proceeds from sales of shares of consolidated subsidiaries, accompanied by changes in scope of consolidation	-	1,240	-
Payment for sales of shares of consolidated subsidiaries, accompanied by changes in scope of consolidation	(297)	-	(2,968)
Payments for security deposit guarantees	(966)	(1,853)	(9,645)
Proceeds from the return of payments for security deposit guarantees	3,265	9,217	32,586
Payments for purchase of other investments	(1,795)	(1,706)	(17,919)
Proceeds from sales of other investments	2,436	7,110	24,309
Others, net	109	283	1,087
Net cash used in investing activities	(22,644)	(957)	(226,009)
Cash flows from Financing Activities:			
Decrease in short-term borrowings	(3,751)	(4,791)	(37,437)
Increase in commercial paper	9,000	-	89,829
Proceeds from borrowings of long-term debt	11,000	-	109,791
Repayment of long-term debt	(3,059)	(6,990)	(30,534)
Redemption of bonds	(20,000)	(15,000)	(199,621)
Dividends paid	(3,082)	(3,116)	(30,762)
Payment for purchase of own shares	(13)	(9,507)	(127)
Dividends paid for minority shareholders	(2,236)	-	(22,320)
Others, net	326	570	3,250
Net cash used in financing activities	(11,815)	(38,835)	(117,929)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	273	968	2,726
Net Decrease in Cash and Cash Equivalents	(5,432)	(3,305)	(54,219)
Cash and Cash Equivalents at Beginning of the Year (Note 4)	33,024	36,342	329,609
Cash and Cash Equivalents Excluding Consolidated Subsidiaries at End of the Year	(383)	(14)	(3,821)
Cash and Cash Equivalents at End of the Year (Note 4)	¥27,208	¥33,024	\$271,569

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, 2008 and 2007

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 Corporate Law of Japan 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 Financial Instruments and Exchange Act of Japan 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 32 subsidiaries at March 31, 2008 (34 at March 31, 2007). The consolidated financial statements include the accounts of the Company and 27 of its subsidiaries in respect of the year ended March 31, 2008 (29 subsidiaries for 2007). The Company and these consolidated subsidiaries are hereinafter referred to as the "Companies." The 27 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 11 subsidiaries: Shanghai Mei Long Zhen Isetan

Department Store Co., Ltd., Tianjin Isetan Co., Ltd., Shanghai Jinjiang Isetan Co., Ltd., Chengdu Isetan Co., Ltd., Shenyang Isetan Co., 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 Jinjiang Isetan Co., Ltd., Chengdu Isetan Co., Ltd., Shenyang Isetan Co., 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 10 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.

The accounts of the remaining 5 (5 for 2007) 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.

	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
Iwataya Co., Ltd.	51.7	¥3,451.84 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
Chengdu Isetan Co., Ltd. (China)	100.0	US\$5.73 million
Shenyang Isetan Co., Ltd. (China) (*2)	100.0	US\$7.45 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, 2008

(*2) Newly consolidated, effective from the year ended March 31, 2008 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, 2008, the Company had 7 affiliates (8 at March 31, 2007).

The equity method is applied to the investments in 7 affiliates, West Japan Railway Isetan Ltd., Hamaya 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 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, 2008 (5 for 2007) 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 5 years using the straight-line method.

(5) Income Taxes

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

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

(6) Accounting for Allowances and Reserves

(a) Allowance for Doubtful Accounts

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

(b) Reserve for Retirement Benefits to Employees

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

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

Actuarial differences are amortized from the following consolidated fiscal year using the straight-line method based on 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, 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

Iwataya Co., Ltd. and Queen's Isetan Company Limited, both 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.

(f) Allowance for Loss from Redemption of Gift Vouchers

To prepare for losses from the redemption of gift vouchers after vouchers are no longer classified as liabilities, based on past data we record expected future amounts of redemptions as allowance for loss from redemption of gift vouchers.

(g) Allowance for Loss on Interest Repayment

To prepare for losses accompanying future requests for the repayment of interest, taking into account data for past repayments, we record necessary amounts as allowance for loss on interest repayment.

(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) Amortization of Goodwill and Negative Goodwill

Goodwill and negative goodwill are amortized evenly over the estimated amortization period. However, small amounts are amortized on a lump-sum basis when incurred.

(14) Changes in Accounting Policies

(a) Accounting Standard for Directors' Bonuses

Effective from the year ended March 31, 2007, the Company has adopted "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan 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 (\$875 thousand), respectively, for the year ended March 31, 2007.

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

Effective from the year ended March 31, 2007, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, issued on December 9, 2005). The amount that corresponds to former stockholders' equity is ¥198,481 million (\$1,681,331 thousand) for the year ended March 31, 2007. 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.

(c) Accounting Standard for Stock Options

Effective from the year ended March 31, 2007, 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 of 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 (\$2,697 thousand), respectively for the year ended March 31, 2007.

(d) 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 the year ended March 31, 2007, 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 (\$6,083 thousand), but there was no effect on operating income and income before income taxes and minority interests for the year ended March 31, 2007.

(e) Accounting Standards for Allowance for Loss from Redemption of Gift Vouchers

Previously, after the elapsing of a certain period of time and taking into consideration the probability of fulfilling obligations, amounts of unredeemed gift vouchers were transferred from liabilities and recorded as non-operating income. However, the Japanese Institute of Certified Public Accountants released the position statement Auditing Treatment of Reserves Stipulated in the Special Tax Measures Act, Statutory Allowances or Reserves, and Reserves for Directors' Retirement Benefits (Audit and Assurance Practice Committee No. 42; April 13, 2007). Consequently, from the fiscal year under review, based on the expected amounts of voucher redemptions in accordance with past data, Isetan began making provisions for the allowance for loss from the redemption of gift vouchers already removed from liabilities. As a result of this change, provision of allowance for loss from redemption of gift vouchers of ¥1,304 million (\$13,018 thousand) was recorded as a non-operating expense and provision for allowance for loss from redemption of gift vouchers from prior periods of ¥2,281 million (\$22,767 thousand) was recorded as an extraordinary loss.

Consequently, ordinary income was ¥263 million (\$2,625 thousand) less and income before income taxes was ¥2,544 million (\$25,392 thousand) lower compared with the figures that would have resulted with the previous accounting treatment.

(f) Accounting Standards for Depreciation of Depreciable Assets

In line with the amendment of the Corporation Tax Law [Law for Partial Amendment of the Income Tax Law (March 30, 2007, Law No. 6) and Cabinet Order for Partial Amendment of the Corporation Tax Law Enforcement Ordinance (March 30, 2007, Cabinet Order No. 83)], effective from the fiscal year ended March 31, 2008, the Company records depreciable assets purchased on and after April 1, 2007 by the method based on the amended Corporation Tax Law. As a result of this change, operating income, ordinary income, and income before income taxes declined ¥220 million (\$2,192 thousand), respectively, compared with the figures that would have resulted using the previous accounting method. The effects of this change on each segment are described in the relevant sections.

(15) Change in Presentation Method**(a) Consolidated Balance Sheets**

From the current fiscal year, Allowance for loss on interest repayment (¥146 million (\$1,457 thousand) at the previous fiscal year-end), which was presented within Other current liabilities under Current Liabilities until the previous fiscal year, is presented as a separate category due to its increased importance.

(b) Consolidated Statements of Cash Flows

From the current fiscal year, Dividends paid to minority shareholders (¥386 million (\$3,849 thousand) in the previous fiscal year), which was presented within Others, net under Cash Flows from Financing Activities until the previous fiscal year, is presented as a separate category due to its increased importance.

(16) Additional Information**(a) Accounting Standards for Depreciation of Depreciable Assets**

From the current fiscal year, depreciable assets acquired on or before March 31, 2007 that had reached the allowable limit of the depreciable amount are to be depreciated evenly over five years beginning from the following fiscal year. As a result, operating income decreased ¥213 million (\$2,125 thousand) and recurring income and income before income taxes (and minority interests) decreased ¥215 million (\$2,145 thousand), respectively.

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 ¥100.19 = US\$1, the approximate rate of

exchange in effect on March 31, 2008. 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 (Note 3)
	2008	2007	2008
Cash and cash equivalents consisting of:			
Cash and bank deposits	¥27,628	¥33,673	\$275,757
Time deposits with maturity of over 3 months	(420)	(649)	(4,188)
Cash and cash equivalents	¥27,208	¥33,024	\$271,569

The following is a main breakdown of assets and liabilities of companies that ceased to be consolidated subsidiaries during the

fiscal year due to the sale of the share of these companies.

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2008	2008
Current assets	¥2,934		\$29,289
Fixed assets	522		5,213
Current liabilities	7,739		77,241
Fixed liabilities	—		—
Sale of shares	0		0
Cash and cash equivalents	(297)		(2,968)
Payment for sales of shares of consolidated subsidiaries	¥ (297)		\$ (2,968)

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 (Note 3)
			2008	2008
Queen's Isetan Company Limited (Yokohama-shi, Kanagawa Pref. other)	Retail stores, Other	Building, Other	¥1,077	\$10,753
Isetan Company Limited (Kitakyushu-shi, Fukuoka Pref.)	Real estate for lease	Other Asset (Real estate for investment)	2,912	29,062
Other	Retail stores, Other	Building, Other	79	786

The Company and its consolidated subsidiaries primarily group operating assets into the smallest cash flow-generating units, with retail stores mainly as the basic unit. Real estate for lease is grouped into units consisting of each individual real estate property.

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 ¥1,156 million (\$11,539 thousand) was recorded. The book values of asset groups experiencing sharp declines in profitability accompanying declines in rental fees were written down to recoverable amounts, and thus an impairment loss of ¥2,912 million (\$29,062 thousand) was recorded within Loss on sales of business of affiliates.

Breakdown of Impairment Loss

Location	Millions of yen	Thousands of U.S.dollars (Note 3)
	2008	2008
Queen's Isetan Company Limited	¥1,077 (Building 1,062)	\$10,753 (Building 10,602)
Isetan Company Limited	¥2,912 (Real estate for investment 2,912)	\$29,062 (Real estate for investment 29,062)
Other	¥ 79 (Building 61)	\$ 786 (Building 611)

The recoverable value of these operating asset groups is determined using the net sale amount, whereas the value of real estate for lease

is determined by measuring usage value and calculating expected future cash flows, discounted by 6%.

6. Lease Contracts

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

As lessee:

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

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Equipment:			
Acquisition cost	¥10,124	¥9,907	\$101,048
Accumulated depreciation	5,523	4,730	55,125
Net book value	¥ 4,601	¥5,176	\$ 45,923

2. The amounts of outstanding future lease payments:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Within one year	¥1,968	¥1,906	\$19,644
Over one year	2,633	3,271	26,279
Total	¥4,601	¥5,176	\$45,923

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 (Note 3)
	2008	2007	2008
Lease rental expenses	¥2,075	¥2,013	\$20,714
Amount equivalent to depreciation	¥2,075	¥2,013	\$20,714

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

II. Operating leases

As lessee:

The amounts of outstanding future lease payments:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Within one year	¥ 5,231	¥ 5,924	\$ 52,214
Over one year	37,379	48,609	373,077
Total	¥42,610	¥54,533	\$425,292

7. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2008 and 2007 was 40.7%.

At March 31, 2008 and 2007, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Deferred tax assets:			
Allowance for doubtful accounts	¥ 1,145	¥ 1,974	\$ 11,429
Accrued bonuses	3,665	3,567	36,577
Reserve for employees' retirement benefits	4,791	6,028	47,815
Depreciation in excess of tax deductible limit	5,255	4,354	52,455
Write-down of investments in securities	709	1,349	7,077
Undeducted loss on impairment of property and equipment	1,113	1,104	11,111
Tax loss carryforwards	1,669	4,422	16,655
Other	5,845	4,363	58,337
Total	24,191	27,160	241,456
Valuation allowance	(5,822)	(9,266)	(58,111)
Total deferred tax assets	18,369	17,895	183,345
Deferred tax liabilities:			
Reserve for deferred capital gain on property	(5,788)	(5,754)	(57,772)
Unrealized gain on other securities	(3,681)	(8,105)	(36,744)
Other	(2,804)	(2,547)	(27,983)
Total deferred tax liabilities	(12,273)	(16,407)	(122,499)
Net deferred tax assets (liabilities)	¥ 6,096	¥ 1,488	\$ 60,846

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

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Current assets–deferred tax assets	¥7,080	¥6,517	\$70,667
Fixed assets–deferred tax assets	3,112	2,548	31,062
Current liabilities–deferred tax liabilities	(13)	(11)	(135)
Long-term liabilities–deferred tax liabilities	(4,083)	(7,567)	(40,748)

For the years ended March 31, 2008 and 2007, the reconciliation of the statutory tax rate to the respective effective income tax rate is as follows:

	2008	2007
Statutory tax rate	40.7%	40.7%
Increase (decrease) in taxes resulting from		
Permanent differences, net	0.1	0.1
Inhabitants tax–per capita levy	0.3	0.2
Net loss of subsidiaries	4.2	2.0
Equity earnings of affiliates	(0.2)	(0.6)
Valuation allowance	(9.0)	(4.1)
Other	(1.2)	(1.5)
Effective income tax rate	34.9	36.8

8. Retirement Benefit Plan

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

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

The reserve for retirement benefits to employees as of March 31, 2008 and 2007 is analyzed as follows:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Projected benefit obligations	¥(41,986)	¥(43,160)	\$(419,061)
Plan assets	27,559	29,797	275,065
	(14,427)	(13,363)	(143,996)
Unrecognized actuarial differences	1,697	(796)	16,941
Unrecognized prior service costs	(536)	(2,341)	(5,348)
	(13,265)	(16,500)	(132,403)
Prepaid pension costs	6,750	6,904	67,369
Accrued retirement benefits	¥(20,015)	¥(23,404)	\$(199,772)

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, 2008 and 2007 are analyzed as follows:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Service costs	¥ 1,638	¥ 1,745	\$ 16,347
Interest costs	1,053	1,113	10,506
Expected return on plan assets	(869)	(833)	(8,669)
Amortization of actuarial differences	508	601	5,067
Amortization of prior service costs	(2,096)	(2,477)	(20,915)
Payments for defined contribution pension plan	924	939	9,227
Other	85	94	849
Net pension expense	¥ 1,244	¥ 1,183	\$ 12,411

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

	As of March 31, 2008	As of March 31, 2007
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

9. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Short-term bank loans	¥20,713	¥24,427	\$206,741
Long-term bank loans due within one year	3,000	3,059	29,943
Total	¥23,713	¥27,486	\$236,684

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Long-term loans from banks and other financial institutions	¥ 14,000	¥ 6,059	\$139,735
Less: portion due within one year	(3,000)	(3,059)	(29,943)
Sub-total	11,000	3,000	109,791
Bonds:			
2.825% bonds due November 28, 2007	—	20,000	—
0.67% bonds due August 15, 2008	10,000	10,000	99,810
	10,000	30,000	99,810
Less: due within one year	(10,000)	(20,000)	(99,810)
Sub-total	—	10,000	—
Total	¥ 11,000	¥ 13,000	\$109,791

The aggregate annual maturities of long-term loans outstanding at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S.dollars (Note 3)
	2008	2008
Year ending March 31, 2010	¥11,000	\$109,791

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, 2008 was as follows:

	Millions of yen	Thousands of U.S.dollars (Note 3)
	2008	2008
Available credit lines	¥30,000	\$299,431
Used credit lines	—	—
Unused credit lines	¥30,000	\$299,431

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, 2008 and 2007 were as follows:

	March 31, 2008			
	Millions of yen			Thousands of U.S.dollars (Note 3)
	Acquisition cost	Book value	Unrealized gain (loss)	Unrealized gain (loss)
(1) Securities with book value exceeding acquisition cost:				
Corporate stock	¥16,049	¥28,756	¥12,707	\$126,827
(2) Securities with book value under acquisition cost:				
Corporate stock	10,796	8,358	(2,439)	(24,342)
	March 31, 2007			
	Millions of yen			Thousands of U.S.dollars (Note 3)
	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)

II. Total sales of available-for-sale securities sold in the year ended March 31, 2008 amounted to ¥148 million (\$1,481 thousand), and related gains amounted to ¥99 million (\$987 thousand).

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).

III. The carrying amounts of available-for-sale securities for which market quotations were unavailable at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
	Other securities	¥1,711	¥3,811

IV. Maturities of available-for-sale securities at March 31, 2008 are as follows:

	Millions of yen			
	2008			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Corporate bonds	¥158	¥473	¥315	¥946
Total	¥158	¥473	¥315	¥946
	Thousands of U.S.dollars (Note 3)			
	2008			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Corporate bonds	\$1,573	\$4,720	\$3,146	\$9,439
Total	\$1,573	\$4,720	\$3,146	\$9,439

11. Commitments and Contingent Liabilities

I. Commitments

(Lender)

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, 2008, the total unused credit available to card members was ¥171,800 million (\$1,714,742 thousand).

(Borrower)

To efficiently procure working capital, the Company has concluded loan commitment contracts with six banks. At the end of the fiscal year, the total balance of unused loan commitments stood at ¥30,000 million (\$299,431 thousand).

II. Contingent Liabilities

The Company had contingent liabilities for guarantees of housing loans borrowed by employees in the amount of ¥933 million (\$9,316 thousand) and ¥1,166 million (\$9,875 thousand) at March 2008 and 2007, respectively.

12. Breakdown of Selling, General and Administrative Expenses

Selling, general and administrative expenses during the two years ended March 31, 2008 and 2007 included the following:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2008	2007	2008
Salaries and payroll costs	¥ 63,748	¥ 64,080	\$ 636,271
Pension expense	1,213	1,147	12,104
Advertising	14,089	13,989	140,619
Depreciation (and amortization)	12,651	10,895	126,274
Rent	24,301	24,243	242,545
Other	77,152	79,030	770,060
Total	¥193,154	¥193,385	\$1,927,873

13. Appropriation of Retained Earnings

The following appropriation of unappropriated retained earnings of the Companies were approved by the shareholders of the Company at the general shareholders' meeting held on June 20, 2008.

	Millions of yen	Thousands of U.S.dollars (Note 3)
	2008	2008
Retained earnings:		
Balance at March 31	¥115,777	\$1,155,572
Appropriation:		
Cash dividends (¥9.0 per share)	(1,983)	(19,794)
Balance to be carried forward	¥113,794	\$1,135,778

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 27, 2002 Directors (9) and employees (364)	325,200 shares	from July 1, 2004 to June 26, 2012	¥1,162
(2) Approved by shareholders at meeting held on June 27, 2003 Directors (9) and employees (355)	108,900 shares	from July 1, 2005 to June 26, 2010	¥891
(3) Approved by shareholders at meeting held on June 29, 2004 Directors (8) and employees (72)	384,200 shares	from July 1, 2006 to June 28, 2011	¥1,378
(4) Approved by shareholders at meeting held on June 29, 2005 Directors (7) and employees (72)	644,900 shares	from July 1, 2007 to June 28, 2012	¥1,560
(5) Approved by shareholders at meeting held on June 29, 2006 and at meeting of board of directors held on July 21, 2006 Directors (7)	160,700 shares	from August 9, 2008 to August 8, 2013	¥1,829
(6) Approved by board of directors at meeting held on May 8, 2006 and July 21, 2006 Operating officers (17)	262,900 shares	from August 9, 2008 to August 8, 2013	¥1,829
(7) Approved by shareholders at meeting held on June 29, 2006 and meeting of board of directors held on July 21, 2006 Employees (54)	212,000 shares	from August 9, 2008 to August 8, 2013	¥1,829
(8) Approved by board of directors at meeting held on July 20, 2007 Directors (8)	211,600 shares	from August 8, 2009 to August 7, 2014	¥1,952
(9) Approved by board of directors at meeting held on July 20, 2007 Operating officers (19)	331,400 shares	from August 8, 2009 to August 7, 2014	¥1,952
(10) Approved by shareholders at meeting held on June 28, 2007 and meeting of board of directors held on July 20, 2007 Employees (52)	208,000 shares	from August 8, 2009 to August 7, 2014	¥1,952
(11) Approved by directors at meeting held on October 4, 2007, extraordinary meeting of shareholders held on November 20, 2007 and meeting of board of directors held on February 21, 2008 Directors (3)	37,000 shares	from April 1, 2008 to June 28, 2010	¥1,157
(12) Approved by directors at meeting held on October 4, 2007, extraordinary meeting of shareholders held on November 20, 2007 and meeting of board of directors held on February 21, 2008 Directors, operating officers and employees (61)	322,000 shares	from April 1, 2008 to June 27, 2011	¥1,359

(*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 March 31, 2008

(*3) Based on the approval received at the Extraordinary Meeting of Shareholders held on November 20, 2007, the Stock Option Plan will be carried over to Isetan Mitsukoshi Holdings Ltd..

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, impairment loss and capital expenditures of the Companies as at and for the years ended March 31, 2008 and 2007 classified by business segments are presented below.

	Millions of yen						
	2008						
	Department stores business	Credit & finance business	Other retailing and speciality stores business	Other business	Total	Elimination	Consolidated Total
Net sales:							
Outside customers	¥ 719,417	¥ 8,753	¥ 51,210	¥ 6,459	¥ 785,839	¥ -	¥ 785,839
Inter-segment sales	1,008	5,953	9,897	37,605	54,464	(54,464)	-
	720,426	14,707	61,107	44,064	840,303	(54,464)	785,839
Operating costs and expenses	691,806	10,514	60,521	43,612	806,452	(54,031)	752,422
Operating income	¥ 28,620	¥ 4,193	¥ 585	¥ 452	¥ 33,851	¥ (434)	¥ 33,417
Assets	¥ 415,648	¥ 76,525	¥ 14,981	¥ 47,243	¥ 554,396	¥ (87,854)	¥ 466,542
Depreciation	¥ 11,681	¥ 159	¥ 973	¥ 32	¥ 12,846	¥ (3)	¥ 12,843
Impairment loss	¥ 2,912	¥ -	¥ 1,156	¥ -	¥ 4,068	¥ -	¥ 4,068
Capital expenditures	¥ 18,910	¥ 4,818	¥ 2,090	¥ 302	¥ 26,120	¥ (413)	¥ 25,706

	Millions of yen						
	2007						
	Department stores business	Credit & finance business	Other retailing, speciality stores, restaurant 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

Thousands of U.S.dollars (Note 3)

	2008						Consolidated Total
	Department stores business	Credit & finance business	Other retailing and speciality stores business	Other business	Total	Elimination	
Net Sales:							
Outside customers	\$7,180,530	\$ 87,369	\$511,124	\$ 64,465	\$7,843,488	\$ –	\$7,843,488
Inter-segment sales	10,064	59,422	98,785	375,339	543,610	(543,610)	–
	7,190,595	146,790	609,909	439,804	8,387,098	(543,610)	7,843,488
Operating costs and expenses	6,904,938	104,938	604,067	435,289	8,049,231	(539,280)	7,509,951
Operating income	\$ 285,657	\$ 41,852	\$ 5,842	\$ 4,516	\$ 337,867	\$ (4,330)	\$ 333,537
Assets	\$4,148,599	\$763,794	\$149,523	\$471,532	\$5,533,448	\$(876,875)	\$4,656,574
Depreciation	\$ 116,585	\$ 1,592	\$ 9,714	\$ 324	\$ 128,214	\$ (31)	\$ 128,183
Impairment loss	\$ 29,062	\$ –	\$ 11,539	\$ –	\$ 40,601	\$ –	\$ 40,601
Capital expenditures	\$ 188,745	\$ 48,091	\$ 20,856	\$ 3,009	\$ 260,701	\$ (4,124)	\$ 256,577

In line with the amendment of the Corporation Tax Law [Law for Partial Amendment of the Income Tax Law (March 30, 2007, Law No. 6) and Cabinet Order for Partial Amendment of the Corporation Tax Law Enforcement Ordinance (March 30, 2007, Cabinet Order No. 83)], effective from the fiscal year ended March 31, 2008, the Company records depreciable assets purchased on and after April 1, 2007 by

the method based on the amended Corporation Tax Law. As a result of this change, operating expenses of the Department store business and operating expenses of the Other Retail & Specialty Store business increased ¥143 million (\$1,424 thousand) and ¥77 million (\$768 thousand), respectively, and operating income decreased by the corresponding amounts.

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, 2008 and 2007 as classified by geographical segment, are presented below:

	Millions of yen				
	2008				Consolidated Total
	Within Japan	Outside Japan	Total	Elimination	
Net sales:					
Outside customers	¥714,323	¥71,516	¥785,839	¥ –	¥785,839
Inter-segment sales	660	280	941	(941)	–
	714,984	71,796	786,780	(941)	785,839
Operating costs and expenses	684,501	68,696	753,197	(775)	752,422
Operating income	¥ 30,482	¥ 3,100	¥ 33,582	¥ (165)	¥ 33,417
Assets	¥431,160	¥39,148	¥470,308	¥(3,766)	¥466,542

	Millions of yen				
	2007				Consolidated Total
	Within Japan	Outside Japan	Total	Elimination	
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

	Thousands of U.S.dollars (Note 3)				
	2008				
	Within Japan	Outside Japan	Total	Elimination	Consolidated Total
Net sales:					
Outside customers	\$7,129,686	\$713,802	\$7,843,488	\$ -	\$7,843,488
Inter-segment sales	6,591	2,796	9,387	(9,387)	-
	7,136,277	716,598	7,852,875	(9,387)	7,843,488
Operating costs and expenses	6,832,031	685,657	7,517,688	(7,737)	7,509,951
Operating income	\$ 304,246	\$ 30,941	\$ 335,187	\$ (1,650)	\$ 333,537
Assets	\$4,303,420	\$390,739	\$4,694,159	\$(37,585)	\$4,656,574

Overseas sales information for the years ended March 31, 2008 and 2007 is not provided since neither the net sales of overseas subsidiaries or overseas sales of the Companies were material (less than 10% of the consolidated net sales amount) in either year.

In line with the amendment of the Corporation Tax Law [Law for Partial Amendment of the Income Tax Law (March 30, 2007, Law No. 6) and Cabinet Order for Partial Amendment of the Corporation Tax Law Enforcement Ordinance (March 30, 2007, Cabinet Order No. 83)], effective from the fiscal year ended March 31, 2008, the Company

records depreciable assets purchased on and after April 1, 2007 by the method based on the amended Corporation Tax Law. As a result of this change, operating expenses in Japan increased ¥220 million (\$2,192 thousand) while operating income in Japan declined by a corresponding amount.

16. Per Share Information

Book-Value per share (BPS) and Earnings per share (EPS) for the year ended March 31, 2008 and 2007 were as follows:

	Yen		U.S.dollars (Note 3)
	2008	2007	2008
Book-Value per share (BPS)	¥924.16	¥901.87	\$9.22
Earnings per share (EPS)	¥ 62.49	¥ 82.43	\$0.62
Diluted earnings per share	¥ 62.41	¥ 82.02	\$0.62

17. Subsequent Event

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 Isetan Co., Ltd. and Mitsukoshi, 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

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

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

Stock transfer date: April 1, 2008

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

No audit report has been issued on the translated financial statements for the year ended March 31, 2007.

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
Isetan Co., Ltd.

We have audited the accompanying consolidated balance sheet of Isetan Co., Ltd. and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the year 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 Isetan Co., Ltd. and consolidated subsidiaries at March 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Additional Information

1. As described in Note 2(14)(e), effective from the year ended March 31, 2008. Isetan Co., Ltd. began making provision for Allowance for Loss from Redemption of Gift Vouchers.
2. As described in Note 17, Isetan Mitsukoshi Holdings Ltd. was established as a parent company through a joint stock transfer by Isetan Co., Ltd. and Mitsukoshi, Ltd. on April 1, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 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 3.

June 20, 2008

A MEMBER OF ERNST & YOUNG GLOBAL