



ISETAN MITSUKOSHI HOLDINGS

Annual Report 2015

is this japan ?

The seasons sharpen your senses.
Listen. Breathe in. Look more closely.
Focus on a taste, luxuriate in a texture.
Nature makes us more aware.
This sensitivity guides us in all we do.
Our notion of hospitality, the importance of
each moment we share with a customer.
Each carefully chosen item, in this place
dedicated to the art of the experience.
At Isetan Mitsukoshi,
we bring perfection to the smallest detail.
Come feel the thrill of a new world
so welcoming it feels like home.

this is japan.



ITSUKOSHI

ISETAN

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Since 1673

The Isetan Mitsukoshi Group traces its history back over 300 years, to a kimono fabric shop. That shop became the world's first merchant to sell merchandise at a predetermined price shown on tags attached to merchandise. With that innovation, the shop expanded its customer base beyond the affluent, the traditional customer segment for kimono fabric shops, to include ordinary consumers. The business later extended its line of merchandise, adding items such as food products, furniture and furnishings, and craftwork. And today, the Isetan Mitsukoshi Group carries on, applying a strong sense of hospitality in offering customers products, information, and culture from throughout the world.



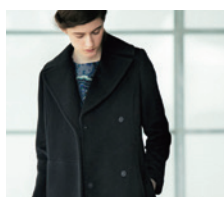
Takatoshi Mitsui established the kimono fabric shop Echigoya at Edohoncho 1-chome.



Tanji Kosuge established the Iseya Tanji kimono fabric shop in Hatago-cho, Kanda.

Now and in the Future

Since our very beginning, as a kimono fabric shop, we have taken special care to hone the five senses of every one of our employees. We do this, so they can judge the form, quality, and fabric of a kimono by sight and touch, and know just by the sound of fabric binding on fabric that an *obi* has been properly tied. Such refined senses give rise to the deep sense of hospitality that defines our interactions with customers. “this is japan.” expresses our passion for that level of customer service and our desire to purvey excellence in the form of products, information, and culture throughout our network of stores in Japan and across the world.



Isetan Mitsukoshi Group Vision

To become the indispensable department store for each individual customer throughout his or her life by continually creating high quality, new lifestyles and being of use to our customers in the many different aspects of their lives.

By doing so, we aim to become the world's foremost retail services group with high profitability and sustained growth.

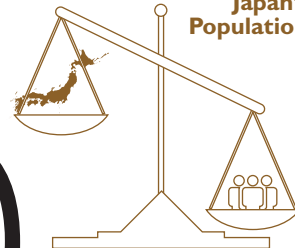
Isetan Mitsukoshi in Numbers



Annual Store Visits

(total of group department stores in Japan)

Approx. 1.5 times
Japan's
Population

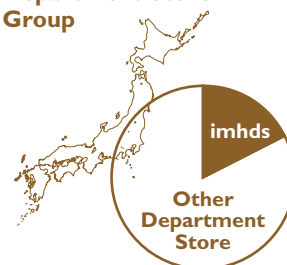


Over
200million

Isetan Mitsukoshi has more annual store visits than Japan's population (127 million).

Annual Sales (overall Group)

Japan's No.1
Department Store
Group



Over
JPY 1.2trillion

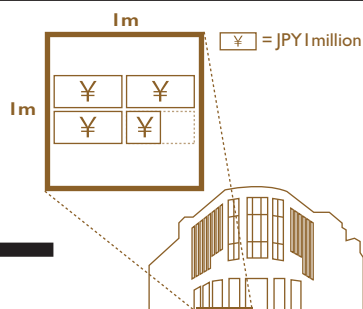
Employees (overall Group in Japan)

Approx. 42.195km
if our entire staff
linked hands in a line



Approx.
26,000
(excluding part-time employees and trainees)

Annual sales per
1m² of Sales Floor
(Isetan Shinjuku Main Store)



Over **3.5** million

Sales to Inbound Tourists
(Group department stores in Japan)

Over JPY **33.0** billion



Card Members (average)

Over 12 store visits annually and
Over **200,000**

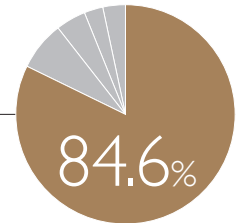
in annual purchases with in
the Isetan Mitsukoshi Group.

MICARD



Group Businesses

FY2014 Sales Composition Ratio
(From April, 2014 to March 31, 2015)



1,076.7 Billion yen

Domestic Stores

Flagship Stores



Isetan Shinjuku Main Store

The world's greatest fashion store

- Implemented further refinement following completion of remodeling in March 2013.
- Completed remodeling of the 5th and 6th floors.



Mitsukoshi Nihombashi Main Store

The world's highest level of hospitality

- Remodeling has resulted in the new standard for Japanese traditional high culture.
- Implementing a new customer creation campaign following completion of remodeling works.



Mitsukoshi Ginza Store

A landmark of the world-renowned Ginza district

- The store of choice for visitors to the Ginza district including customers from overseas.
- Aiming to achieve sales of 100 billion yen.

Branch and Group Stores



Marui Imai Sapporo Main Store



Nagoya Mitsukoshi Sakae Store



Iwataya Main Store

We intend to increase attractiveness and asset efficiency via large scale remodeling of our stores in large cities. We will also generate a sound revenue base through our branch and Group stores.

Small to Medium-sized Stores



ISETAN HANASTORE



ISETAN MIRROR
Make & Cosmetics



MI PLAZA
MITSUKOSHI ISETAN



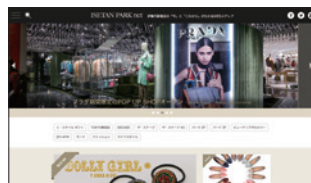
ISETAN OUTLET STORE



ISETAN SALONE
TOKYO

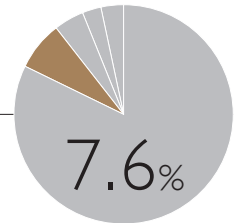
Our target is to achieve a total of 180 stores by expanding branch stores throughout the country (over 80 additional stores). We will expand customer interaction opportunities and increase brand value.

E-commerce



Our efforts in e-commerce have grown into a 30 billion yen business by allowing access to flagship store products and services via the Internet.

FY2014 Sales Composition Ratio
(From April, 2014 to March 31, 2015)



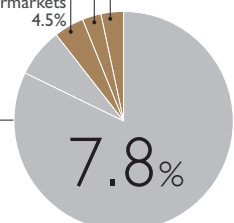
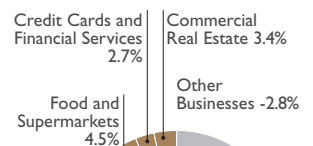
96.0 Billion yen

Overseas Stores

We are aiming to expand sales in our overseas stores through the promotion of new business models and establishment of new chain stores.



FY2014 Sales Composition Ratio
(From April, 2014 to March 31, 2015)



99.1 Billion yen

Others



Food and Supermarkets

We intend to strengthen existing stores while expanding new stores under our current profitability model.



Credit Cards and Financial Services

Centralizing customer management enables us to promote shopping within the Group.

Commercial Real Estate

As well as making full use of assets owned by the Group, we are actively planning for redevelopment.



Other Businesses

We are working on development of other businesses in areas including travel, personnel services, and inbound services.



Kunio Ishizuka
Chairman and
Representative Director



Hiroshi Ohnishi
President and CEO

To Become the World's Foremost Retail Services Group

The Isetan Mitsukoshi Group is committed to carrying out its Medium-Term Management Plan, which aims at achieving a consolidated operating income of 50 billion yen or more as a milestone for fiscal 2018, in the pursuit of our Group vision of becoming the world's foremost retail services group.

The Japanese economy has been on a moderate recovery trend, spurred on by lower oil prices and the impact of a range of government policies. Companies that are performing well have raised wages, boosting real income, and this has begun to show up as signs of improvement in personal consumption, but we cannot be wholly optimistic about where the Japanese economy is headed, with recovery yet to get off the ground in many parts of the country.

Under such circumstances, the Isetan Mitsukoshi Group took measures to map out the future direction of the department store business, and strengthen and expand growth businesses from a long-term perspective.

April 2015 marked the seventh year since the Mitsukoshi and Isetan organizations decided to combine their operations. To ensure further growth, we aim to further expand revenues through proactive development and promotion of unique, high-margin products and services, making these offerings available through global channels, customer contact points and business formats, including our main department stores, small- and medium-size stores, websites, and overseas locations.

To offer new value across all aspects of our customers' lifestyles, we will work to strengthen our existing businesses and develop new businesses, while also actively considering partnerships with other companies. Another focus will be investing in and training the new talent who will support our future growth.

By improving corporate value over the long term by implementing the above strategies and maximizing earnings, we aim to ensure a suitable level of returns to shareholders, in light of a comprehensive consideration of business conditions, our performance and financial condition. Another goal is the medium-term improvement of ROE, an important business performance indicator.

We are also bolstering our corporate governance system, which supports strategy execution. We will be relentless in our efforts to maintain a management foundation with high transparency and fairness, and implement a decision-making process that is swift and unequivocal.

The Isetan Mitsukoshi Group attaches great importance to relations with all stakeholders. We intend to build indispensable relations of trust, by continuing to create new definite value that exceeds expectations.

We are grateful for the support and encouragement stakeholders have shown us to date and hope to enjoy the same consideration going forward.

Kunio Ishizuka
Chairman and Representative Director

Hiroshi Ohnishi
President and CEO

Isetan Mitsukoshi Group: Ensuring Sustainable Growth by Pursuing Definite Value



Hiroshi Ohnishi
President and CEO

Transforming Isetan Mitsukoshi for Growth

Within the overall retailing market in Japan, which is said to be worth 140 trillion yen, sales of the department store sector have fallen from their peak by two-thirds, to around 6 trillion yen.

We believe that the most important reason for this is homogenization among department stores.

In this process of homogenization, the most important issue has been the products, that is to say the selection of products displayed. By leaving product selection in the hands of our partners in this endeavor (Note 1) so as to eliminate their own exposure to risk, all department stores have ended up stocking the same kind of product, and this has also caused a reduction in profitability.

To break through this impasse, we have been working to restructure our procurement system since 2011. By assuming the risks ourselves, we aim to ensure product selections characterized by uniqueness that other companies cannot match, product value beyond the price tag and higher profitability.

A typical example of what we have in mind is the original brand of women's footwear, Number Twenty-One. In the four years since this initiative was launched, transaction scale has increased around 20-fold, and now we are expanding sales channels into our department stores overseas as well.

It is our in-store marketing capabilities that support this kind of product range. When we buy products with this assumption of risk, we have to have the ability to sell them all.

At the Isetan Mitsukoshi Group, sales who that make proposals to customers on lifestyle are called stylists. By picking up what the customer wants, and sometimes by detecting their unspoken latent needs, the stylists encourage customers to make purchases by constantly coming up with new proposals.

For this reason, it is necessary to create an unhurried environment for these stylists to attend to customers. To improve the working environment, we are shortening business hours at department stores and closing on certain days.

Measures to Revitalize the Regional Economy

While signs of recovery momentum, albeit moderate, are now visible in the national economy, the lag in regional economies is striking. Revitalization of regional economies is important for the real recovery of the Japanese economy. With a network of stores covering the whole country, it is important that Isetan Mitsukoshi Group too plays a role in this effort.

Since 2011, we have been engaged in our "Japan Senses" product-based initiative aimed at making customers more aware of the quality materials, technologies and other aspects of the various regions of Japan.

To date, we have offered a wide range of products including garments, miscellaneous items, living accessories, foodstuffs and other goods supported by the traditions and cultures of the Tohoku and Hokuriku areas. We have received an excellent customer reaction. Looking ahead, we plan to expand the range of localities under this initiative and showcase broader areas.

Through such initiatives, we hope to play our part, however small it may be, in revitalizing regional economies by putting various corners of Japan under the spotlight.

Achieving Growth through HR Investment and Personnel System Reform

It is our human resources that support growth in our department store business. By giving free rein to the abilities of each of our people and strengthening workplace motivation,

we aim to ensure a high level of hospitality for our customers. For that reason, the Group is currently making priority investments in human resources.

To develop employees' skills, we are further raising standards of training tailored to each level, including executive officers, managers and young regular employees. In particular, we are arranging training programs for younger employees aimed at improving communication and self-presentation skills, in areas such as the liberal arts.

To deepen the motivation of employees engaged in store sales, we plan to introduce in 2016 an incentive program at some of our purchase areas (Note 2). We are thinking of increasing productivity on the retail front-lines by pegging salary and overall remuneration to employee performance. Through this initiative, we aim also to raise the societal status of the marketing profession.

Further, in 2012, we introduced the "Evergreen System" awards for our outstanding stylists Companywide (regardless of hierarchical affiliation). Currently, over 200 employees who have daily interaction with customers have been commended under this program.

"this is japan."

Our new corporate message for 2015 is "this is japan."

This not only relates back to the offering of products supported by traditions and technologies under the "Japan Senses" initiative. It is also intended to broadly deliver new value in store environments and services, based on the beauty of the four seasons in Japan and the aesthetic sense they foster.

"this is japan." is designated as one of our management strategies. It is being fleshed out in detail through various marketing policies at our stores in Japan and overseas.

As a specific initiative, and in a joint project with the Japanese government's Cool Japan initiative, we plan to completely remodel our Isetan Kuala Lumpur LOT 10 store in the winter of 2015 and transform it into a platform for promoting the "JAPAN" brand through both products and marketing services.

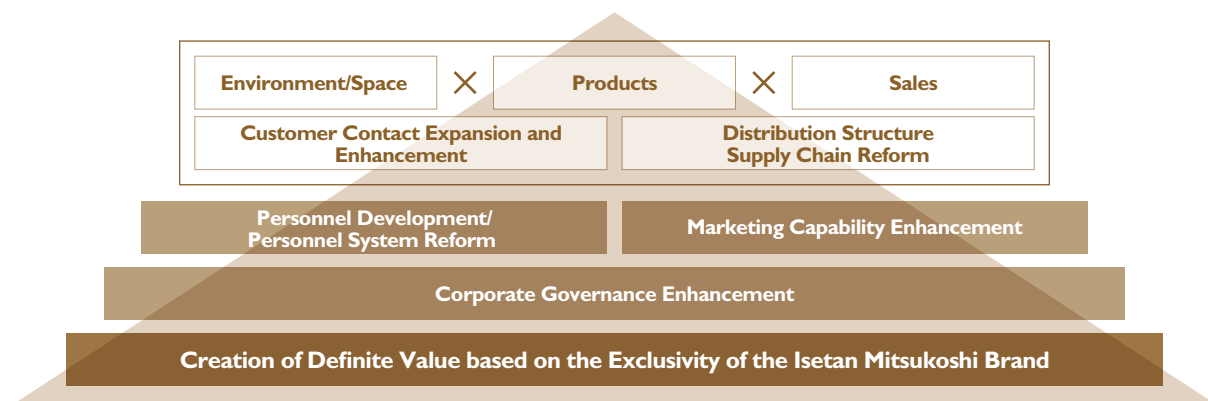
Likewise, we plan to test the waters in Europe for "this is japan." by opening a store for a limited time in Paris, mainly to gauge consumer responses to our product offerings.

Measures for Sustainable Growth of the Group

Sales in the department store business in Japan are in a long-term decline, but I do not expect department stores to vanish from Japan. If we are unable to satisfy our customers with our current stores, we believe this is because we failed to respond adequately to changing customer habits and social trends.

The Group will deliver to the customer definite value. This means value that other retail formats cannot match and only our Group can deliver across the board—environment/space, products and marketing—as we address the question of determining how the department store should evolve. None of these tasks will be simple, but we believe that with perseverance we can ensure sustainable growth into the future.

(Notes 1, 2) We refer to our transaction partners as "partners in endeavor," and to our sales spaces as "purchase areas."



Greater Profits from Organically Synchronizing and Mutually Sharing Group Resources

Advancing Four Basic Strategies to Achieve 50 Billion yen in Consolidated Operating Income in FY 2018 and Sustainable Growth Going Forward

Basic Strategies

(1) Creating content with high customer value

To create lifestyles characterized by novelty and distinction, we will develop and procure highly appealing lifestyle elements and offer exclusivity, merchandise curation, products, services, and store environments that are unparalleled and recognized for excellence the world over.

Global content

Solutions business

(2) Expanding and enhancing customer interaction

Our strength in merchandise curation will be called upon to expand customer interaction from urban centers to suburbs and overseas locations, via new business types and channels.

Store strategy

Digital strategy

(3) Improving Productivity

Factors in three areas - human resources (sales capacity, staff productivity), merchandise (procurement system reform), and assets (optimal use of assets on hand) - will be used to build a foundation for high profitability.

Purchasing innovation

HR productivity

(4) Strengthening fundamentals to use group resources

Group CRM will be advanced to strengthen customer relationships at the Group level, and IT will be employed to develop next-generation sales and service approaches.

HR training

Group CRM

Strategies by Business

Domestic stores
Three flagship stores

Continue to reinforce as the Group's greatest strength.

Domestic stores
Branch and Group stores

Turning to profit in all stores

Domestic stores
Small to medium-sized stores

- Monetizing current stores
- Trying new models and methods

Overseas stores

- Structural innovation in current stores
- Building new store models

Other businesses

- Strengthening current businesses
- Monetizing growth sectors

Isetan Shinjuku Main Store

Targeting completion of the "world's premier fashion museum," remodeling investments will be made, as in the past, together with investments of a more evolutionary nature to ensure the strength of our most important earnings platform.

Mitsukoshi Nihombashi Main Store

The "Culture Resort Department Store" is the base from which we promote lifestyles and culture, and remodeling will be pursued on the way to completing this project.

Mitsukoshi Ginza Store

This store will be equipped with functions that are built around an airport-style duty-free shop and make the store a "New Global Department Store" in the world-renowned Ginza district.

Structural reforms will accompany new store models tailored to local needs as we work to achieve profitability at every one of our stores.

A high-earnings business model will be established by further accelerating new-store openings and refining product and service offerings.

An earnings model based on a structural reform of existing stores will be developed, new value based on the Cool Japan initiative (LOT10 store in Malaysia) will be created, and the challenges of the global marketplace in places such as the United States and Europe (opening of a store in Maison de la culture du Japon à Paris) will be taken on.

Card Business

An earnings platform will be established by offering services that respond to Group customer needs and become an indispensable presence in all aspects of customer's lives. Conversion to a highly convenient point (customer-loyalty) system will begin in April 2016.

Supermarket Business

An earnings model excelling in uniqueness and profitability will be established early on, and a chain operating structure, including stores within department stores, will be built.

Fashion Brand Business

Efforts will be made to build profitable businesses by developing and promoting highly unique offerings.

Commercial Real Estate Business

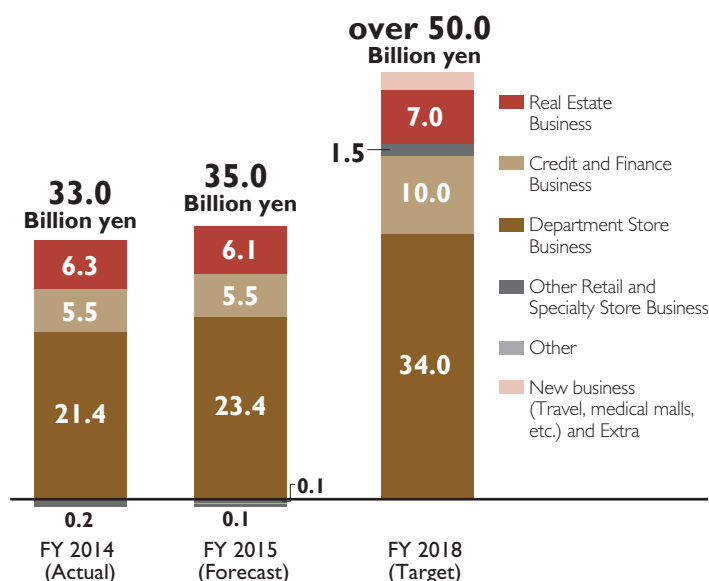
Expansion of returns will be the goal in optimizing the use of assets in hand and participating in redevelopment plans.

New Businesses

Earnings contributions will be made by delving into the possibilities of solutions for the life events (travel, bridal, retirement-age, etc.) of customers, and by building business models and giving rise to Group synergies.

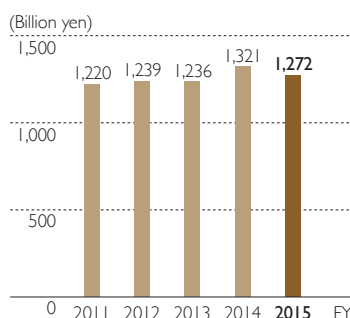
Achieving Over 50 Billion Yen in Operating Income by FY 2018

Target Profit Breakdown

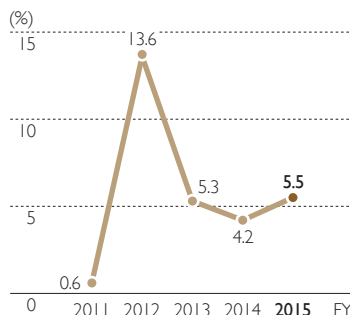


Financial Highlights Consolidated

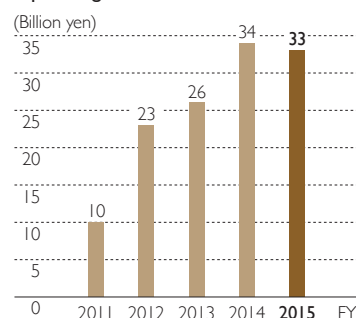
Net Sales



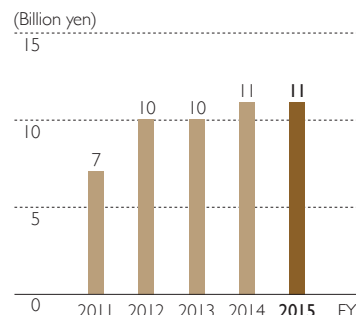
ROE

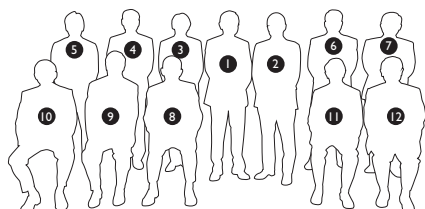


Operating Income



Cash Dividend





- | | | |
|-------------------|-------------------|----------------------|
| ① Kunio Ishizuka | ⑤ Toshihiko Sugie | ⑨ Yoshinori Ida |
| ② Hiroshi Ohnishi | ⑥ Shinya Takada | ⑩ Katsunori Nagayasu |
| ③ Takuya Matsuo | ⑦ Hidenori Takeda | ⑪ Teisuke Kitayama |
| ④ Ken Akamatsu | ⑧ Shoei Utsuda | ⑫ Sumio Iijima |

Directors

* Position currently held.

Kunio Ishizuka

Chairman and Representative Director

Born September 11, 1949

May 1972 - Joined Mitsukoshi, Limited

February 2012 - Appointed Chairman and Representative Director* at Isetan Mitsukoshi Holdings Ltd.

April 2012 - Appointed Chairman and Representative Director* at Isetan Mitsukoshi Ltd.

June 2013 - Appointed Outside Director* at Sekisui Chemical Co., Ltd.

Hiroshi Ohnishi

President and CEO

Born June 13, 1955

April 1979 - Joined Isetan Co., Ltd.

February 2012 - Appointed President and CEO* at Isetan Mitsukoshi Holdings Ltd. and President and CEO* at Isetan Mitsukoshi Ltd.

Takuya Matsuo

Director and Senior Managing Executive Officer, Department Store Business Planning & Operation

Born December 27, 1958

April 1982 - Joined Isetan Co., Ltd.

April 2015 - Appointed Director and Senior Managing Executive Officer, Department Store Business Planning & Operation* at Isetan Mitsukoshi Holdings Ltd., and Director and Senior Managing Executive Officer, Department Store Business Planning & Operation* at Isetan Mitsukoshi Ltd.

Ken Akamatsu

Director, Managing Executive Officer, Administration Headquarters

Born September 5, 1952

June 1975 - Joined Mitsukoshi, Limited

April 2013 - Appointed Director, Managing Executive Officer, Administration Headquarters* at Isetan Mitsukoshi Holdings Ltd., and Director, Managing Executive Officer, Administration Headquarters* at Isetan Mitsukoshi Ltd.

Toshihiko Sugie

Director, Managing Executive Officer, Strategic Planning Headquarters

Born February 15, 1961

April 1983 - Joined Isetan Co., Ltd.

April 2012 - Appointed Director, Managing Executive Officer, Strategic Planning Headquarters* at Isetan Mitsukoshi Holdings Ltd.

April 2013 - Appointed Director, Managing Executive Officer, Strategic Planning Headquarters* at Isetan Mitsukoshi Ltd.

Outside Directors

* Position currently held.

Shoei Utsuda

Outside Director Independent Officer

Born February 12, 1943

April 1967 - Joined Mitsui & Co., Ltd.

June 2007 - Appointed Director* at Tokyo Broadcasting System Holdings, Inc.

April 2009 - Appointed Chairman and Representative Director, Mitsui & Co., Ltd. and Director* at Tokyo Broadcasting System Television, Inc.

May 2009 - Appointed Chairman* of the Japan-Vietnam Association

June 2013 - Appointed Director* at Isetan Mitsukoshi Holdings Ltd.

November 2013 - Appointed Director* at Cool Japan Fund Inc.

June 2014 - Appointed Outside Director* at Nomura Research Institute, Ltd.

June 2015 - Appointed Counselor* at Mitsui & Co., Ltd.

Rationale for appointment

Experience in corporate management: Shoei Utsuda has a strong record of accomplishment in ensuring high compliance awareness, restructuring organizations, and achieving gains in business performance. His appointment was based on the assessment that Isetan Mitsukoshi Holdings would benefit from his wealth of experience and knowledge, and that his independent advice and recommendations would contribute significantly to the reasonableness and propriety of decision-making by the Board of Directors.

Activities

Attended 13 of 14 Board of Directors' meetings held during the fiscal year under review.

Yoshinori Ida

Outside Director Independent Officer

Born May 18, 1943

April 1966 - Joined Isuzu Motors Limited

June 2012 - Appointed Special Advisor* at Isuzu Motors Limited

June 2013 - Appointed Director* at Isetan Mitsukoshi Holdings Ltd.

Rationale for appointment

Experience in corporate management: Yoshinori Ida has a strong record of achievement in organizational restructuring and greatly improving business performance. His appointment was based on the assessment that Isetan Mitsukoshi Holdings would benefit from his wealth of experience and knowledge, and that his independent advice and recommendations would contribute significantly to the reasonableness and propriety of decision-making by the Board of Directors.

Activities

Attended all 14 Board of Directors' meetings held during the fiscal year under review.

Katsunori Nagayasu

Outside Director

Born April 6, 1947

May 1970 - Joined the Mitsubishi Bank, Ltd.

April 2012 - Appointed Chairman* at the Bank of Tokyo-Mitsubishi UFJ, Ltd.

June 2013 - Appointed Audit & Supervisory Board Member* at Nippon Steel & Sumitomo Metal Corporation

June 2014 - Appointed Director* at Isetan Mitsukoshi Holdings Ltd. and Audit & Supervisory Board Member* at Mitsubishi Motors Corporation

Rationale for appointment

Katsunori Nagayasu was appointed as an outside director, so that the insight and perspective he has developed over many years of experience in financial institution management could be incorporated in the oversight of the management activities of Isetan Mitsukoshi Holdings.

Activities

Attended 10 of the 12 Board of Directors' meetings held following his appointment as an Outside Director.

Audit & Supervisory Board Members

* Position currently held.

Shinya Takada

Audit & Supervisory Board Member

Born January 8, 1952

April 1975 - Joined Isetan Co., Ltd.

June 2012 - Appointed Audit & Supervisory Board Member* at Isetan Mitsukoshi Holdings Ltd.

Hiddenori Takeda

Audit & Supervisory Board Member

Born July 5, 1954

April 1978 - Joined Mitsui Bank

June 2015 - Appointed Audit & Supervisory Board Member* at Isetan Mitsukoshi Holdings Ltd.

Teisuke Kitayama

Outside Audit & Supervisory Board Member

Born October 26, 1946

April 1969 - Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation)

June 2005 - Appointed Director, President and CEO, Chairman of the Board* at Sumitomo Mitsui Banking Corporation

October 2006 - Appointed Director* at Fujifilm Holdings Corporation

April 2008 - Appointed Audit & Supervisory Board Member* at Isetan Mitsukoshi Holdings Ltd.

June 2014 - Appointed Audit & Supervisory Board Member* at Toyota Motor Corporation

Rationale for appointment

Teisuke Kitayama's appointment as an Audit & Supervisory Board Member was based on the assessment that his wealth of experience and broad insight as a financial institution manager would contribute significantly to the audit and supervisory function at Isetan Mitsukoshi Holdings Ltd.

Activities

Attended all 13 Audit & Supervisory Board meetings and 13 of 14 Board of Directors' meetings held during the fiscal year under review.

Sumio Iijima

Outside Audit & Supervisory Board Member Independent Officer

Born May 6, 1941

April 1966 - Joined the law firm of Anderson Mori & Rabinowitz (member of the Daini Tokyo Bar Association)

January 1991 - Established the Tokyo Toranomon Law Office, where he continues to practice law

June 1994 - Appointed Auditor* at Kitagawa Industries Co., Ltd.

April 2008 - Appointed Audit & Supervisory Board Member* at Isetan Mitsukoshi Holdings Ltd.

Rationale for appointment

Sumio Iijima's appointment as an Audit & Supervisory Board member was based on the assessment that the keen insight he has developed over many years in legal practice would greatly benefit the development and maintenance of audit and supervisory, and compliance systems at Isetan Mitsukoshi Holdings, and that his independent advice and recommendations would contribute significantly to the reasonableness and propriety of decision-making by the Board of Directors.

Activities

Attended all 13 Audit & Supervisory Board meetings and all 14 Board of Directors' meetings held during the fiscal year under review.

