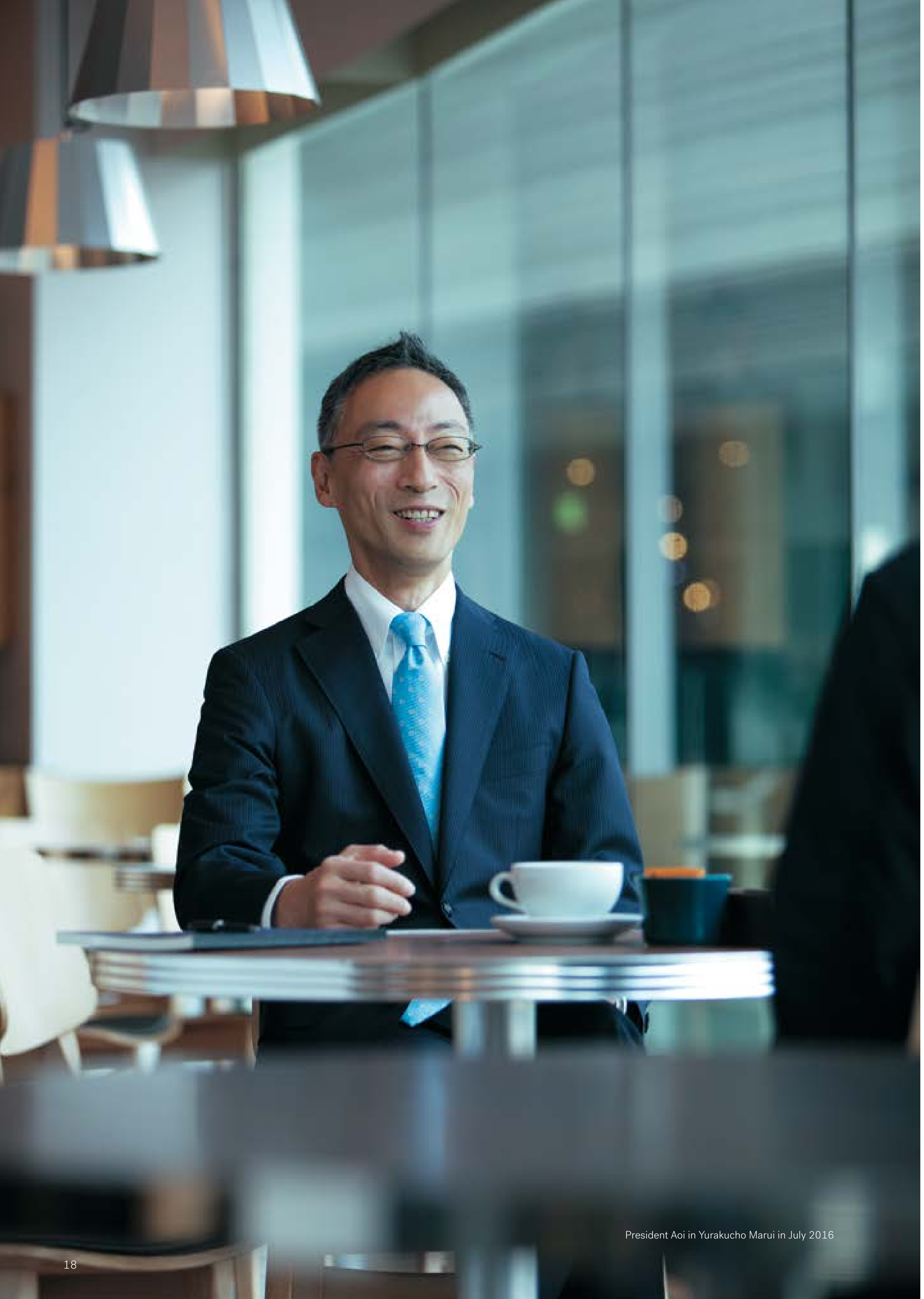


President Aoi in Yurakucho Marui in July 2016

MARUI GROUP's Co-Creation of Corporate Value Has Only Just Begun.

I eagerly look forward to co-creating our corporate value together with shareholders, other investors, customers, business partners, and communities from a future-oriented perspective.

Hiroshi Aoi

Hiroshi Aoi
President and Representative Director
Representative Executive Officer

Let me begin by expressing my sincere appreciation to all of our stakeholders for their ongoing patronage and support of MARUI GROUP. I also thank those of you that have not previously had a chance to connect with the Company for taking the time to open this report.

This report, *Co-Creation Management Report 2016*, is MARUI GROUP's second integrated report. While we anticipate that shareholders and other investors will be its primary readers, we have taken steps to make this report of interest to a wider variety of stakeholders, including customers, business partners, community members, and students. The title "Co-Creation Management Report" might seem a little unfamiliar to you, and you may wonder why we chose this title instead of simply calling this report an "integrated report." The answer to this question is that there is a message we wanted to convey through this title.

The overarching theme of this report pertains to MARUI GROUP's quest to create corporate value, and we aim to create this value together with customers, shareholders, business partners, employees, communities, society, and all of our other stakeholders. The reason for this approach is that we view corporate value as being born out of the harmony between the interests and the happiness of all of our stakeholders.

We therefore hope to create our corporate value together with all of you who, after being introduced to MARUI GROUP's concept of co-creation management, are able to get behind this endeavor to even the smallest degree. This is the message we have encapsulated in the somewhat unusual title of this report.

DNA of Innovation—History of MARUI GROUP

MARUI GROUP was created in 1931 by my grandfather, Chuji Aoi. At that time, our business involved selling furniture through monthly installment payments. Monthly installment payments entail providing both products and credit, or, in other words, represent a business model that merges retailing and finance. This business model has continued to be passed down through our operations, guiding our business and evolving amid changes in the times and MARUI's products and stores.

Monthly installment payments were a sales technique used by the merchants of Ehime Prefecture. Although my grandfather was from Toyama Prefecture, he was able to see the immense potential of this business model. However, he did not blindly embrace this model. Rather, he took a critical stance toward monthly installment payments, driving the evolution of this model, an undertaking that would lead my grandfather to issue Japan's first credit card in 1960. This was MARUI GROUP's first great innovation.

The credit sales model grew together with Japan's economy during the period of the so-called Japanese economic miracle that followed the end of World War II, driving the growth of the Company as a result. However, this situation changed in the 1980s. Up until that point, consumption had widely been aimed at furniture, consumer electronics, and other durable goods. When these items became commonplace, the demand for credit sales began to decline, plunging the entire industry into a state of crisis.

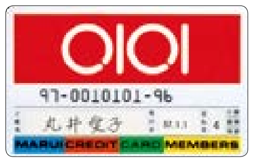
“I took up the mantle of president in 2005, in the middle of this period of stagnancy. As such, I was immediately charged with the mission of breaking away from our past successes to pursue the creation of a new business model through fresh innovation.”

During this period, MARUI GROUP’s rivals were mostly bought out by major department stores and supermarkets, resulting in their retail operations being abandoned to focus solely on finance as credit card companies. The only company to take a different path was MARUI GROUP.

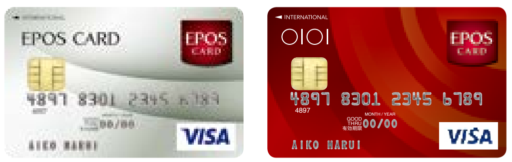
As the center of consumption moved away from durable goods, we turned our attention toward the growing demand for consumer goods, choosing to specialize in sales of fashion. At the same time, we selected youths, who were generally not viewed as consumers in that era, as our target customer group. This decision enabled us to stimulate credit demand and subsequently advance the evolution of credit sales without abandoning our retail operations. In 1981, we called upon our credit expertise to begin offering cash advances. This was the second great innovation of MARUI GROUP, which was then equated with the young, fashion, and our Akai Card (Red Card) in-house credit card. This innovation proved to be a massive success, leading MARUI GROUP to a new peak in performance in 1991.

However, this success did not last long. Together with the collapse of Japan’s asset price bubble, the range of jobs available to young people changed dramatically, and an increasingly large number of individuals were unable to find full-time positions. Furthermore, the youth population actually began to dwindle in 1996, signaling the start of the decline in Japan’s birthrate and the aging of its population. These trends were accompanied by a large shift in the needs of consumers. While consumers had previously sought to accumulate physical goods, they began pursuing more fulfilling lifestyles after the bubble’s collapse. This trend resulted in a sharp decrease in the demand for fashion, which was the focus of MARUI’s operations, and ushered in a long period of poor performance and stagnancy for the Company.

I took up the mantle of president in 2005, in the middle of this period of stagnancy. As such, I was immediately charged with the mission of breaking away from our past successes to pursue the creation of a new business model through fresh innovation. We began by seeking innovation in our credit cards. In 2006, we launched the EPOS card, MARUI GROUP’s new credit card. The prior Akai Card was only issued at Marui stores and could not be used outside these stores. Accordingly, the primary source of revenue from these cards was cash advances. EPOS cards, meanwhile, are issued through a special license with Visa Inc., meaning that these cards



1975: Launched the Akai Card (Red Card) and began using an in-store, on-the-spot approval system



2006: Began issuing EPOS cards on-the-spot in stores (the world’s first IC-chip-equipped Visa card to be issued in this manner)

can also be issued outside Marui stores and are usable anywhere in the world.

However, just as we caught this glimmer of hope, a 2007 revision to the Money Lending Business Act dealt a crushing blow to our cash advance operations, which had been a significant source of revenue up until that point. The impact of this revision was more devastating than we could have possibly imagined, lingering on for seven years during which MARUI GROUP was forced to post two losses, despite having never recorded a loss in the past. Regardless of this dire situation, we managed to overcome the crisis by increasing card shopping transactions through the new EPOS card. This transition from cash advances to card shopping brought about by the EPOS card was an innovation that took us back to the original starting point of our business: the merger of retailing and finance.

Meanwhile, our retailing operations continued to struggle, and we were barely making a profit in 2008. This outcome was due in part to the global financial crisis that struck in September of that year. However, the biggest reason for our difficulties was our inability to respond to the needs of consumers that had shifted from the accumulation of physical goods to the pursuit of more fulfilling lifestyles. With our backs to the wall, we took drastic action. We realized that our inability to respond to this shift in needs stemmed from our being caught up in past successes, which was why we could not find a way to innovate our department store retailing operations. Department stores specialize in selling physical goods. However, contemporary consumers seeking more fulfilling lifestyles desire dining, experiences, services, and other intangible commodities. The department store business model was just not suited to catering to these kinds of needs.

Forced to make a decision, we chose to shift toward a business model of operating shopping centers that was closer to a real estate model. We thus embarked on a five-year endeavor from 2014 through 2018 to convert nearly all of our stores, save a few exceptions that have been excluded based on requests from the owners, to this model. We are making steady progress on this front, with roughly 30% of this conversion completed and the results beginning to appear. This is the retail innovation that we are currently undertaking.

As you can see, the history of MARUI GROUP is truly a history of innovation. Moreover, I am convinced that MARUI corporate DNA is a DNA of innovation. When the decision to transition to the real estate business model was made, one officer described the impending transformation as “a change as massive as transferring to a company in a completely different industry.” However, even while speaking of the difficulty, there was an air of excitement. I believe that our ability to foster innovation is the essence of MARUI GROUP. Our mission is to create such innovation and continue to evolve in our aim to contribute to the happiness of all stakeholders.

Co-Creation Management—MARUI GROUP of Today

MARUI GROUP is striving to foster innovation together with its customers. In the past, we have grown purely by our own strengths or by developing our operations together with business partners or industry specialists. However, utilizing only expertise from within the

“As you can see, the history of MARUI GROUP is truly a history of innovation. Moreover, I am convinced that MARUI corporate DNA is a DNA of innovation.”

Company or the industry, we remained bound by past successes. We were thus forced to admit that we had lost our ability to respond to changing social trends. Performance was deteriorating, no matter how hard we toiled to advance under our previous business model. In fact, maybe it would be more accurate to say that the more we toiled, the more our performance deteriorated. It was clear that creating further innovation would require us to incorporate fresh insight from outside the Company and even outside the industry. But, where were we to find this insight? The answer was right in front of our eyes—our customers.

We were professionals when it came to retailing and credit cards, and we approached our customers as such. It goes without saying that we knew more about these subjects than our customers. However, this caused dialogues with our customers to be one-sided, with us imposing our knowledge upon customers. We seemed to have forgotten the importance of listening to customers, asking them about their needs and trying to understand their perspective. Perhaps we were under the impression that, because we interacted with our customers on a daily basis, we must have understood them and their needs. Our desire to work together with our customers was born out of our reflections on this shortcoming.

On the sales floor, we are separated by our roles of seller and buyer, and it is difficult to break out of these roles. For this reason, we chose to meet on a different stage so that we could better turn our ears toward customers' true voices during discussions. These discussions were an eye-opening experience through which we learned of numerous customer needs that we were completely unaware of. It was then that we began to pursue innovation through a partnership with our customers.

Two items born out of these efforts are our private brand Rakuchin Kirei Pumps and EPOS Gold cards. Rakuchin Kirei Pumps were carefully crafted to address unmet customer needs related not only to design and price but also to comfort and size range, areas that the industry had been neglecting. These shoes have won strong support from customers, with total aggregate sales of more than 3.0 million pairs as of August 31, 2016, making them an unprecedented best seller.

With EPOS Gold cards, we wanted to make sure that members of the younger generation, our primary customer group, would be able to carry these cards. For this reason, we chose to offer Gold cards with no annual fees to enable any regular customer to obtain such a card regardless of their age or yearly income. This decision has won strong support from youths, our main target, among other customers, and Gold cards have thus grown to represent more than 60% of total EPOS card transactions and are now driving growth in our credit card services business.

We are pursuing innovation together with our customers in all areas of our business, including products, lineups, tenant development, credit cards, advertisements, promotions, IT, and operations. We call these efforts "co-creation." The latest success of these co-creation efforts is Hakata Marui.

MARUI GROUP's first store to be opened in Kyushu, Hakata Marui was developed together with an aggregate total of 15,000 customers that participated in the store development process through more than 600 planning meetings as well as through our community website. Based on the concept of "a store in which customers can find what suits them best," we built this store through an ongoing dialectic process with customers. Hakata Marui has proved immensely popular as a result, with visitor and purchase numbers high from the start and new cardholder numbers at the time of the store's opening setting a new record for Marui store openings. In addition to being an amalgamation of initiatives conducted together with customers, Hakata Marui also marked the start of co-creation efforts with our business partners. The range of stakeholders we partner with in co-creation continues to expand steadily in this manner. Looking ahead, we hope to be able to engage in the co-creation of our corporate value together with all of our stakeholders.

Hakata Marui opened in April 2016

Hakata Marui planning meetings held with customers

"We view corporate value as being born out of the harmony between the interests and the happiness of all of our stakeholders."

We view corporate value as being born out of the harmony between the interests and the happiness of all of our stakeholders. It is often said that the interests of different types of stakeholders are at odds with one another. For example, prioritizing customer interests can lead to neglect of shareholder interests while an overemphasis on shareholder interests may force us to sacrifice the interests of employees. It is true that the pursuit of customer happiness will not naturally contribute to the interests of shareholders. It is therefore vital that we develop our business model in such a way that the happiness of customers aligns with the interests of shareholders. We believe that such a model can be created by our transition from a department store model to a real estate model. This transition has enabled us to respond to the shift in customer needs from physical goods to fulfilling lifestyles while simultaneously allowing us to act in the interests of our shareholders. One reason we are able to achieve both of these goals was the change in our key performance indicator, or KPI.

Under the department store model, our KPI was our profit margins in relation to sales amounts. The real estate model, meanwhile, has us now focusing on profit margins versus real estate market values, meaning that net operating income yield, or NOI yield, is our KPI. This change in our KPI cast light on something we had previously not considered. As NOI yield indicates yield versus the market value of real estate, the core element of our business amounts to how effectively we are able to utilize the real estate on which our stores stand to generate income. This principle holds true whether we own the real estate or rent it.

One fact that must be considered about real estate, or, in other words, land, is that even the land we own today was received from someone else in the past. As such, it is possible that this land will be passed on to other hands in the future. Taking an extremely long-term perspective, you might be able to say that "our" land is actually just something we are borrowing from society. If this is the case, we users of land have the responsibility to pay a form of "interest" on this land by raising its value in line with society's expectations before returning it. This responsibility is represented by anticipated yield on NOI.

We also realized that the concept of effectively utilizing "borrowed" assets to increase their value before returning them mirrors our relationship with our stakeholders. The transition to a real estate model was made with the aim of responding to the shift in customer needs to more fulfilling lifestyles. However, this move also linked the improvement of NOI yield on real estate to increases in return on equity, which represents the yield on the capital we "borrow" from our shareholders.

To extend the scope of this idea of "borrowing," we could also say that our employees are borrowed from society. If this is true, then the Company must become a place in which employees are able to work in a manner that is beneficial to society. Taking this perspective, we see that the various stakeholders, whose standpoints and interests appeared to be in opposition, are actually interconnected. This realization then raises the question: If the connections between these stakeholders were made stronger, would that not make greater contributions to the interests of all parties?

At MARUI GROUP, we believe that the fundamental role of companies is to strengthen the connections between their various stakeholders, thereby expanding the intersection between their interests. The ability to accomplish this task, then, is the measure of corporate value. The goal of our co-creation management is thus to advance the dialectic progress with all of our stakeholders to eliminate conflicts between their interests and bring these interests into harmony.

Co-Creation of Corporate Value—Future of MARUI GROUP

MARUI GROUP has kicked off a new medium-term management plan targeting the five-year period spanning the fiscal years ending March 31, 2017 to 2021. The first step of this new plan was to rearrange and redefine our businesses. Through this process, the previous three business segments of Retailing and Store Operation, Credit Card Services, and Retailing-Related Services were organized into two: the Retailing segment, which merges the Retailing and Store Operation and Retailing-Related Services segments, and the FinTech segment, which is the redefined successor to the Credit Card Services segment.

The Retailing segment comprises store, omni-channel retailing, and facility management and distribution operations. As we advance the transition to the real estate model for stores, we will integrate the directly managed specialty stores, private brand, and Internet sales operations that were traditionally part of our omni-channel retailing efforts. We thereby aim to evolve these efforts into a future-oriented retailing style that emphasizes Internet sales. The operations of the former Retailing-Related Services segment will be positioned as the foundations supporting stores and omni-channel retailing, and incorporated into retailing operations based on a broad definition of this concept to further accelerate evolution in this field.

By redefining our Credit Card Services segment as the FinTech segment, we aim to achieve rapid growth in the operations of this segment. Since its founding, MARUI GROUP has continued to grow by innovating credit cards together with retailing. Going forward, we will develop a unique platform that combines the customer contact points created through our cardholder base of more than 6 million people, primarily youths, and our 29 brick-and-mortar stores. By utilizing this platform together with startups and various other companies, we will advance open innovation to create new value by fostering financial service innovations in an even wider range of fields.

➡ 📖 P72 Redefinition and Reorganization of Businesses in the New Medium-Term Management Plan

At the same time, we aim to co-create corporate value together with shareholders and other investors. Under the new medium-term management plan, we will seek to realize an optimal capital structure. Setting this goal constitutes our response to the requests from our investors to define the type of balance sheet we target. Over the past several years, MARUI GROUP has undergone a transformation from a company with growth driven by retailing to a company that grows through credit card operations. As a result, the asset portion of our balance sheet has changed greatly from the time of our founding, with operating receivables from credit card operations now exceeding fixed assets from retailing operations. The liabilities portion, meanwhile, looks very similar to when retailing drove our growth, creating a sort of imbalance to our balance sheet. The optimal capital structure we will pursue is aimed at optimizing our balance sheet in reflection of our change in business strategies. By advancing capital measures that ideally are in consideration of our business strategies, we are confident that we will be able to improve corporate value. However, capital measures are not the only area in which we must respond to requests from shareholders and other investors. ➡ 📖 P83 Target Balance Sheet

We have received requests to explain our retailing growth strategies for when the transition to the real estate model has been completed and inquiries about our ability to further grow Internet sales operations. We therefore have a lot of issues to incorporate into our business strategies. It is, of course, our job to resolve these issues. However, I am convinced that discussing such management issues with shareholders and other investors will help us tackle these issues with a greater degree of success. This is because such exchanges with shareholders and other investors are the same as our interactions with customers. It goes without saying that we know more about the Company and our industry than most stakeholders. Nevertheless, it is also easy for us to get caught up in past successes and industry norms, and it is difficult to broaden our perspective and view MARUI GROUP from the outside. Conversely, given the fact that there are parallels between investment and management, our shareholders and other investors have been engaged with various companies in various industries around the world. They therefore possess a type of transcendental management insight that is valuable regardless of the industry or company. Through our interactions, we are able to bounce our carefully considered ideas off of this transcendental management insight of shareholders and investors to formulate even better ideas. We anticipate that this process will contribute to improved corporate value.

MARUI GROUP's co-creation of corporate value has only just begun. I eagerly look forward to co-creating our corporate value together with shareholders, other investors, customers, business partners, and communities from a future-oriented perspective.

August 2016

"The goal of our co-creation management is thus to advance the dialectic progress with all of our stakeholders to eliminate conflicts between their interests and bring these interests into harmony."

"I am convinced that discussing such management issues with shareholders and other investors will help us tackle these issues with a greater degree of success. This is because such exchanges with shareholders and other investors are the same as our interactions with customers."