



Masao Nakamura
Director and Managing Executive Officer
Responsible for Retailing Business

RETAILING BUSINESS

Going forward, I aim to further develop the Retailing business while generating synergies with other Group businesses.

As Japanese society matures, the focus of individuals' values is changing from the accumulation of physical goods to the pursuit of more fulfilling lifestyles. The ensuing shift in consumption from goods to experiences is becoming all the more clear as IT advances, and this trend can be expected to continue into the future (see Figure 1).

Looking at trends in the amounts of sales by store type dating back to 1995, we will see that, as sales decline among store types using the traditional sale or return arrangement, performance has been strong for shopping centers. This is most likely due to the ability of these facilities to cater to needs for the consumption of experiences (see Figure 2).

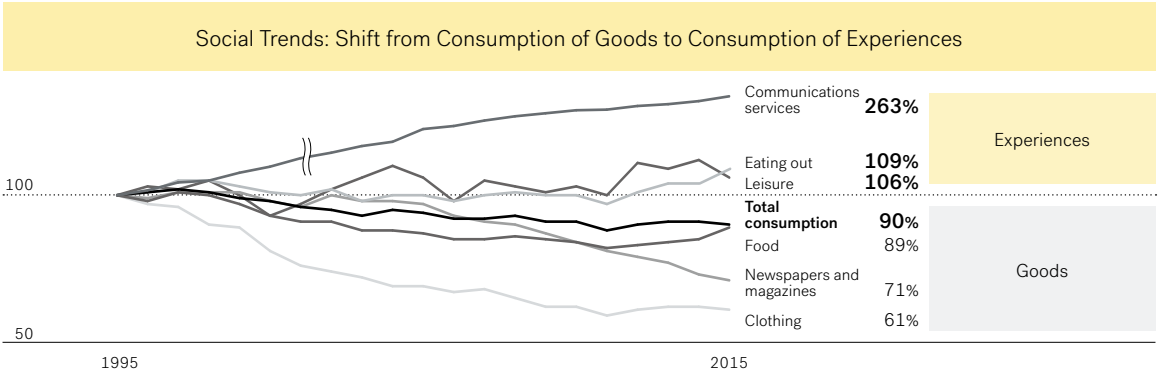
In light of this social change, MARUI GROUP's Retailing business is transitioning toward shopping centers and fixed-term rental contracts (see Figure 3).

This transformation represents a 180-degree turn away from our prior retailing frameworks in areas ranging from the form of contracts with business partners to

store operation methods. Accordingly, the decision to undertake this transformation was monumental. However, given MARUI GROUP's goal of developing stores through co-creation with customers, I am confident that this transformation will help restore the Retailing business to its former glory.

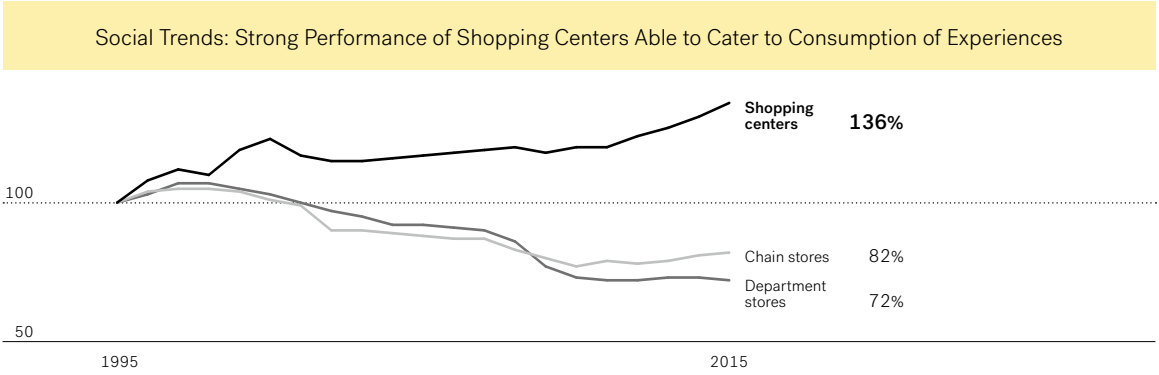
Promoting the shift toward shopping centers and fixed-term rental contracts for our stores will enable us to exercise increased flexibility in adjusting the balance of product and service categories available at our stores. This increased flexibility will no doubt be a powerful asset in developing stores that win customer support and provide joy. Retailing was the starting point for the Group's business, and even the credit card services that are now supporting our earnings are still steeped in the appeal of retailing. Going forward, I aim to further develop the Retailing business while generating synergies with other Group businesses.

Figure 1: Consumption Expenditures (1995 indexed to 100)



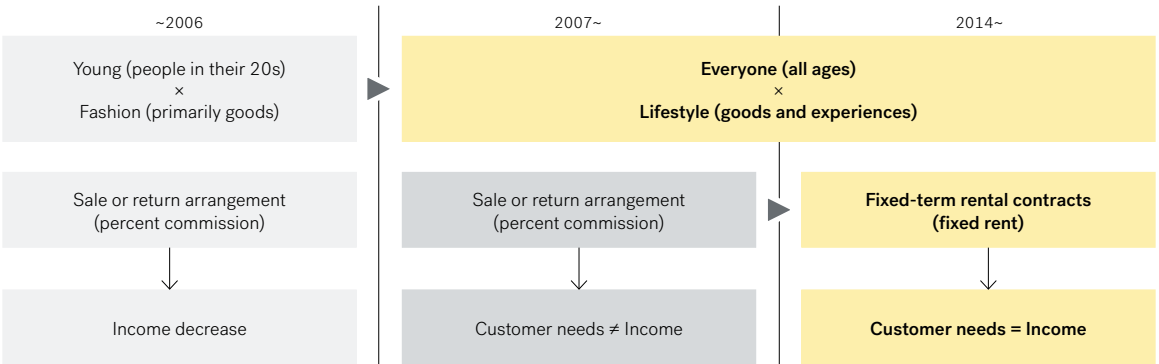
Source: Family Income and Expenditure Survey, Statistics Bureau, Ministry of Internal Affairs and Communications (two-or-more-person households in which head of household works, "food" excludes "eating out," "leisure" based on Company data)

Figure 2: Sales Amounts by Store Type (1995 indexed to 100)



Source: Japan Council of Shopping Centers, Japan Chain Stores Association, and Japan Department Stores Association

Figure 3: MARUI GROUP's Business Model Based on Social Changes



RETAILING BUSINESS



Hajime Sasaki
Senior Executive Officer
President and Representative Director, MARUI CO., LTD.

Our true worth will be put to the test in determining how we will provide customers with value and joy.



Hakata Marui opened in April 2016

Our greatest mission in the Retailing business is to once again return our operations to a growth trajectory. The shift to shopping centers and fixed-term rental contracts and the promotion of omni-channel retailing are important strategies for accomplishing this goal. However, we must remember that these strategies are merely a means to an end and not an end unto themselves. Our ultimate goal should be to provide customers with products, services, and contact points that earn their support and thereby realize ongoing growth in income. Accomplishing this goal will require us to act from a forward-looking perspective with a view to five and 10 years in the future. It is crucial to think about how customer lifestyles will change in the future. Our true worth will be put to the test in determining how we will provide customers with value and joy amid these changes.

Hakata Marui, a store opened in April 2016, turned out to be a model example of the direction we should take with our stores in the future. Going forward, we will need to steadily create more successful examples of stores developed through co-creation processes conducted together with customers and business partners as well as with community members, society, and employees.

KEY POINTS

Earnings Growth through Business Structure Transformation

The transformation of business structures in the Retailing business will be centered on the following three initiatives. By increasing earnings through the transition to fixed-term rental contracts and the promotion of omni-channel retailing, we will target operating income of more than ¥18.0 billion in the fiscal year ending March 31, 2021.

1. Transition to Shopping Centers and Fixed-Term Rental Contracts

We are renovating existing stores as part of the transition. We plan to convert almost all of our stores, excluding certain stores that will not be converted based on requests from the owners, to fixed-term contracts by March 31, 2019. At Hakata Marui, the first new store to be established under this model, we deployed fixed-term rental tenants and competitive directly operated specialty shops in a balanced manner. This store is thus expected to achieve return on investment*1 of 12% and net operating income yield*2 of more than 4%. Hakata Marui will be positioned as a model for future co-creation initiatives.

2. Promotion of Omni-Channel Retailing

For specialty stores and private brands, we will optimize sales floor area and implement other selection and concentration measures. We will also expand the scope of our operations by creating unique business models, such as the try-on stores that leverage our bolstered accessory lineups for Internet sales and Group expertise, to grow earnings.

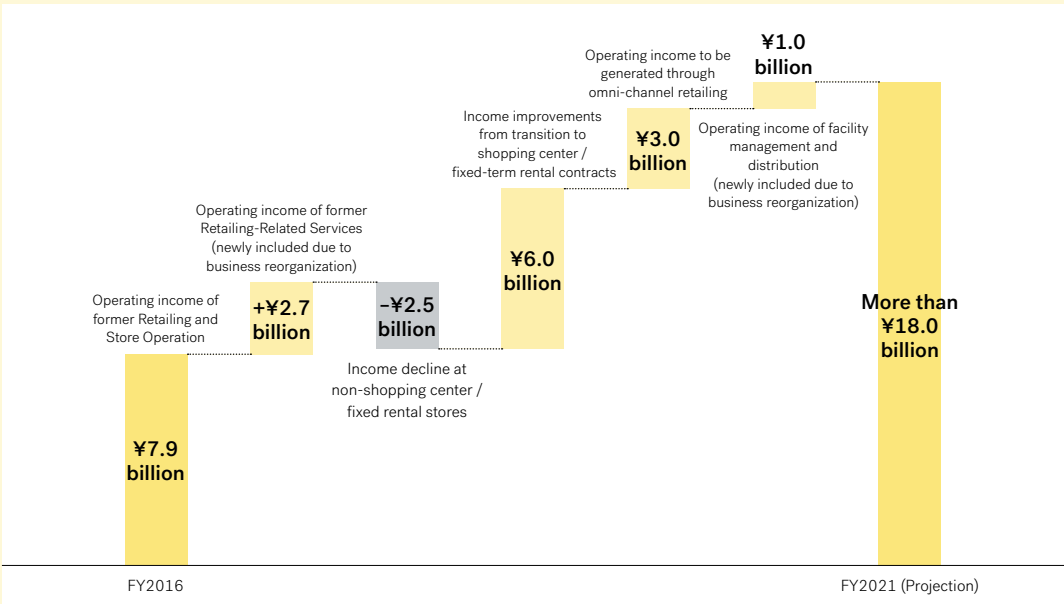
3. Development of Facility Management and Distribution Operations

We aim to expand our business-to-business facility management and distribution operations by combining the operations of the prior Retailing-Related Services segment, which include store renovation, distribution, building management, and IT (system development) operations, with our unique expertise related to real-time management of store and Internet inventories.

*1 Indicator of how much income is generated in comparison to the investment necessary for conducting business activities

*2 Indicator of earnings potential of real estate calculated by dividing net operating income by real estate market value

Factors Affecting Operating Income in Retailing Segment





Toshikazu Takimoto
Managing Executive Officer
Responsible for FinTech Business

FINTECH BUSINESS

**In the transition from Credit Card Services to FinTech,
we are pursuing new possibilities through co-creation with customers.**

The Japanese credit card market is still developing. It is expected that the installation of infrastructure leading up to the Tokyo 2020 Olympic and Paralympic Games will stimulate average annual growth of 8% in this market and that annual transaction amounts will increase from the current ¥50 trillion to more than ¥70 trillion. The growth of EPOS card transactions is particularly strong, exceeding the industry average, and we will target further growth in the future (see Figure 1).

The number of cardholders of EPOS Card was roughly one-fourth that of other retail-type credit card companies, standing at only 6.1 million on March 31, 2016. Similarly, while EPOS card transactions have risen above ¥1 trillion, those of other companies' cards amount to more than ¥4 trillion. Nonetheless, the amount of operating income per active EPOS card is exceptionally high in comparison to rival cards, making for impressive profit margins (see Figure 2).

In consideration of the growth potential of the credit card market and the strengths of EPOS cards, MARUI GROUP embarked on a new endeavor in its credit card operations by undertaking the transition to the FinTech

business in April 2016. We have thus redefined, and effectively expanded, the target scope of our business with the aim of realizing ongoing growth. We will continue to evolve our services to make them easy to use by a wider range of customers, regardless of the differences in their income level or the region in which they live. To customers, the appeal of EPOS cards can be found in the ever-expanding range of unique services and benefits that make customers feel they made the right decision in using their card, provide peace of mind, and offer small joys. Recently, we have been collaborating with anime and video game companies to step up initiatives for expanding the range of cardholders among the younger generation, our primary target demographic. From a business perspective, we will strive to increase operating income and boost capital efficiency. These goals will be accomplished in part by developing a highly unique business through further coordination with other Group companies, such as M & C SYSTEMS, which is lending its strengths in system development. In addition, we will leverage our customer assets and expertise to expand our financial service operations (see Figure 3).

Figure 1: Card Shopping Transaction Trends and Future Credit Card Market

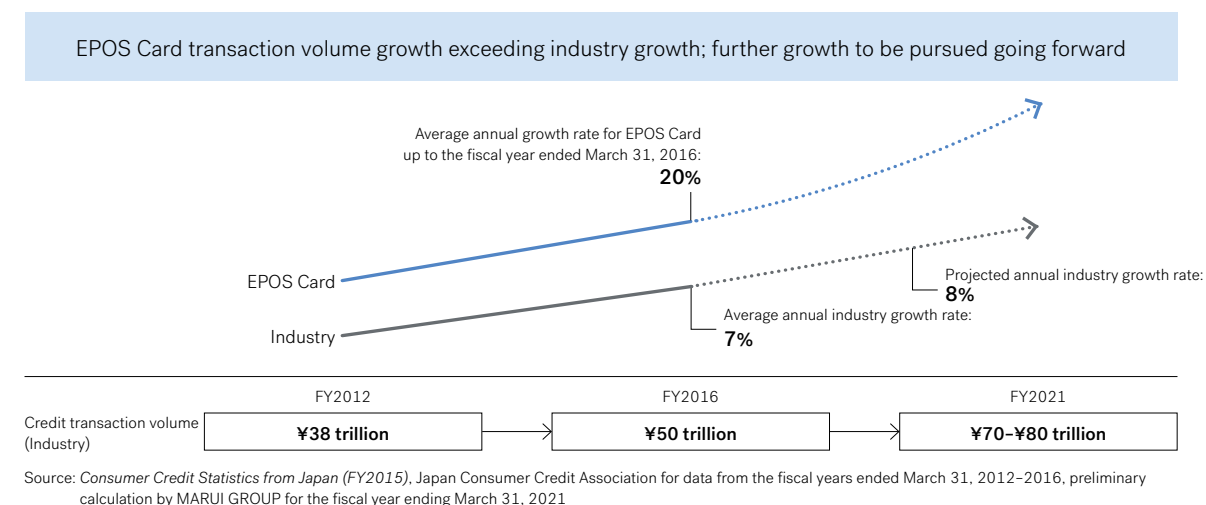


Figure 2: Comparison with Competitors (Figures from FY2016, segment based; Source: MARUI GROUP)

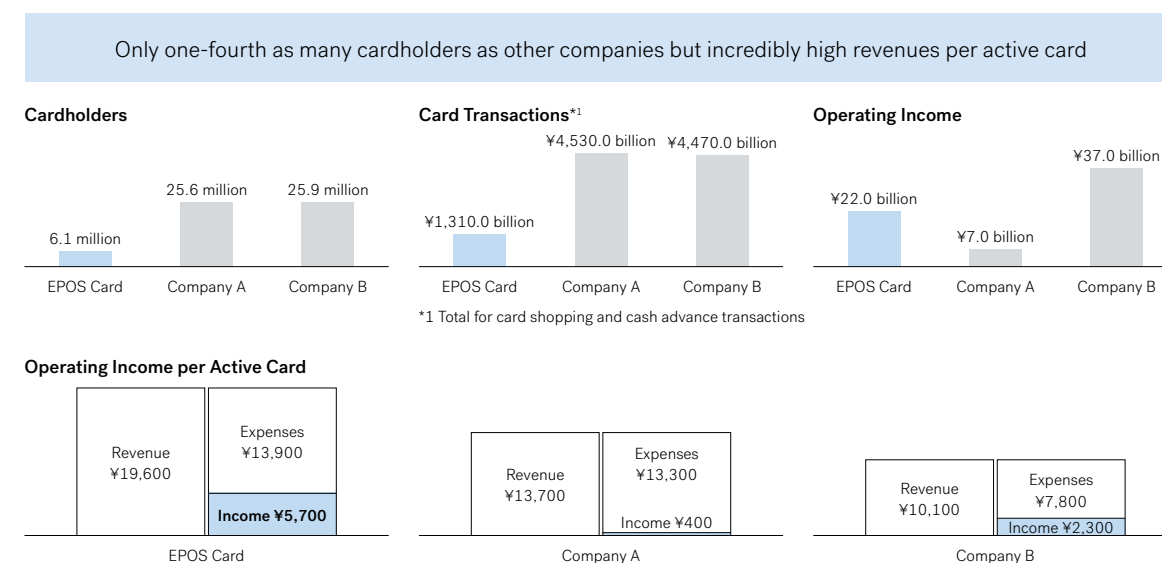


Figure 3: FinTech Growth Strategies



FINTECH BUSINESS



Yoshinori Saito
Senior Executive Officer
President and Representative Director, Epos Card Co., Ltd.

I hope to develop EPOS cards into cards that offer users joy and a sense of wonder.



The expansion of the scope of the FinTech business driven by the EPOS card is supporting growth in cardholder numbers and increases in usage ratios and amounts. Over the past several years, we have been successful in achieving a massive increase in the number of cardholders in Kyushu through efforts positioning this area as a strategic region in preparation for the opening of Hakata Marui. In addition, we have been collaborating with various commercial facilities and companies to grow the number of cards issued outside of the Group, realizing a rise in cardholder numbers outside of business areas of Marui stores. Today, the number of EPOS card fans is on the increase across Japan, and the benefits are appearing steadily.

I hope to develop EPOS cards into cards that offer users joy and a sense of wonder with their ability to be used in a variety of everyday life situations. This quest will be supported by MARUI GROUP's sophisticated systems, which are founded on its unique credit management expertise and IT. By leveraging such strengths well into the future, we will continue to offer joy to customers while growing our business.

KEY POINTS

FinTech Business Growth Strategies

In the FinTech business, we will expand the scope of collaboration with anime and video game companies and increase card usage rates and amounts, thereby targeting total transaction volumes of ¥2,500.0 billion in the fiscal year ending March 31, 2021, 1.7 times higher than the level in the fiscal year ended March 31, 2016. The strengths of the FinTech business, which centers on EPOS cards, are as follows.

1. Ability to Improve Value for Collaboration Partners through Personnel with Retailing Experience

EPOS card application centers are staffed by full-time personnel that possess both retailing and card expertise. Such personnel are able to provide fine-tuned support to partners through means including offering advice on how sales staff can encourage customers to use or apply for credit cards. This support can help create fans of partner facilities, thereby improving the value of collaboration for our partners.

2. IT Frameworks

EPOS cards are IC-chip-embedded VISA cards that can be issued on-the-spot at stores and are immediately usable. We have also introduced other frameworks taking advantage of cutting-edge IT, such as

our system for high-speed issuance of cards via tablets and our patented credit card application app. These frameworks help us limit costs while realizing high card usage ratios.

3. Unique Credit Expertise and Customer Assets

Since its founding, MARUI GROUP has operated under the basic belief that creditability should be built together with customers. As opposed to being assigned based on a customer's age, profession, or income, we feel that credit should be shaped through a customer's usage and payment records. This belief is one of the reasons that our cardholder base is characterized by a large number of young people, who tend to have large demand for credit, and women.

4. In-House Development of Systems

Our ability to exercise the strengths of the FinTech business is supported by MARUI GROUP's unique business model that integrates the operation of this business with that of the Retailing business. In addition, by working together with the Group's system development company, we have created an in-house structure capable of developing more than 100 systems a year. This type of inter-Group coordination drives the swift evolution of our business model.

FinTech: Medium-Term Transaction Volume and Operating Income Targets

