

Is MARUI GROUP a Retailer or a Financial Company?



CO-CREATION

Co-Creation Management Report 2017

The Answer is: Both.

MARUI GROUP CO.,LTD.

Section 01

MARUI GROUP's Vision for Co-Creation Management

02

Goal of Co-Creation Management—
Expansion of Intersection between the Happiness of Stakeholders

04

Message from the President

12

Dialogue 01: A Company that Profits and Grows Structurally

Section 02

Co-Creation Management Business Model

20

Business Structure

20

① History: Innovation of Business Structure in Line with the Times

22

② MARUI GROUP of Today:
Reverse in Relationship between Retailing and Finance

26

③ Definitions of Retailing and Finance: MARUI GROUP's Retail-Nature Business That is Attentive to the Needs of Individual Customers

28

④ Vision: Co-Creation Management Business Model

30

Retailing Business

30

① Structure: Retail Stores Serving as Points of Contact with 200 Million Customers a Year

32

① Structure: Co-Creation Store Development and Unique Omni-Channel Retailing Strategy

34

② Perspective of Inclusion: Quest to Bring Joy to People of All Ages, Genders, and Physical Characteristics

36

② Perspective of Inclusion: Co-Creation of Inclusive Products with Customers

38

FinTech Business

38

① Structure: FinTech Business with Annual Growth Rates of 17%

40

① Structure: Financial Services in Our Daily Lives

42

② Perspective of Inclusion: Financial Inclusion of All Customers

44

② Perspective of Inclusion: Big Data and Co-Creation Credit Expertise Supporting MARUI GROUP

48

Dialogue 02: Financial Inclusion—The Essence of FinTech

54

Integrated Group Management

54

① Standardized Group Platforms and Profession Changes

56

② Organization that Utilizes Diversity

62

③ Healthcare Management Underpinning Personal Growth

64

Dialogue 03: Healthcare Management Based on Data Analysis

Section 03

Co-Creation Management

72

Medium-Term Management Plan

78

Message from the CFO

79

Target Balance Sheet

82

Team Supporting Co-Creation Management

84

Messages from External Directors

87

Corporate Governance

94

Directors, Audit & Supervisory Board Members, and Executive Officers

99

Overview of MARUI GROUP

100

Financial and Non-Financial Summary

102

Consolidated Balance Sheets

103

Consolidated Statements of Income /
Consolidated Statements of Comprehensive Income

104

Consolidated Statements of Changes in Net Assets

105

Consolidated Statements of Cash Flows

106

Notes to Consolidated Financial Statements

129

Independent Auditor's Report

130

MARUI GROUP's Business

132

MARUI GROUP Store Network

134

Ratings, Awards, and Recognition

136

From the Chief Editor

About Co-Creation Management Reports






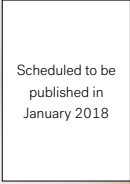
MARUI GROUP would like to thank all of its stakeholders for their ongoing support and understanding. We would also like to thank first-time readers of MARUI GROUP's co-creation management reports for taking interest in the Company.

Since its founding in 1931, MARUI GROUP has continued to evolve its unique business model, which merges retailing and finance, in response to changes in the times and in consumer needs. Today, we are engaged in co-creation management, a practice that entails creating value together with all of our stakeholders. Our goal is to co-create happiness, which is born out of the harmony between the interests of all stakeholders.

As part of these activities for co-creating value, MARUI GROUP has been publishing co-creation management reports, its unique brand of integrated report, since 2015. In this, our third co-creation management report, we aim to offer a detailed picture of MARUI GROUP's unique business model and the potential for its future.

We have always viewed reports as having a three-year cycle. This report, *Co-Creation Management Report 2017*, will briefly touch on the concept of financial inclusion, and we intend to focus primarily on this concept in *Co-Creation Sustainability Report 2017*, which is scheduled to be released early next year.


Beginning with 2018, we plan to report on the co-creation management practices that represent the next stage for MARUI GROUP, which will come into full swing this year.

Co-Creation Management Reports		Co-Creation Sustainability Reports	
Step 1: Fiscal Year Ended March 31, 2015 Co-Creation Management Declaration	 Co-creation of customer happiness with partners Co-Creation Management	 MARUI GROUP's vision for 2020 For All Customers	
Step 2: Fiscal Year Ended March 31, 2016 Co-Creation Management from a Corporate Value Perspective	 MARUI GROUP's concept of corporate value Harmony between the Interests and Happiness of All Stakeholders	 Theme for us as we advance toward the future An Inclusive Society Offering Happiness to All	
Step 3: Fiscal Year Ended March 31, 2017 Co-Creation Management Business Model	 Realization of an inclusive society Unique Business Model Merging Retailing and Finance	 Scheduled to be published in January 2018 MARUI GROUP's Vision for Financial Inclusion	


Editorial Policy: Co-Creation Management Report was created with the aim of helping our shareholders, other investors, and various other stakeholders develop a better understanding of MARUI GROUP. This report contains performance, business, and financial information centered on the Group's corporate philosophy and business strategies. As an integrated report, it also comprehensively includes non-financial information on the activities that support the Group's sustainable growth. The International Integrated Reporting Framework released by the International Integrated Reporting Council in December 2013 was referenced in the development of this report.

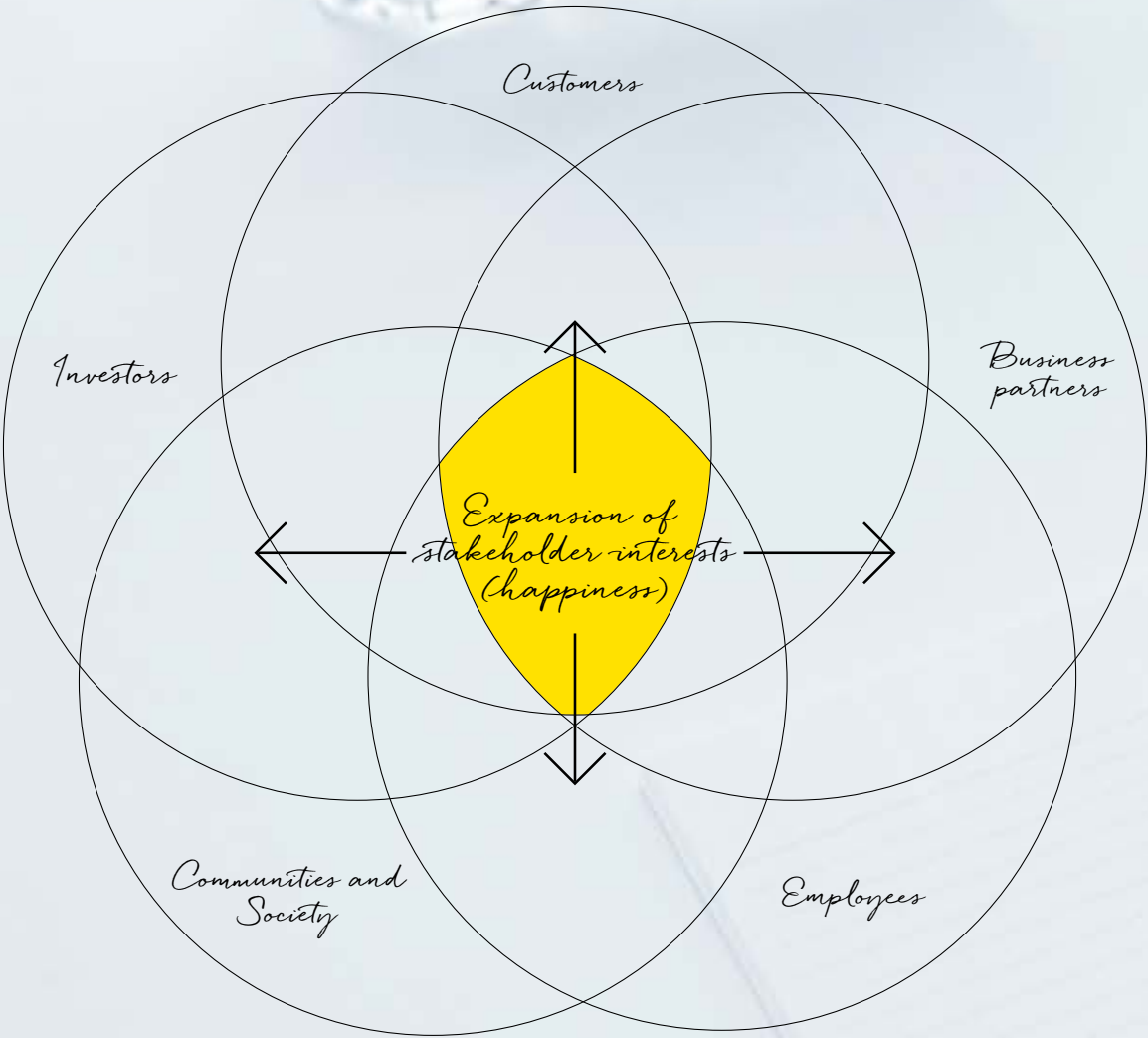
Cautionary Notice regarding Forward-Looking Statements: Performance forecasts and other forward-looking statements contained in this report represent the Group's best judgments based on information available at the time of this report's publication and therefore contain a degree of uncertainty. It is possible that actual performance could differ materially from these forecasts due to a variety of factors. Economic conditions, foreign exchange rates, and stock price movements are among the factors that could have a major impact on performance.

Co-Creation Management Report
www.0101maruigroup.co.jp/en/lib/i-report.html



Co-Creation Sustainability Report
www.0101maruigroup.co.jp/en/sustainability/lib/s-report.html





Corporate value	=	Intersection of all stakeholder interests
Expansion of this intersection	=	Improvement of corporate value

Goal of Co-Creation Management—Expansion of Intersection between the Happiness of Stakeholders

MARUI GROUP's View of Corporate Value

MARUI GROUP practices co-creation, which is aimed at co-creating the happiness of all people together with stakeholders. The Company is supported by a wide range of stakeholders, including customers, shareholders, other investors, business partners, members of local communities and the greater society, and employees. Although the interests of these various stakeholders are often seen to be in opposition, the reality is that there is a significant intersection at which the interests and values of different stakeholders overlap. At MARUI GROUP, we see true corporate value as being able to expand this intersection between the happiness of all stakeholders.

For this reason, it is crucial that we constantly evolve our business frameworks and practices based on ongoing stakeholder engagement. Through such engagement and the new ideas born therein, we will create new value. This is MARUI GROUP's vision for innovation and the ideal form of co-creation management that we pursue.

Hiroshi Aoi

President and Representative Director
Representative Executive Officer



President Aoi on the roof of MARUI GROUP's Nakano head office

Message from the President

A Step toward a Future of Creating Corporate Value

Emerging Issue

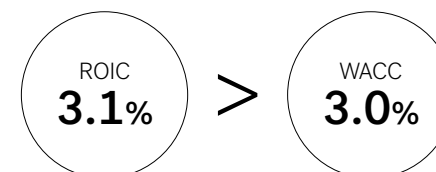
First, let me begin by discussing our performance in the fiscal year ended March 31, 2017, the first year of our current five-year medium-term management plan. During this year, we made smooth progress in advancing this plan, achieving earnings per share (EPS) of ¥80.2, an increase of 14% year on year, and return on equity (ROE) of 6.7%, up 0.7 percentage point. Both indicators met their targets. Operating income grew 6%, rising for the 8th consecutive year, to ¥31.3 billion, and a new record was set for cash dividends per share of ¥33, ¥11 higher than in the previous fiscal year. In addition, return on invested capital (ROIC) exceeded weighted average cost of capital (WACC) as a result of our financial strategies for achieving an optimal capital structure. Accordingly, we are at last poised to begin creating corporate value. Perhaps a more noteworthy accomplishment was MARUI GROUP's inclusion in all three of the

environmental, social, and governance (ESG) investment indexes adopted by the Government Pension Investment Fund of Japan in July 2017 (→P.134).

In this manner, MARUI GROUP took a step toward a future of creating corporate value during the fiscal year ended March 31, 2017. However, an issue also emerged. Our total shareholder return (TSR) for this year was a negative 4.5%, well below the Tokyo Stock Price Index average of 17%. Some may be curious why, despite a massive increase in per share dividends from ¥22 to ¥33 on the back of a large 14% rise in EPS, the Company's TSR fell below the market average.

The reason was most likely that investors and other stakeholders were unable to fully understand MARUI GROUP's corporate value, and therefore could not evaluate the Company properly. Based on our interactions with stakeholders to date, we have identified two causes for the difficulty in properly understanding and evaluating our corporate value.

Transition to a Structure in which ROIC Exceeds WACC
(Fiscal year ended March 31, 2017)



Inclusion in ESG Investment and
Socially Responsible Investment Indexes



Note: THE INCLUSION OF MARUI GROUP CO., LTD. IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF MARUI GROUP CO., LTD. BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

The first cause is trouble understanding the unique business model of MARUI GROUP. The second cause is our failure to clearly describe our future initiatives or, in other words, our measures for addressing risks. In *Co-Creation Management Report 2017*, we will endeavor to more thoroughly explain MARUI GROUP's business model and the opportunities and threats we face.

1. MARUI GROUP's Business Model

Identity of *Euglena*

A major characteristic of MARUI GROUP is the unique business model merging retailing and finance that it has employed since its founding. For those of us on the inside of the Company, shaping our actions based on this model is a natural part of everyday business. However, when viewed from outside of the Company, this model has been difficult to understand, with the meaning of "merging retailing and finance" being particularly unclear. In fact, the most common question received from investors was whether MARUI GROUP was a retailer or a financial company. We would always respond to this question by saying "both," but, unfortunately, there were few who were able to fully grasp what we meant.

While this may be a bit of an unorthodox comparison, the situation was similar to someone asking a species of *Euglena* whether it is a plant or an animal. Faced with this

question, the organism would have to answer "both." Although the inquirer would understand better if the *Euglena* were to say "animal" or "plant," either answer would entail denying its own identity. The *Euglena* cannot do that, and neither can we. Just as *Euglena* species have distinctive value due to their combining the characteristics of both animals and plants, so too does MARUI GROUP derive its unique corporate value from blending retailing with finance.

Reversal of Relationship between Retailing and Credit Cards

Let me go into a little more detail. MARUI GROUP was a retailer with approximately 6.4 million cardholders, and we grew by having loyal cardholders shop at Marui stores. Taking a different perspective, however, it could also be said that MARUI GROUP was a financial company with stores where roughly 200 million customers shopped each year. Either way, we have grown primarily through retailing operations by providing credit cards as a tool to offer customers greater convenience when shopping at Marui stores.

Today, we are witnessing a shift in consumption from goods to experiences, which has also made it necessary for us to change the relationship between retailing and credit cards. In light of this trend, we transformed our business model by transitioning away from our previous credit card, which was only usable at Marui stores, to a

new multipurpose card that can be used anywhere in the world. This new card was the EPOS card launched in 2006. Since issuing EPOS cards, our number of cardholders has increased by 1.6 times, from about 4.0 million to around 6.4 million, and card shopping transactions have risen by approximately 8 times, from ¥180.0 billion to ¥1,390.0 billion. Furthermore, although 100% of card transactions used to take place within Marui stores, this figure has since dropped below 10%. Previously, credit cards supported the growth of our retailing operations. However, as I have explained, this relationship has been reversed, and now our stores are supporting the growth of our credit card operations.

This change in business structure is most clearly apparent on our balance sheet. In the past, the land, structures, and other fixed assets that had supported MARUI GROUP's growth since its inception represented a majority of assets. Everything changed in the fiscal year ended March 31, 2014, when the balance of credit card operating receivables came to account for more than half of our assets. Since then, this balance has continued to rewrite record highs.

Retailing and Finance— Two Sides of the Same Coin

What I want to make perfectly clear is that this change in business structure—this innovation—did not transform MARUI GROUP from a retailer to a financial company, but rather that it led to our using the stores of our retailing operations to drive the growth of our credit card operations. I mentioned that only less than 10% of total credit card transactions are conducted at Marui stores. However, approximately 80% of cardholders applied at Marui stores, clearly illustrating how both businesses are in a mutually complementary relationship and are intrinsically linked.

For example, you could say that retailing and finance are two sides of the same coin for MARUI GROUP. If you stand a coin on its edge and give it a spin, the spinning coin will appear to take the shape of a sphere. Our business model is like this spinning coin, with no heads or tails, just one sphere of retailing and finance.

By taking a snapshot in time of this sphere, we can report on our financial condition by showing the two circles, one for retailing and one for finance, that would be

visible in this picture. A great deal of information can be gleaned from this picture. One could take the perspective of looking at which circle is larger and which is smaller or which is heads and which is tails. However, we see such information as only supplementary and not as truly important to MARUI GROUP.

To MARUI GROUP, it is important for the "coin" to spin more smoothly, gain speed, and ultimately draw a more powerful and beautiful sphere.

For this reason, we do not segregate retailing and finance. Rather, we share human resources, stores, and data throughout our integrated business as we seek to improve corporate value by evolving our unique business model merging retailing and finance.

2. Opportunities and Threats Faced by MARUI GROUP

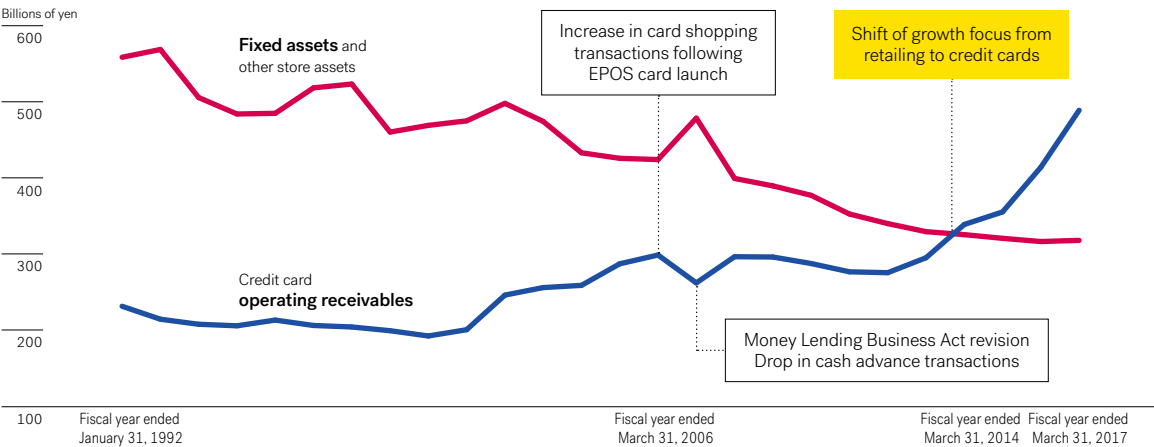
Eight Operating Environment Changes over the Next Decade

The ability for MARUI GROUP's business model to continue creating corporate value into the future will hinge on our ability to furnish long-term responses to the changes in the operating environment that will be seen going forward.

I would therefore like to discuss the long-term operating environment changes we expect to see over the next decade. Specifically, we have identified eight major changes projected to occur. In this report, we will look at how these changes will unfold going forward, examine the opportunities and threats they will present for our business, and explain how MARUI GROUP intends to respond.

- (1) Transition to e-commerce
- (2) Shift from goods to experiences
- (3) Emergence of a sharing economy
- (4) Declining birthrate and aging population
- (5) Increase in demand from inbound travelers
- (6) Rise of cashless payment methods
- (7) Change of focus from saving to investment
- (8) End of era of low interest rates

Balance Sheet Assets



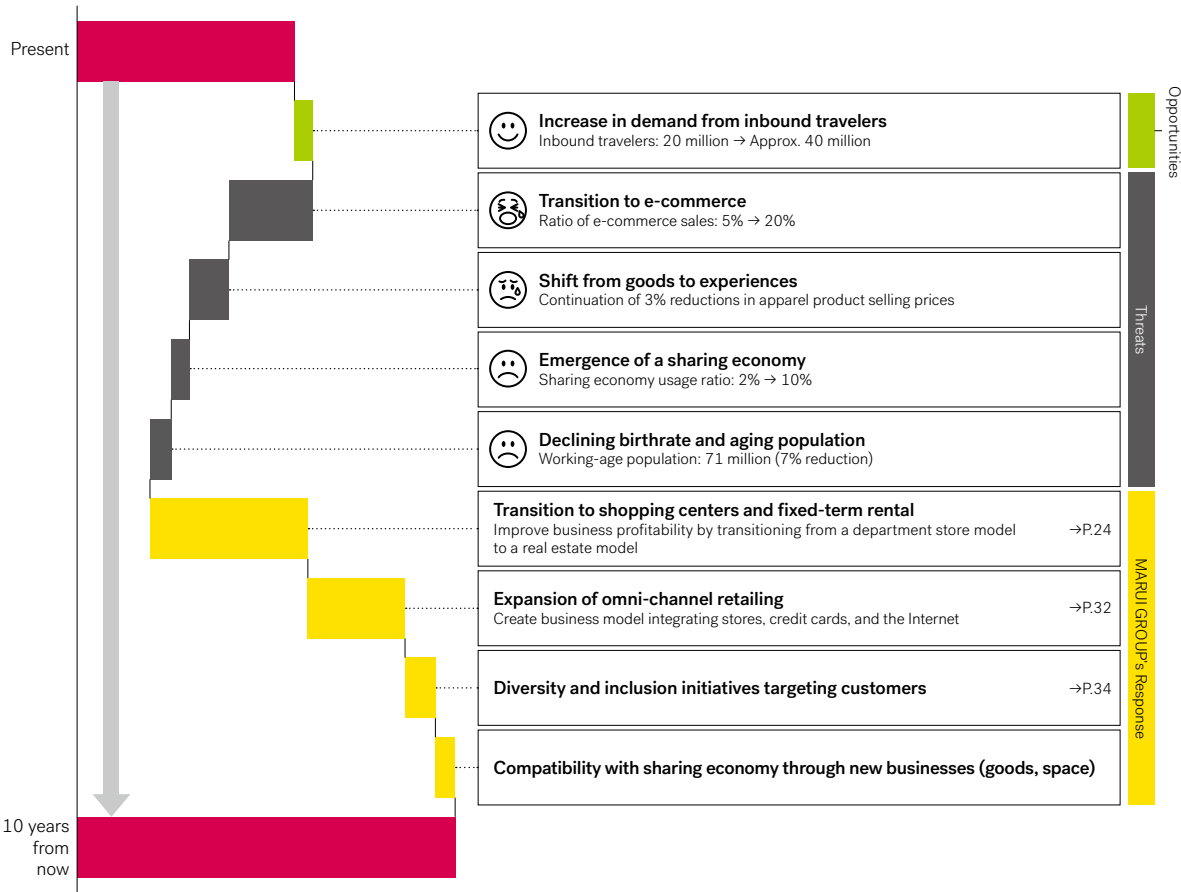
Opportunities and Threats for the Retailing Business

For the Retailing business, we see opportunities in the projected increase in demand from inbound travelers. However, we will also have to face numerous threats, the greatest of which may be the transition to e-commerce. As e-commerce becomes more prominent going forward, it can be expected that conventional retailing businesses selling goods at stores will begin to decline, a trend that is already apparent in the United States and China. This trend will be compounded by the shift from the consumption of goods to the consumption of experiences, which will decrease demand for goods. This decrease is currently visible with regard to apparel products, which have been undergoing a noted decline in demand in recent years.

At the same time, we project the emergence of a sharing economy. “Sharing” also means a reduction in the consumption of goods, making it a threat to retail businesses. Meanwhile, the declining birthrate and aging population will result in a decrease in the number of consumers.

We have formulated two main measures for responding to these changes. One measure is the transition to shopping centers and fixed-term rental contracts that we have been advancing under the medium-term management plan or, in other words, the transformation of our business model from focusing on a department store model to utilizing a real estate model. The other measure is the expansion of omni-channel retailing. The transition to shopping centers and fixed-term rental contracts entails deemphasizing apparel tenants, whose services will no

Opportunities and Threats to Be Faced by the Retailing Business over the Next Decade



doubt be replaced by e-commerce sales, to place more emphasis on tenants that provide dining, services, experiences, and other offerings that cannot be supplied via e-commerce. The expansion of omni-channel retailing will be conducted to deliver new value to consumers by evolving our retailing business in a manner that is complementary to e-commerce.

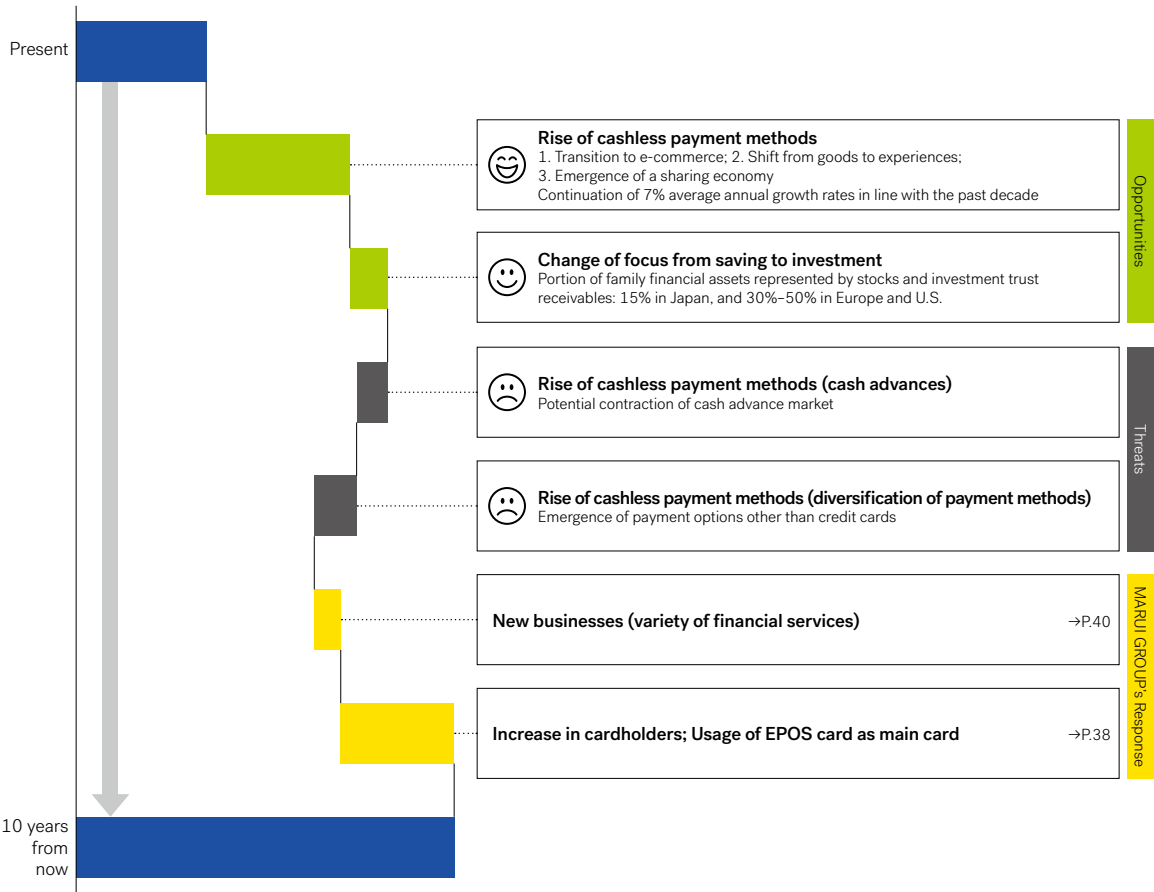
Meanwhile, we look to address the declining birthrate and aging population by expanding our customer base and increasing customer numbers through diversity and inclusion initiatives targeting customers. These initiatives will include providing products, commercial facilities, and services that can be enjoyed by all customers, regardless of their age; physical characteristics, or if they have a disability; or gender, which will entail catering to members

of the LGBT community. As for the emergence of a sharing economy, we will respond by creating new businesses to expand the scope of our operations.

Opportunities and Threats for the FinTech Business

The greatest opportunities for the FinTech business will come from the rise of cashless payment methods. The transition to e-commerce, the shift from consumption of goods to consumption of experiences, and the emergence of a sharing economy will all contribute to the rise of cashless payment methods. Credit cards are a major component of the FinTech business. In the credit card market, the rise of cashless payments has contributed to the continuation of 7% average annual growth rates over the past decade.

Opportunities and Threats to Be Faced by the FinTech Business over the Next Decade



Note: Information on measures related to (8) End of era of low interest rates can be found on page 80.

We expect this 7% trend to be sustained going forward as infrastructure is installed in preparation for the Tokyo 2020 Olympic and Paralympic Games. On the other hand, the rise of cashless payments presents the threat of contraction in the cash advance market. In addition, technological progress could stimulate the diversification of payment methods and consequently detract from the credit card market.

Our responses to these trends include the shift in our business model from an in-house credit card to a multi-purpose credit card—the EPOS card—which took place in 2006, as well as the redefinition of our credit card services business as the FinTech business, which was described in our medium-term management plan. As the diversification of payment methods detracts from the credit card market, MARUI GROUP will evolve its operations into a FinTech business in order to transform this threat into an opportunity while at the same time expanding the scope of its business. This move will also enable us to take advantage

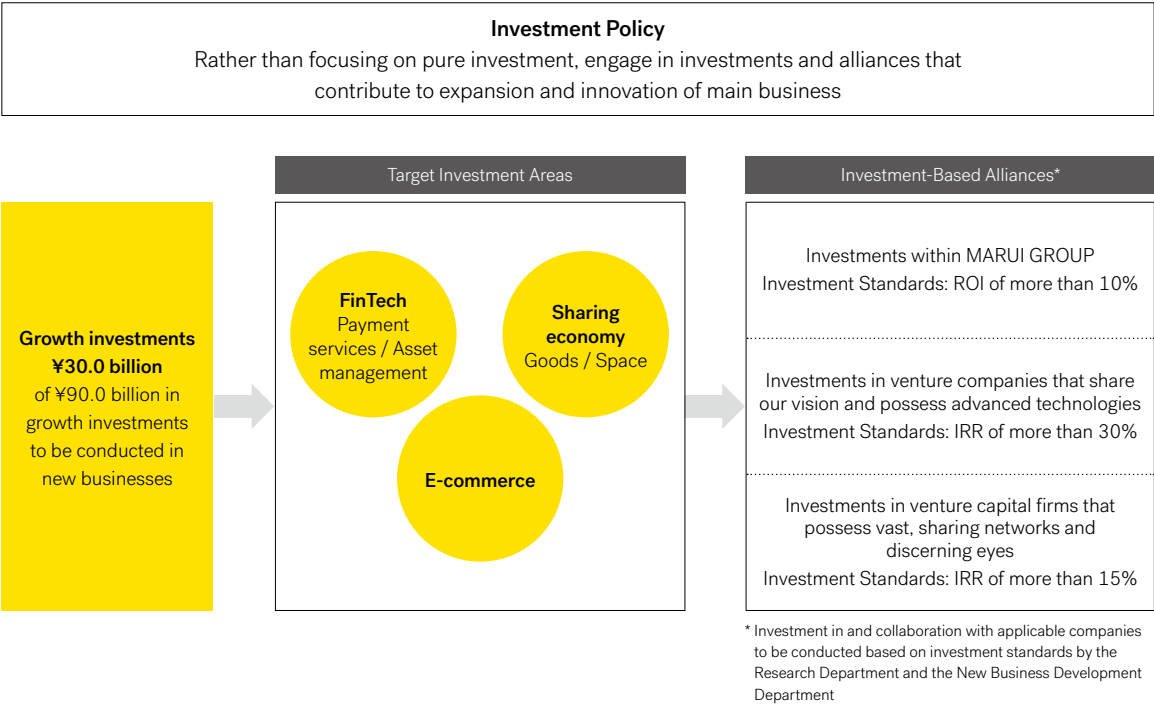
of the opportunities presented by the change in people's focus from saving to investment.

Immunity to Downside Risks and Growth Investments

To summarize, we will first transition to a real estate model for stores in the Retailing business in order to part ways with the declining department store model. This transition will change the source of our earnings from product sales to rent revenues, effectively guaranteeing stable earnings that are almost completely unaffected by weather, trends, inbound demand, or other external factors. Moreover, by utilizing fixed-term rental contracts, we will be able to increase the value of our shopping centers by periodically replacing tenants, thereby realizing steady growth.

Compared to the prior department store model, this real estate model will lack in its ability to capitalize on upside risks. However, it will be almost immune to downside risks, which is our main aim. During past periods of

Growth Investments under Medium-Term Management Plan (5 Years)



strong economic growth, department store models operating with consignment agreements were able to exploit upside risks over long periods of time. Today, the situation is quite the opposite. Not only are we in a period of low economic growth, but stores that sell products are also exposed to significant long-term risks arising from changes in consumer needs and the spread of e-commerce.

Next, we will pursue the creation of new value by transitioning to a business model that can grow by taking advantage of the e-commerce trend. Specifically, we will promote omni-channel retailing to build a complementary relationship between our retailing operations and our e-commerce operations and provide value that cannot be replaced solely by e-commerce. This approach will be adopted in all conventional, product-selling retailing operations, including Marui stores and private brands and even tenants. In addition, we will capitalize on the greater degree of freedom in stores granted by the real estate model to develop new, sharing businesses. These businesses will not be limited to sharing goods, but will also include sharing spaces to foster communities among customers and thereby respond to changes in lifestyles and needs.

Under the current medium-term management plan, we intend to invest ¥30.0 billion in new businesses leading up to the fiscal year ending March 31, 2021. We have already begun investments and collaboration aimed at advancing omni-channel retailing, sharing economy, and FinTech initiatives through open innovation.

Forward-Looking Business Models

MARUI GROUP aims to develop an unprecedented, forward-looking retailing business model that is unlike department stores, shopping malls, train station buildings, fashion retail complexes, specialty shops, or anything else seen before. By evolving our retail stores from a forward-looking perspective, we anticipate that synergies can be created with our FinTech business. There is only one financial company in the world with stores where roughly 200 million customers shop each year, and that is MARUI GROUP. We plan to promote financial inclusion through the use of these stores, our approximately 6.4 million cardholders, and big data that links our retailing operations with our credit card operations. Simultaneously growing our credit card operations will create the

forward-looking business model we envision for our FinTech business.

Our quest to create value for the future has only just begun. In this report, we have taken every possible angle toward explaining the business model we are targeting, but I am aware that these explanations may still be insufficient. For this reason, we hope that investors will provide us with their frank opinions as professionals.

We also desire to co-create corporate value through engagement with our customers, business partners, members of local communities and the greater society, employees, and all of our other stakeholders. I look forward to your ongoing support and understanding.

August 2017

Hiroshi Aoi

Hiroshi Aoi

President and Representative Director
Representative Executive Officer

Messages from President Aoi can be accessed through the following links.

Fiscal Year Ended March 31, 2015:
Co-Creation Management Declaration
www.0101maruigroup.co.jp/en/ir/message/ceo_2015.html
Fiscal Year Ended March 31, 2016:
Co-Creation Management from a Corporate Value Perspective
www.0101maruigroup.co.jp/en/ir/message/ceo_2016.html



Kazushige Okuno

Managing Director (CIO)
Norinchukin Value Investments Co., Ltd. (left)



Hiroshi Aoi

President and Representative Director
Representative Executive Officer
MARUI GROUP CO., LTD. (right)

The desire to see a company's corporate value improve is shared by entrepreneurs and investors.

Although both parties are partners in creating value, the roles they play in this process are fundamentally different.

However, it is out of the interplay between this shared perspective and these differences that entrepreneurs and investors are able to engage in a frank dialectic to further their mutual growth and contribute to the long-term interests of society.

A Company that
Profits and

Grows Structurally

Dialectic with Companies from the Perspective of a Long-Term Investor

Aoi: Mr. Okuno, your idea regarding long-term capital allocation—that entrepreneurs and long-term investors should be on the same side, but not on the same team—is very intriguing. An effective dialectic can be generated due to both parties being on different teams on the same side, that is to say, working for the same goal, and this dialectic can enhance corporate value. In other words, the returns of long-term investment contribute to the interests of both parties.

Okuno: There are, of course, long-term investors that seek to improve the corporate value of investment targets by joining the same team as these companies. It is not so much that either approach is better, but is rather that both approaches entail judging entrepreneurs by different perspectives.

Aoi: Long-term investors that join the same team and those that stay on different teams may have differing investment styles, but I believe that they both share the perspective of creating something together with the companies in which they invest. MARUI GROUP’s corporate philosophy is founded on the concept of creating together, or co-creation. Accordingly, I see corporate value as being best created through close-knit relationships with investors, or by encouraging co-creation with both parties on the same team. Your investment style, Mr. Okuno, represents a 180-degree turn from this idea.

Okuno: I have been conducting long-term investment in companies, both domestic and overseas, for a decade. Over this time, I have learned that quality companies share something fundamental. Some may call this something the essence of their business or their nature, but I refer to it as their “structure.” As investors, we survey various industries and select the most “structurally robust companies” from these industries to invest in. The leaders of companies will change over time. It is as Warren Buffett is always saying; rather than focusing on leaders, it is better to invest in companies that would still be successful even if they did not have a leader.

Entrepreneurs and long-term investors both decide to which businesses they will allocate their capital by judging the economic feasibility of each business, looking at the value they provide, their competitiveness, and the long-term trends then can expect to see. As seen in the acquisition of Sankyo Seiki Mfg. Co., Ltd., by NIDEC CORPORATION, it is possible to alter the structure of entire industries by allocating resources to peripheral businesses, all the while maintaining the strengths that keep a business running. Investors do not actively influence the structures of industries. However, if we can see the logic behind a company’s earning mechanisms, we will allocate resources to that company. As a result, we come to invest in various companies regardless of their industry or country. The desire to see a company’s corporate value improve is shared by entrepreneurs and investors. With this passion as a foundation, it is the interplay between this shared perspective and the differences of both parties that enable them to engage in a frank dialectic.

Business Built on a Combination of Finance and Retailing Expertise

Aoi: When I was in North America as part of our investor relations activities, an institutional investor described MARUI GROUP as having a “bad industry, but good management.” Although this individual was in favor of the new business model we are creating, he stated that we may be in a bad industry in reference to our involvement in the retailing, department store, and credit card industries as well as to our relatively low stock price. This investor was unable to understand our unique position even when I explained that MARUI GROUP’s credit card transactions have been growing by 17% on average over the past 10 years and how our ratio of delinquent debt is the lowest in the industry at 1.45%.

Okuno: I personally feel that neither the retail industry nor the financial industry is inherently a “bad industry.” In these industries, corporate managers are united in their sentiment that connections with customers are of utmost importance to providing value.



Kazushige Okuno
Managing Director (CIO)
Norinchukin Value Investments Co., Ltd.

After graduating from the Faculty of Law at Kyoto University, Mr. Kazushige Okuno joined The Long-Term Credit Bank of Japan in 1992. He later took positions at LTCB Securities and then UBS Securities. In 2003, he joined The Norinchukin Bank and also received a Master’s in Finance from the London Business School. Mr. Okuno started a project to manage a proprietary internal fund of long-term concentrated portfolios in 2007. This project was transferred to The Norinchukin Trust and Banking Co., Ltd., in 2009, where Mr. Okuno provided fund advisory services for other institutional investors, including pension funds. In 2014, he was reassigned to Norinchukin Value Investments Co., Ltd., a specialized company concentrating on the investment advisory business, where he remains today.



I have learned that quality companies share something fundamental. I refer to it as their “structure.”

——— Kazushige Okuno

I have previously viewed MARUI GROUP as a retailer, but I now think that the Company may actually be a financial company with retail operations. MARUI GROUP’s store network enables it to gather information on customer needs. Here, I see the business model of a financial company that understands retailing, or perhaps a retailer that understands finance. This model is complemented by MARUI GROUP’s profession change system, which allows employees from retailing or finance backgrounds to be relocated to other Group companies. MARUI GROUP is unprecedented in having finance field connections with customers, despite being a retailer. I have high praise for the Company’s business, which merges retailing and finance. However, I also see a need to translate this business into concrete numbers or present it as a clear business model.

Aoi: We have continued to develop this business based on tacitly held knowledge, and it is therefore not uncommon for people to request that we put forth a clear picture of our business model. Our business model underwent a drastic change when we sought to pull our retail stores out of a bad industry through business structure transformation. However, at a glance, our stores may not appear to be very different from the department store model we had employed previously. While one could say that it is enough

so long as our credit card operations grow and profit, if all of our business knowledge is tacit, we will not be able to furnish an effective response should the operating environment change. It is therefore crucial that we transform this tacit knowledge into explicit knowledge so that we can continue accurately transmitting it to new generations of employees. This process will be vital to maintaining our strengths. If our knowledge can be transmitted in this way, the Company will become structurally profitable, which is, in essence, the same as being structurally capable of growing with a manager.

Okuno: That is part of what makes business models interesting. Business models are templates. Whether or not investors will be in favor of a business model is determined by whether or not that business model can be logically linked to numbers. This is an important fact to reflect upon.

Breakthrough Achieved by Merging Retailing and Finance

Okuno: It is also important for business models to be predicated on some sort of major breakthrough. Looking at MARUI GROUP as a financial company with sales floors, I see numerous possibilities, such as providing



Our task going forward will be to find ways to link the knowledge, expertise, and other wellsprings of differentiation we have cultivated to date to the growth of our customer base.

——— Hiroshi Aoi

surplus capacity as a service. Businesses that are built on fixed assets, such as commercial facilities, are inherently sharing economies.

Aoi: We are transitioning to a real estate model for operating our stores. Under this model, our directly managed sales floors function more as showrooms, with our main focus being on e-commerce operations. Treating our stores as real estate means that we do not need to sell products like a department store; all we need to do is rent space. For example, we could introduce tenants such as shared offices, co-working spaces, or classrooms. We aim to transform the sharing economy born out of such tenants into a new business.

Okuno: Changes to your business model will unlock a wider range of opportunities, but will also expose you to the risk of more competitors encroaching on your market. For this reason, it is important for the Company to have thoroughly entrenched strengths. I suspect that MARUI GROUP's main strength lies in its cardholder base. Moreover, the cards you provide are equipped with IC chips, which can be seen as a technology with the potential to create various new business opportunities.

Aoi: If we only provide functions that can be easily imitated, we will soon be overwhelmed by the competition, making it impossible to grow or to secure sufficient profit margins. We are thus looking to create a unique, membership-based business by combining our retailing operations with our credit cards. This model will open up the possibility of offering membership and other subscription services, which we will in turn contribute to the growth of credit cards if we can encourage users to pay their monthly subscription fees with our credit cards. If customers continue using our cards, the inherent value of these cards will grow, and our profit margins will increase rapidly. In this manner, I see success in business as hinging on the degree to which a company is able to combine a number of unique offerings.

Multi-Party, Two-Way Communication via the Internet

Okuno: When viewing a business model from an abstract perspective, there are no doubt elements that will change and others that will not. In identifying these elements, it is

important not to be constrained by past history or successes, but instead to continually observe the situation from a fresh perspective. One area in which change will occur pertains to the Internet. We have never before seen an era that has been so interconnected by the Internet. This new era is giving rise to a global trend toward individualism, with specific needs originating directly from individual people. Accordingly, it is no longer sufficient for companies to mass-produce a small lineup of products, which has previously been the norm.

Aoi: That view really resonates with me. In order to share our long-term operating environment analyses with Group employees, we chose to hold a meeting at which we discussed the main differences from the 20th century that we expect to see in the 21st century. The conclusion we reached was that the biggest difference would be the presence of the Internet and the resulting changes in forms of communication. In the past, communication has generally been in the form of one-on-one communication or of transmission for one individual to a "large group of others." However, the advent of the Internet enabled two-way communication to take place between multiple parties. This new form of communication will likely result in the emergence of consumer-to-consumer business models that differ from traditional business-to-consumer models. One example of such a model can be seen in peer-to-peer Internet sales applications.

Okuno: I believe that one of MARUI GROUP's strengths lies in its connections with customers. These connections could make it possible to, for example, issue straight bonds, which are normally aimed at professional investors, to standard consumers. If this were to be done, it would mean that both the asset and liability portions of the balance sheet would be directly connected to customers. Given that it is when companies cannot pay back their debt that they go bankrupt, diversifying funding sources is crucial to a company's survival. The era of multi-party, two-way communication via the Internet makes such diversification possible.

Alternative and Inclusion Perspectives for Viewing Demographic Trends

Okuno: Another change will be a decline in growth potential as a result of demographic trends. The fact that Japan's population of approximately 126.8 million people will decline going forward seems self-evident, but is this actually true? Judging by this projected decline in population, it would seem that Japan's retail industry is doomed to fail. However, if we look at urban areas, for example, we can

find areas in which the population is actually growing. Institutional investors view demographic trends from this alternative perspective when conducting investments, and this perspective leads us to understand trends differently. MARUI GROUP's business model is interesting in how its stores are concentrated in urban areas.

Aoi: At MARUI GROUP, we view demographic trends, such as the aging and shrinking population and the decline in the birthrate, from a perspective of inclusion. As such, we aim to be a forerunner in the development of operations that are inclusive of differently abled individuals, non-Japanese people, and members of the LGBT community of people of all ages and genders. In the past, our credit card services operations have sought to serve youths and young adults as well as people in the low- and middle-income brackets, demographics that were unable to take advantage of existing financial services. This experience has given us a sort of template to work from in promoting inclusion. Taking your alternative perspective to demographic trends, it will be enough if the number of our customers increases, even if the overall population declines. Accordingly, our task going forward will be to find ways to link the knowledge, expertise, and other wellsprings of differentiation we have cultivated to date to the growth of our customer base.

Okuno: In terms of creating value, entrepreneurs seek to create 1 from 0, while long-term investors, such as myself, strive to efficiently grow the 1 created by entrepreneurs to 100. Conversely, if we provide equity to a company that will go from 0 to -1, this will quickly be transformed to a -100. In the most extreme cases, such as the financial crisis of 2008, this -100 can bear the risk of setting off a global recession. In light of this risk, I always endeavor to identify whether an entrepreneur will create 1 or -1 through my interactions with them. This is one way that long-term investors contribute to a better world. I hope that MARUI GROUP will remain a company that creates 1's.

Aoi: To look at the same idea from a different perspective, if a company chooses the wrong investor to become engaged with, it will run the risk of being led in a bad direction. I enjoyed having this frank conversation with you today. It was a clash of ideas between professionals of the best possible kind and very refreshing. Looking ahead, I hope to pursue the type of mutual growth with investors that you speak of in order to contribute to the long-term interests of society.

Section 02

Co-Creation Management Business Model

MARUI GROUP's vision is for an inclusive society in which no one is excluded and happiness is available to all. To this end, we are pursuing innovation in our business to realize both sustainability and profitability while expanding upon the happiness that exists at the intersection of the interests of all of our stakeholders.



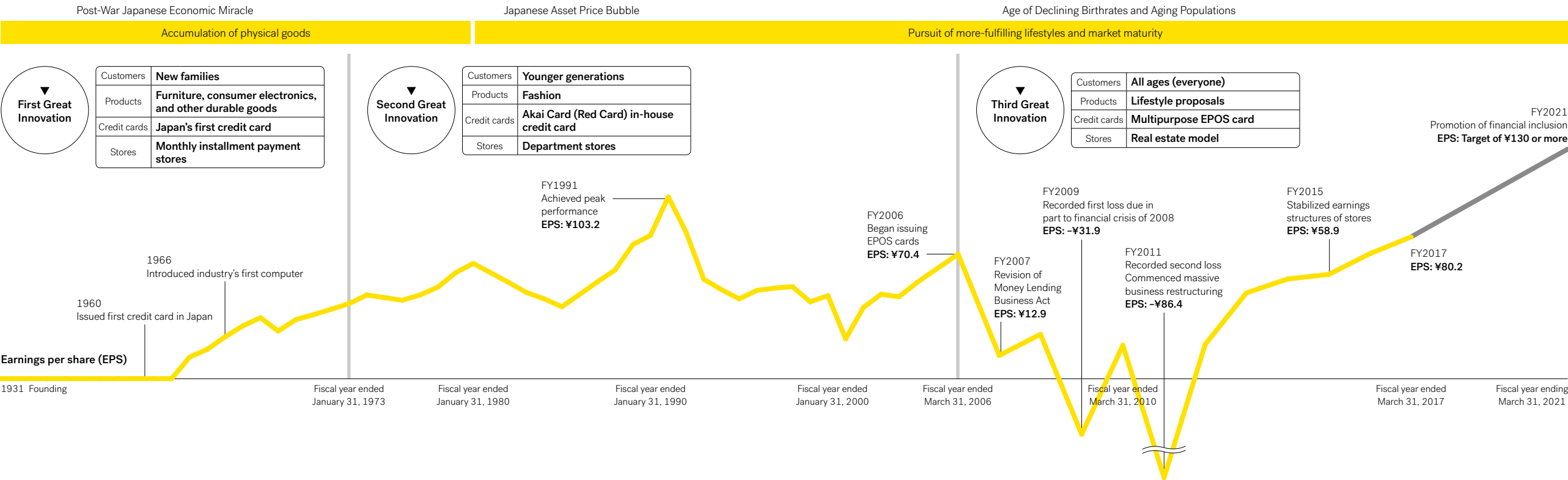
Innovation of Business Structure in Line with the Times

Over the 86 years since its founding, MARUI GROUP has continued to innovate and evolve its unique business model, which merges retailing and finance, and the structure of its business in line with changes in the times and in the needs of customers. Currently, finance is becoming the main driver of our growth. However, we retain our stance of not segregating retailing and finance. Rather, we will share human resources, stores, and data throughout our integrated business as we seek to improve corporate value by evolving our unique business model merging retailing and finance.

MARUI GROUP's Founding DNA
Words of Founder Chuji Aoi

“Creditability should be built together with customers”
Unique business model merging retailing and finance

“Pioneer spirit of creating opportunities”
Adeptness at evolving and creating innovation in response to the needs of the times



Furniture Sales through Installment Payments

Founder: Chuji Aoi

Period as president: 1931-1972 (41 years)

At the time of its founding, MARUI GROUP's business involved selling furniture through monthly installment payments. These monthly installment payments entailed both selling furniture and providing credit, or, in other words, lending money, thus representing a business model that merges retailing and finance. In the years that followed, the Company pushed forward with the modernization of the installment payment system, issuing Japan's first credit card in 1960 and then introducing the industry's first computer in 1966.

Sales of Fashion on Credit

Second leader: Tadao Aoi

Period as president: 1972-2005 (33 years)

During the period of the post-war Japanese economic miracle, income levels in Japan rose, leading other stores using the monthly installment payment system to focus on finance. MARUI GROUP, meanwhile, turned its attention to fashion. This transition entailed a bold shift toward younger generations as the Company's customer base. We thus came to play a part in the boom of the DC fashion brand. In addition, we began offering cash advances in 1981. By building upon these strategies, we were able to achieve our peak performance in 1991.

Lifestyle Proposals and Card Shopping Transactions

Third leader: Hiroshi Aoi

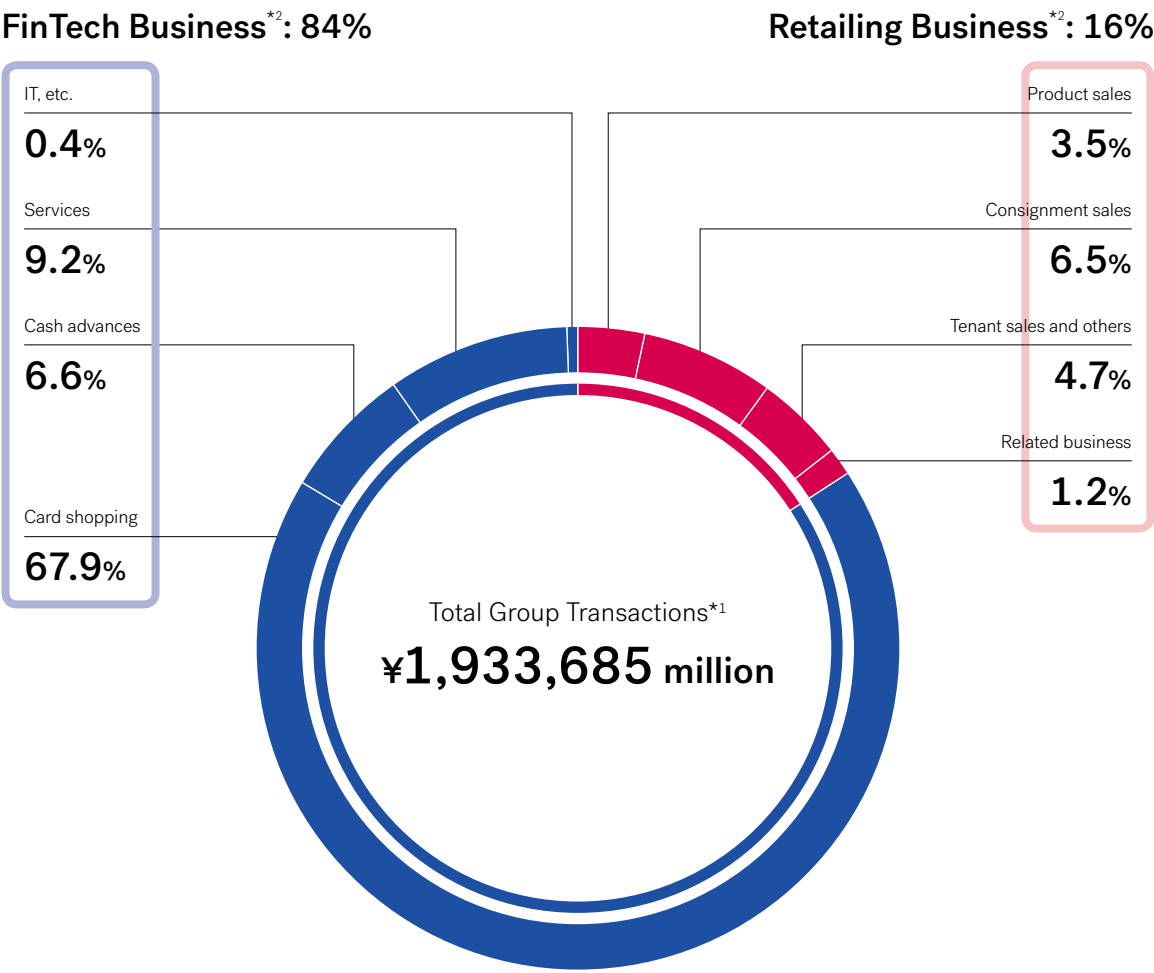
Period as president: from 2005

Due to the impacts of the 2006 revision of the Money Lending Business Act and the 2008 financial crisis, MARUI GROUP was forced to record losses on two occasions. In light of this development, we undertook a massive business restructuring. In terms of customers, we drastically realigned our focus from catering primarily to younger generations to developing a business that wins the favor of customers of all ages. The launch of the multipurpose EPOS card in 2006 brought further change as our earnings began to come less from cash advances and

more from card shopping transactions. In 2014, we started transitioning our stores toward real estate-model shopping centers to enable them to provide experiences in addition to the physical goods they had conventionally sold. This business structure transformation stabilized the earnings of stores, allowing them to realize immunity to downside risks. In addition, the transformation made it possible to undertake co-creation store development initiatives with customers and increase the number of visiting customers and purchases.

Reverse in Relationship between Retailing and Finance

MARUI GROUP previously has been a retailer with finance functions, and the role of credit cards has thus been to support stores. This relationship began to change with the launch of the EPOS card in 2006, after which card transactions started to increase rapidly. Although MARUI GROUP's business model continued to be a merger of retailing and finance, the relationship between these functions was reversed, with finance becoming the main proponent of growth. Today, our 31 nationwide stores are supporting the growth of credit cards as application centers.



In the fiscal year ended March 31, 2017, total Group transactions^{*1} amounted to ¥1,933.7 billion, of which ¥326.3 billion, or approximately 16%, was attributable to the Retailing business, with the remaining 84%, or ¥1,723.3 billion, coming from the FinTech business. In this manner, the FinTech business is currently driving the overall growth of MARUI GROUP.

^{*1} Total Group transactions exclude intersegment transactions.
^{*2} Ratios are prior to eliminations.

Business Model Innovations

MARUI GROUP's business model has undergone innovations in three areas in response to changes in customer consumption patterns: the rise of e-commerce and cashless payment methods, the declining birthrate and aging of society, and other long-term social trends. By reinventing our business model, we will achieve immunity to downside risks while building a growth foundation capable of taking advantage of upside risks.

- Customer base innovation

► Change in focus from younger generations to all ages and inclusion of all customers
- Retailing innovation

► Shift from consignment buying system to real estate model for earnings structure and promotion of omni-channel retailing
- Credit card innovation

► Transition from in-house card to multipurpose card and expansion of business scope to include FinTech

Immunity to Downside Risks



Transition from Department Store Model to Real Estate Model

The transition from department stores that procure and sell products to real estate-model shopping centers that receive payments from renting space has stabilized earnings in the Retailing business. Moreover, this transition has made it possible to introduce more tenants offering food, services, and experiences.

Unique Omni-Channel Retailing Strategy

MARUI GROUP is gradually replacing its specialty shops, which primarily deal in private brand products, with try-on stores, which integrate stores, credit cards, and the Internet. These stores use a completely new scheme in which customers can freely try on samples and then make purchases through the Company's e-commerce website.

Upside Risk Growth Foundation



Evolution from In-House Card to Multipurpose Card

Having received a direct license from Visa Worldwide Japan Co., Ltd., we were able to evolve our in-house card into a multipurpose credit card usable anywhere in the world. Since then, card shopping transactions have been expanding rapidly in conjunction with customers' shopping, posting average annual growth rates of 17% and driving the overall growth of MARUI GROUP.

Redefinition of Credit Card Services as FinTech

MARUI GROUP redefined its prior Credit Card Services business as the FinTech business with the aim of providing financial services that can be used by all. Offerings in this redefined business will include various services, including new services that respond to the diversification of payment methods following the rise of cashless payment methods.

Retailing Business Earnings Structure

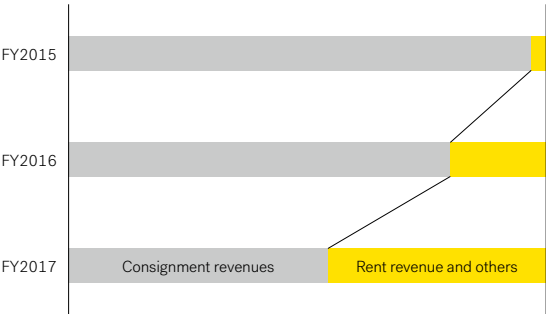
The Retailing business has previously used a model based on the consignment buying system, which entails procuring and selling products, meaning that revenue was dependent on product sales. To address this dependency, we are transitioning to a real estate model, which involves gaining rent revenues from renting out space, and will thus stabilize earnings. We aim to convert 100% of applicable floor space to this model by the fiscal year ending March 31, 2019. As we transition to this real estate model by shifting toward shopping centers and fixed-term rental contracts, the amount of consignment revenues from tenants will decrease while rent revenues from fixed-term rental tenants will increase. Accordingly, the change in the earnings structure of the Retailing business is apparent when looking at the distributions of sales under the consignment buying system, rent revenue, and other items.

In conjunction with the transition to the real estate model, the key performance indicator (KPI) for specialty stores, which primarily deal in co-creation private brand products, was changed from operating income margin to net operating income yield (NOI yield), which indicates the anticipated yield in comparison to average market rent fees. We have hurdle rates of NOI yield of more than 4% for urban stores and more than 7% for suburban stores. Based on these rates, we will monitor real estate market prices in relation to specialty shops along with income improvements in order to maximize asset efficiency for sales floors, storage space, and other assets. This KPI is linked not only to income in a given year but also to corporate value, as it incorporates consideration for medium-to-long-term income from EPOS card

Overview of Operations

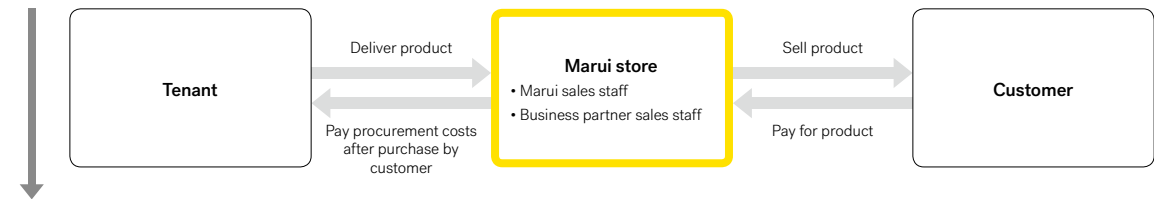
Stores	31 (25 Marui stores, 6 Modi stores)
Omni-channel retailing	Specialty stores primarily dealing in co-creation private brands MARUI Internet shopping "marui web channel" Short-term event try-on stores
Facility management and distribution	Store renovation, advertising, property management Building management Distribution, IT, etc.

Distribution of Consignment Revenues and Rent Revenue

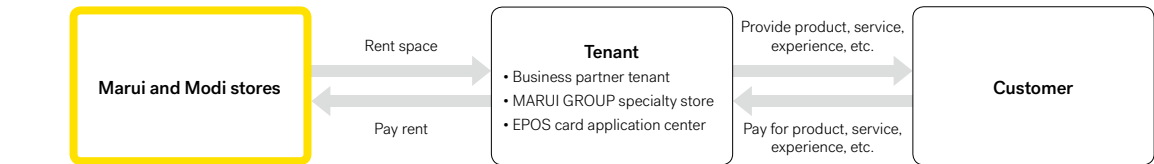


applications and registrations for e-commerce sites. Utilizing this indicator, we examine specialty shops to determine which should remain open and which should be closed.

Previously: Earnings Structure Based on Consignment Buying System



Going Forward: Earnings Structure Based on Real Estate Model



FinTech Business Earnings Structure

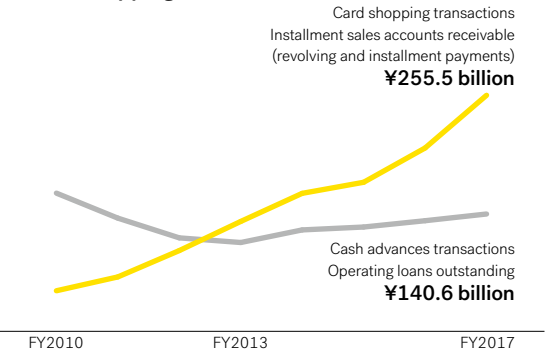
While the Japanese credit card industry has been experiencing average annual growth of 7% in card transactions, the FinTech business has been enjoying average annual growth rates of 17% in transactions using its core EPOS card. Looking at operating receivables, the amount of installment sales accounts receivable (revolving and installment payments) exceeded the amount of operating loans outstanding in the fiscal year ended March 31, 2013, illustrating the shift in the earnings structure of this business from cash advances to card shopping transactions. Today, card shopping transactions account for approximately 81% of total transactions in the FinTech business while cash advances only equate to around 8%.

The growth of credit card businesses is dependent on increases in cardholder numbers, the ratio of cardholders that remain active users, and the amount of transactions per one card. We issue EPOS cards to around 700,000 new applicants each year, of which approximately 80% apply through MARUI GROUP stores or e-commerce sites. Located predominately in major cities with high people traffic nationwide, the MARUI GROUP's stores are integral to acquiring new applicants. In addition, the transition to the real estate model for stores in the Retailing business reduces the amount of staff required to operate each store, enabling us to reallocate this staff to Epos Card Co., Ltd. We are thus able to position staff with extensive customer service experience and a retailing mind-set at EPOS card application centers in the external facilities of collaboration partners, where these full-time staff members will work to acquire new applicants. Looking at other areas of the FinTech business, revenues from housing and other rent guarantee services have recently been rising in light of

Overview of Operations

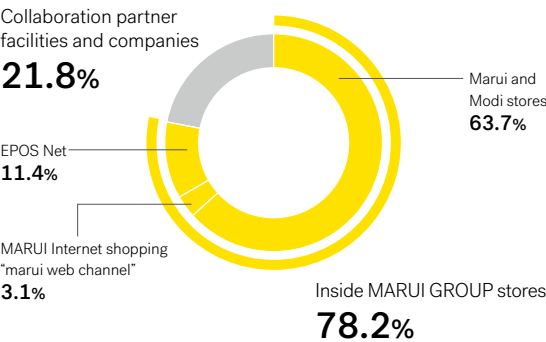
Credit cards	EPOS card
Financial services	ROOM iD advanced-payment rent guarantee service ROOM GUARD Be comprehensive renters' insurance plans
IT	System development

Transition in Earnings Structure from Cash Advances to Card Shopping

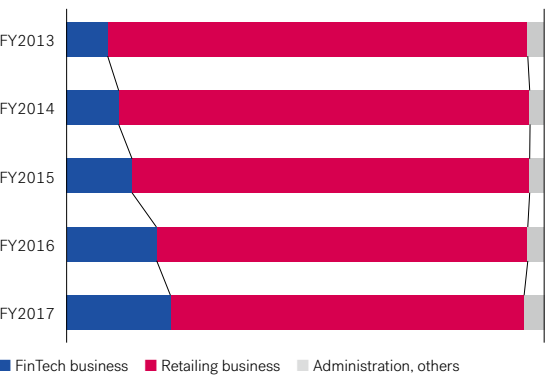


the scheduled massive revision to the Civil Code pertaining to credit, which will be the first revision of this nature in 120 years. We also plan to grow the FinTech business by increasing service revenues and expanding insurance service and other existing high-margin operations that do not require invested capital.

Distribution of EPOS Card Applications by Venue (FY2017)



Distribution of Group Employees by Business



MARUI GROUP’s Retail-Nature Business That is Attentive to the Needs of Individual Customers

Since its founding, MARUI GROUP has remained committed to identifying the needs of individual customers based on their lifestyles, striving to attentively cater to these needs with fine-tuned responses. As the Internet spreads to every facet of our lives, MARUI GROUP will seek to evolve its retail-nature business to provide value that meets customer expectations through combinations of financial and non-financial services.

Combinations of Financial and Non-Financial Services

In May 2017, Nobuchika Mori, commissioner of the Financial Services Agency, delivered a speech entitled “Will FinTech create shared values?” During this speech, Commissioner Mori stated that “Current product line-ups differ from player to player, but none at the moment has a combination of a wide range of financial and non-financial services that can meet the customers’ needs, be it a financial institution or otherwise.” If one were to view MARUI GROUP’s FinTech business as a provider of “financial

services” and the Company’s Retailing business as a supplier of “non-financial services,” then MARUI GROUP could be described as a “conglomerate that combines a wide range of financial and non-financial services to offer fulfilling lifestyles to all customers.” This would be an accurate way of explaining the business model merging retailing and finance that MARUI GROUP has developed since its founding.

Excerpts from “Will FinTech create shared values?” Speech Delivered by Financial Services Agency
Commissioner Nobuchika Mori in May 2017

“Current product line-ups differ from player to player, but none at the moment has a combination of a wide range of financial and non-financial services that can meet the customers’ needs, be it a financial institution or otherwise.”

“As financial services become more sophisticated along with the advance of FinTech, the customers will not be able to assess the technologies behind the services they enjoy, and rather, they are likely to select services based on their trust in companies and their employees who provide the services.”

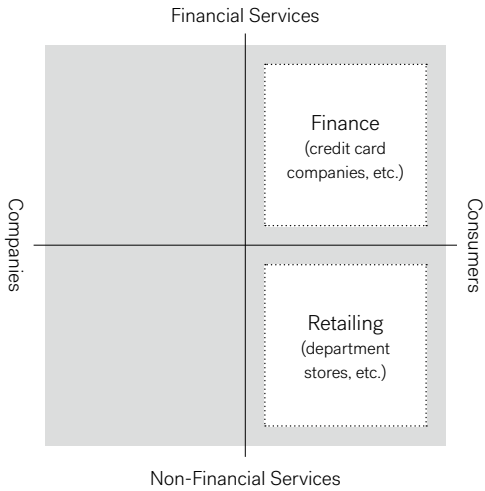
Source: “Will FinTech create shared values?”, Financial Services Agency
www.fsa.go.jp/common/conference/danwa/20170525/01.pdf

Customer-Oriented Retail-Nature Business

In the past, there have been some who have looked at the individual products and services offered by MARUI GROUP and have been led to believe that the Company’s business model was divided into retailing and finance operations. However, we see it differently. To us, retailing and finance are like two sides of the same coin, and these two concepts cannot be separated from one another in MARUI GROUP’s business. For example, EPOS cards and other financial services are provided through the retail stores that serve as our physical bases for card issuing, and our credit cards are primarily used for shopping purposes. As such, EPOS cards can be seen as a financial service intrinsically linked to non-financial services.

When looking at MARUI GROUP’s business from the perspective of the functions it provides customers, as opposed to the perspective of a business operator, it is clear that both the Company’s financial services and its non-financial services are inherently retail in nature as they cater to consumers instead of companies. We see the ideal form of MARUI GROUP’s retail-nature business as being one that seeks to identify the needs of individual customers based on their lifestyles in order to furnish attentive and fine-tuned responses. By providing combinations of financial and non-financial services based on this vision, we aim to contribute to the realization of a prosperous and inclusive society in which happiness is available to all.

Definition of Business from a Business Operator Perspective

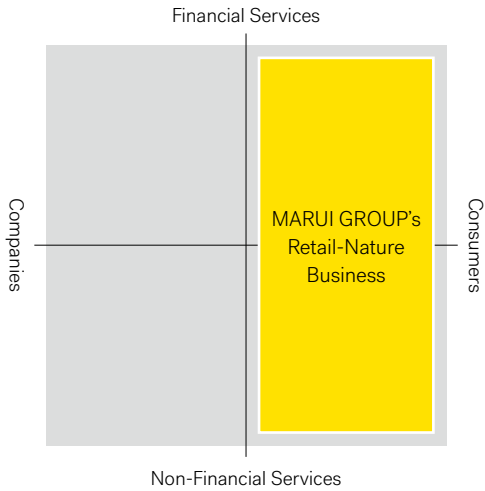


Leading Role as a New Player in the FinTech Market

In the aforementioned speech, Financial Services Agency Commissioner Mori explains “As financial services become more sophisticated along with the advance of FinTech, the customers will not be able to assess the technologies behind the services they enjoy, and rather, they are likely to select services based on their trust in companies and their employees who provide the services.” As artificial intelligence, virtual currency, and other sophisticated financial and non-financial services emerge, the competitiveness of financial institutions and other companies will hinge on their ability to provide services that customers judge as both valuable and trustworthy.

The history of MARUI GROUP was built together with customers. Beginning with monthly installment payment sales and thus including consulting with customers about payments, there has never been a clear distinction between our financial and non-financial services. At the same time, MARUI GROUP has been a trailblazer in providing services powered by advanced technologies, issuing Japan’s first credit cards and introducing the industry’s first computer. The Company has thus evolved to possess physical stores that serve as points of contact with customers as well as both financial and non-financial services. We are confident that MARUI GROUP will be able to win customer trust and play a leading role as a new player in the FinTech market.

Definition of MARUI GROUP’s Business



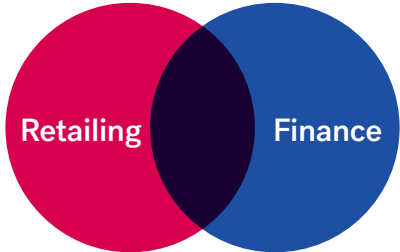
Co-Creation Management Business Model

MARUI GROUP strives to develop a business that turns issues into value through co-creation with its various stakeholders. Japan is known for the various challenges it faces as a developed nation, in its aging population and declining birthrate, and this country has a population of approximately 126.8 million diverse individuals. It is the goal of MARUI GROUP to contribute to the realization of a prosperous and inclusive society in which no one is excluded and happiness is available to all. The path to accomplishing this goal is MARUI GROUP's vision for a co-creation management business model.



- ① Transition to e-commerce
- ② Shift from goods to experiences
- ③ Emergence of a sharing economy
- ④ Declining birthrate and aging population
- ⑤ Increase in demand from inbound travelers
- ⑥ Rise of cashless payment methods
- ⑦ Change of focus from saving to investment
- ⑧ End of era of low interest rates

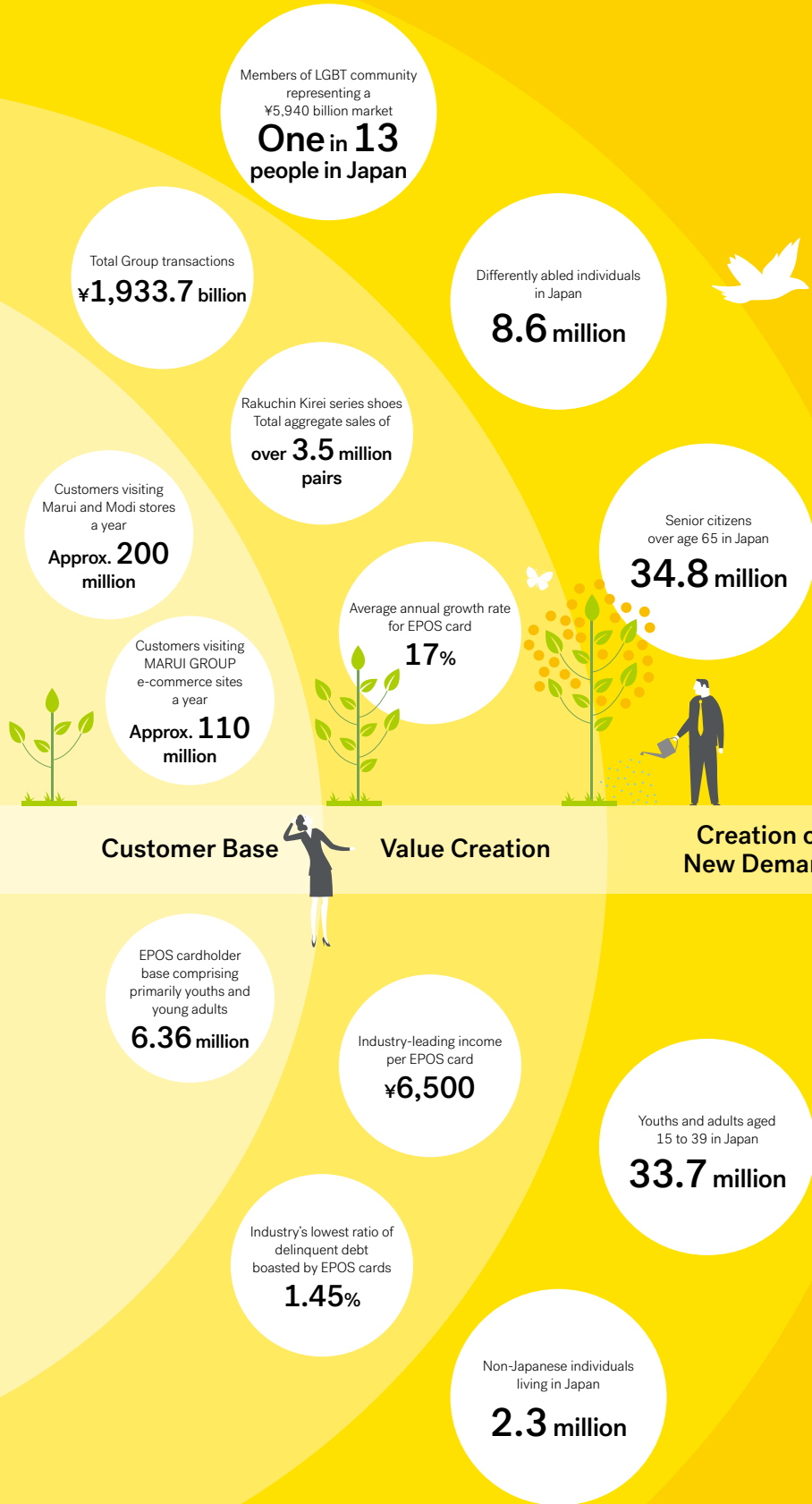
Unique Characteristics of MARUI GROUP Realized through Integrated Group Management



Customer-Focused Employees
Co-Creation Management
Founding DNA
"Creditability should be built together with customers"
"Pioneer spirit of creating opportunities"



Management Base

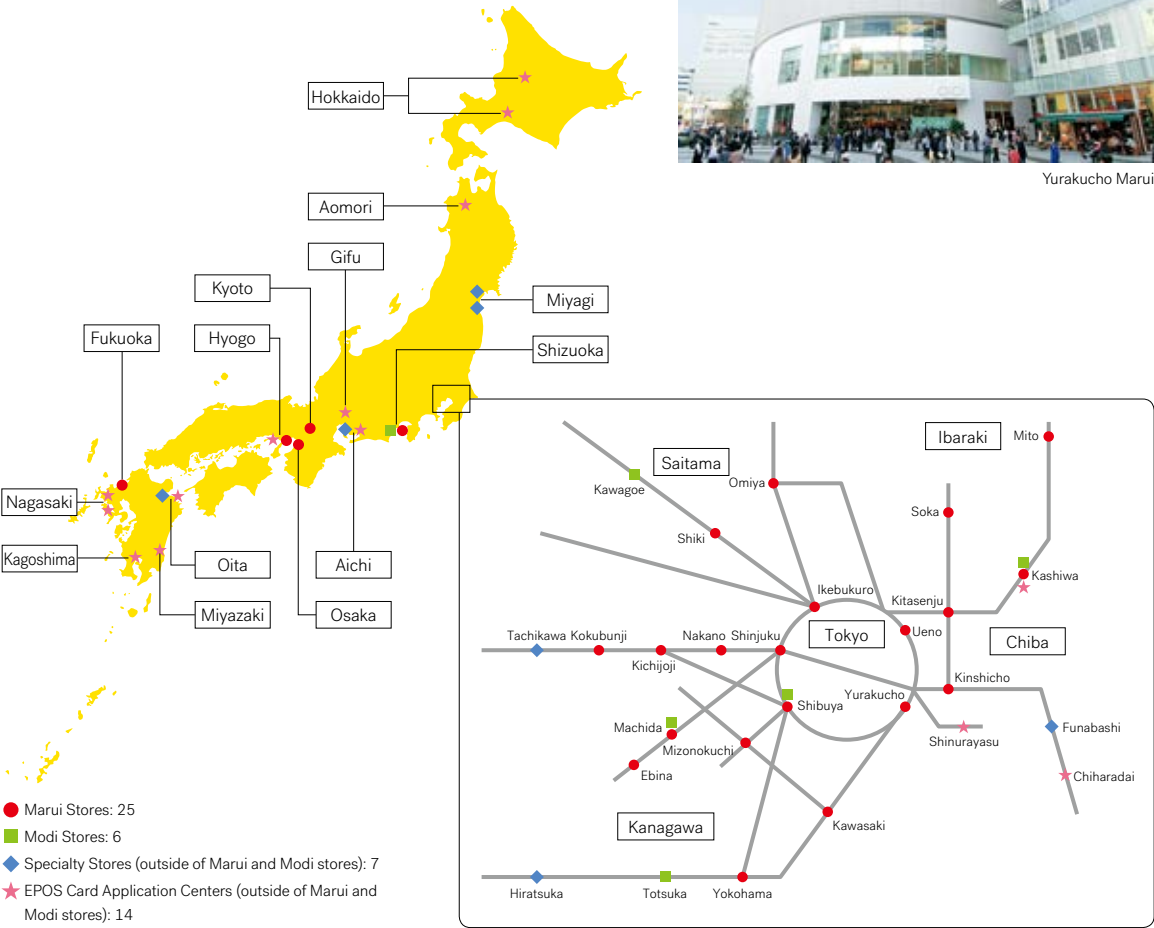


→P.92

A Flourishing and Inclusive Society
Offering Happiness to All

Retail Stores Serving as Points of Contact with 200 Million Customers a Year

When viewed from the perspective of retailing, MARUI GROUP's greatest strength is its retail stores, which serve as points of contact with approximately 200 million customers a year. The Company operates 31 large-scale commercial facilities predominantly located in major cities with high people traffic nationwide. The number of customers visiting these facilities is constantly increasing. We are also expanding our contact points in other locations, such as through the opening of private brand stores in commercial facilities operated by other companies and the creation of EPOS collaboration cards.



Marui Stores Located in Major Cities Nationwide

Shopping centers operated by MARUI CO., LTD.



Yurakucho Marui

POINT 1

Physical Stores in Prime Locations Functioning as Customer Contact Points

Although the overall birthrate is declining and the population is aging in Japan, the population of urban areas is actually increasing, creating greater disparities between regions. MARUI GROUP's 31 stores are located in prominent districts of major cities characterized by high convenience and people traffic. By employing new floor layouts that invite daily visits, we are creating spaces at which customers gather naturally (→P.32).



Modi Stores Based on Regional Characteristics

Commercial facilities operated by AIM CREATE CO., LTD.



Shibuya Modi

POINT 2

Opening of Specialty Stores Outside of Group Facilities and Promotion of Omni-Channel Retailing

MARUI GROUP's specialty stores deal in private brand products, most notably the Rakuchin Kirei series of shoes (→P.36). These stores are opened as tenants primarily in commercial facilities operated by other companies in areas where there are no Marui stores. We similarly set up try-on stores (→P.33) as short-term events at the facilities of other companies. Looking ahead, MARUI GROUP aims to expand its range of contact points with customers by accelerating its unique omni-channel retailing strategy, which takes advantage of the strengths of both physical stores and e-commerce.

Specialty Stores

Stores opened as tenants in other commercial facilities that sell private brand products from MARUI CO., LTD.



Rakuchin Kirei Shoes Fit Studio, AEONMALL KISOGAWA

POINT 3

Support for EPOS Collaboration Card Partner Facilities Utilizing Retailing Expertise

Employees from Epos Card Co., Ltd., with retailing experience are positioned at the commercial facilities of collaboration partners on a full-time basis. These individuals are able to explain the benefits of collaboration cards for customers and facility tenants directly to tenants, at the same time teaching them the card promotion techniques employees have honed based on their experience. In this manner, these employees help foster understanding regarding EPOS cards while also utilizing the retailing experience they have gained at Marui stores to create fans of partner facilities while expanding the Company's own cardholder base.

EPOS Card Application Centers Located in Group and Other Facilities

Application centers staffed with extensive customer service experience gained in the Retailing business



EPOS Card Application Center, Hakata Marui

Co-Creation Store Development and Unique Omni-Channel Retailing Strategy

Amid the rapid spread of e-commerce, physical stores are faced with the need to provide services that cannot be replaced by e-commerce or that are complementary to e-commerce. Recognizing this need, MARUI GROUP invites customers to take part in the process of developing stores and new services in order to identify unapparent issues and unmet needs so that it may create new value in tune with the times.

Store Development Based on Customers’ Perspectives Rather Than Industry Conventions

MARUI GROUP’s stores are currently undergoing a transition to a real estate model, which will entail its revenue source changing to rent revenues. This transition has enabled us to move away from our previous apparel-centric focus to alter the amount of floor space at our stores that is devoted to food, services, sundries, and other product categories catering to the long-term shift from consumption of goods to consumption of experiences. Moreover, planning meetings with customers and tenants are held at individual stores so that these stores can be developed based on customers’ perspectives

rather than industry conventions. For example, we have positioned food vendors, which are of high demand among customers of all ages and genders, in first floor and other entrance areas. These food vendors have effectively drawn in customers that have gone on to shop on higher floors. On the upper floors of stores, we have introduced service providers that are closely linked to people’s everyday lives, including mobile phone providers, clinics, and English schools. This new tenant distribution has caused customers to gather naturally at upper floors, thereby increasing earnings of these floors.



Planning meeting held together with customers and tenants



Food floor developed on first floor based on customer feedback



Service providers closely linked to people’s everyday lives located on upper floors

Confidence in Highly Varied Floor Layouts

Our co-creation store development efforts made us aware of a disparity between the conventions of the retailing industry and the actual needs of customers and tenants. At Hakata Marui, which was opened in April 2016, initiatives to respond to the needs that became apparent through planning meetings with customers included positioning food vendors on the first floor and kitchen accessory and *Kampo* (traditional Japanese) medicine stores on higher floors. This made for truly varied floor layouts. Finding tenants that catered to customer needs while also meeting the Company’s requirements for net operating income yield was a struggle, and I was concerned about the low amount of floor space we were devoting to apparel products. However, Hakata Marui was able to welcome 13.4 million customers in the first year after opening its doors, a level similar to that of Yurakucho Marui. Now, I feel confident that this store development approach was the right one.



Masahiro Aono
Executive officer
Managing Director, MARUI CO., LTD.
Director, AIM CREATE CO., LTD.

Ideal Shopping Experiences for All

We open try-on stores at various commercial facilities located throughout Japan as short-term events. Try-on stores seamlessly link physical stores with Internet sales to create a completely new type of sales floor designed to provide customers with a smooth and highly satisfying shopping experience. These stores display samples of all sizes of certain products that customers can try on as they please, while purchases are made through the Internet. Moreover, these try-on stores serve as a venue for increasing EPOS cardholders along with the number of customers registered for our Internet sales sites, thereby contributing to medium-to-long-term income growth.



Purchases can be made through store-use tablets

Omni-Channel Retailing Initiatives

Mail-order and Internet sales initiatives		Physical store sales initiatives
1988	Launched Voi mail-order sales catalog	
1995		Installed single-item product management system at all stores
2005		Began updating inventory information in real time based on individual product movements
2006	Established MARUI Internet shopping "marui web channel"	
2007		Commenced program referring customer to e-commerce website sales through coupons attached to receipts
2008	Completed integration of inventories for physical stores and Internet sales Began using store inventories to fill e-commerce orders	
2009	Integrated IDs for EPOS Net and MARUI Internet shopping "marui web channel"	Commenced in-store pickup service for items ordered via MARUI Internet shopping "marui web channel"
2010	Started displaying stores dealing in specific items and inventories on MARUI Internet shopping "marui web channel"	
2015	Launched artificial intelligence-powered recommendation services	
	Integrated physical store and MARUI Internet shopping "marui web channel" purchase histories	
2016	Established official LINE account	Launched nationwide try-on store initiative for private brand shoes
2017	Opened Marui store on Wowma! Internet sales site operated by KDDI CORPORATION	
	Introduced AutoStore robotic warehouse system at Company Internet sales distribution centers	

Employee Comment



Takayuki Shibao
Try-on Stores
Omni-Channel Retailing Division
MARUI CO., LTD.

Try-on stores utilize a framework created because some customers came to recognize the quality of Rakuchin Kirei series shoes only after trying them on. Our initial start had some bumps, but this initiative enabled us to deliver Rakuchin Kirei series shoes to regions in which there are no Marui stores. Looking ahead, I hope to further improve to help provide customers with the best possible shopping experiences.

Employee Comment



Mariko Hagiwara
Rakuchin Kirei Shoes Fit Studio
Kinshicho Marui
MARUI CO., LTD.

At Kinshicho Marui, we opened a try-on store with no inventory on a trial basis. Since this store was opened, we have proceeded to improve the quality of the shoes we offer so that the store can bring joy to as many customers as possible, and the number of customers commenting on the store’s convenience continues to increase. These comments are a source of encouragement in my daily work.

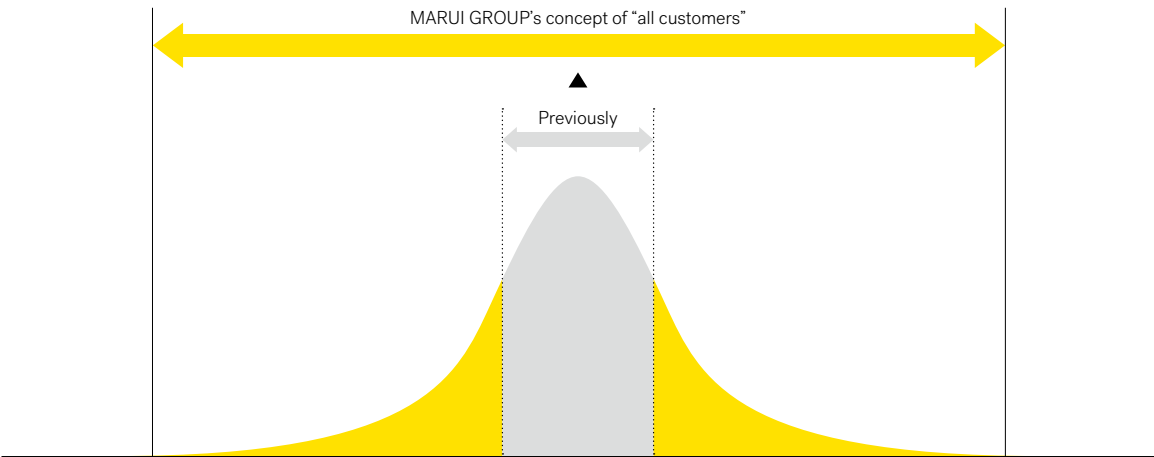
Quest to Bring Joy to People of All Ages, Genders, and Physical Characteristics

Looking forward to 2020, the year of the upcoming Tokyo 2020 Olympic and Paralympic Games, MARUI GROUP is implementing various initiatives on its quest to bring joy to all customers, regardless of their age and including people of all genders, such as members of the LGBT community, and people with disabilities.

Customer Diversity and Inclusion

Japan has a population of approximately 126.8 million diverse individuals. If we adopt a perspective of creating spaces in which all people can flourish, the issues faced by Japan could be turned into opportunities.

MARUI GROUP strives to develop a business that creates innovation for the benefit of everyone, effectively transforming such opportunities into value. This is the goal of our customer diversity and inclusion initiatives.



Ratio of Senior Citizens
The population of senior citizens over the age of 65 in Japan is 34.8 million.

27.5%

Source: Population Estimates, Statistics Bureau, Ministry of Internal Affairs and Communications

Ratio of Differently Abled Individuals
In Japan, 8.6 million people have physical or mental disabilities.

6.8%

Source: Annual Report on Government Measures for Persons with Disabilities, Cabinet Office, Government of Japan, 2017

Ratio of LGBT Community Members
One in 13 people in Japan is part of the LGBT community, representing a ¥5,940 billion market.

7.6%

Source: LGBT Survey 2015, Dentsu Diversity Lab, DENTSU INC., 2015

Improvement of Customer Service

Employees undergo Service Care-Fitter training to foster a spirit of hospitality and to learn how to accommodate various customers. This training is conducted in-house by 11 Group employees that have acquired official instructor qualifications. In addition, external lecturers are invited to implement training for the Universal Manner Placement Examination program and to perform LGBT training. Employees also receive training on catering to the needs of inbound travelers performed by non-Japanese lecturers. With the skills gained, we aim to improve customer service in order to foster an environment in which all customers can enjoy shopping.



In training for assisting customers using wheelchairs, employees learn how to operate wheelchairs through actual use.



Employees wear special goggles to show how objects appear to someone with cataracts in senior citizen simulation training.

Enhanced Drive to Inform Customers

MARUI GROUP is engaged in various activities to keep its customers informed on its efforts, particularly its co-creation store development initiatives for creating stores that can be enjoyed by individuals of all genders and physical characteristics. For example, we are proactively communicating our co-creation initiatives through participation in the events of TOKYO RAINBOW PRIDE, an organization that aims to create a society in which individuals of all sexual orientations and sexual preferences are able to live optimistically and to be themselves, while remaining free from discrimination and prejudice.



Our booth at TOKYO RAINBOW PRIDE 2017 displaying Rakuchin Kirei series shoes available in a wide range of sizes



Competition sponsored by the Japan Blind Football Association, which MARUI GROUP provides with the official suits for the Japan national team through a partnership agreement

Employee Comment



Hitomi Kanazawa
Marui Future Project Team
Sustainability Department
MARUI GROUP CO., LTD.

Groupwide Promotion of LGBT Understanding

When we participated in TOKYO RAINBOW PRIDE in May 2016, understanding of the LGBT community within the Company was rather low. In the year that followed, however, we have seen a massive change in employee awareness, denoted by the recent rise in divisions voluntarily requesting LGBT manner training. During the period of TOKYO RAINBOW PRIDE in May 2017, rainbow flags were displayed at 12 Marui and Modi stores. Event flyers and special edition paper shopping bags made for the event were also distributed. Furthermore, a total of 80 employees volunteered to take part in the event's main draw: the parade. These employees marched in the parade while wearing original MARUI GROUP T-shirts. I view such developments as a testament to how the concept of customer diversity and inclusion has become rooted throughout the Group. I hope to plan other initiatives on this front in the future.

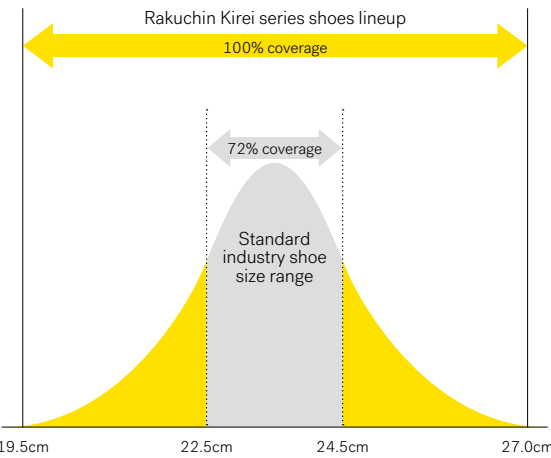
Co-Creation of Inclusive Products with Customers

MARUI GROUP views product creation as the process of developing products that match the physical characteristics of customers. We are thus establishing development and sales frameworks for supplying products that benefit all customers, excluding no one regardless of their physical characteristics. We thereby seek to include and provide joy to all customers and to forge a business model that creates new demand.

Development of Size Lineup Accommodating All Customers

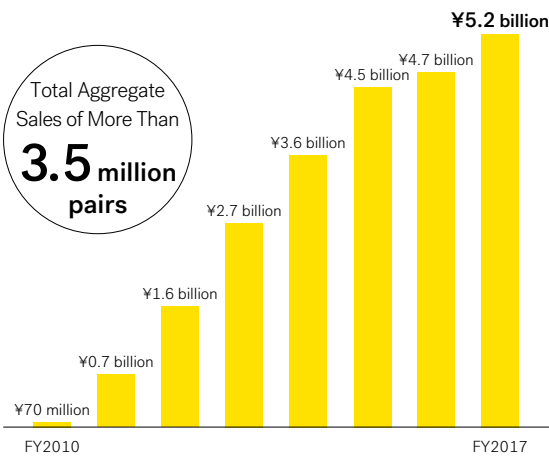
Previously	Going forward
<ul style="list-style-type: none">• Standard industry sizes• Emphasis on design and other aesthetic qualities	<ul style="list-style-type: none">• Wide range of sizes accommodating all customers' feet• Balanced focus on design, comfort, and price

Shoe Size Range to Cover 100% of Foot Sizes



Customers' Shoe-Related Concerns
Ratio of customers expressing dissatisfaction with the comfort of shoes
90%
Based on survey of EPOS cardholders conducted when development of Rakuchin Kirei series shoes had just begun

Sales of Women's Shoes: Rakuchin Kirei Series



Shoes that Go Unworn after Purchase
Ratio of customers responding that they stopped wearing shoes due to size issues or pain
41%
Based on survey of EPOS cardholders conducted when development of Rakuchin Kirei series shoes had just begun

Customer Participation in Product Development

At the time when development of the Rakuchin Kirei series of shoes was first started, a survey of EPOS cardholders indicated that around 90% of them had felt discomfort with their shoes. This survey made it clear that customers were unable to find pumps satisfying all of their needs with regard to fashion, comfort, and affordability. We thus vowed to create just such shoes. We began by measuring customers' feet and analyzing the results to make original shoe trees. We then held planning meetings together with customers that had expressed dissatisfaction with the comfort of their shoes. The Rakuchin Kirei series of shoes only consists of those products able to meet the strict standards of customers after being refined through an ongoing cycle of thinking and creating prototypes together with customers.



Rakuchin Kirei series of shoes (Japanese only)
vo.i.0101.co.jp/voi/webshop/customer_portal/index.jsp

Needs Related to Shoe Sizes

The foot sizes of adult women in Japan are said to range from 20.5 cm to 26.0 cm. However, the standard range of shoe sizes offered by the Japanese apparel industry is from 22.5 cm to 24.5 cm, which covers only 72% of this

range of foot sizes. With the Rakuchin Kirei series of shoes, we expanded the range of sizes we offer from 7 sizes to 16 sizes, covering foot sizes from 19.5 cm to 27.0 cm, in order to accommodate customers wanting to buy shoes that were previously unable to due to their physical characteristic of having small or large feet. This process led to the Rakuchin Kirei series of shoes covering 100% of foot sizes, giving all customers the opportunity to enjoy these shoes and thereby selling more than 3.5 million pairs to date.

Product Creation Efforts for the Benefit of All Customers



Employee Comment

Ai Saiki
Shoes Business Section
Omni-Channel Retailing Division
MARUI CO., LTD.

I have been involved with the Rakuchin Kirei series of shoes as a member of the sales staff since its launch, and I was well aware of customers' concerns regarding shoes. We are currently in the process of creating an environment that will encourage as many customers as possible to experience the comfort and wide range of sizes provided by these shoes. Specific efforts in this regard include renovating shoe sales floors and establishing new ones. I am driven in these efforts by the comments of satisfied customers.

Employee Comment

Miki Goi
Shoes Business Section
Omni-Channel Retailing Division
MARUI CO., LTD.

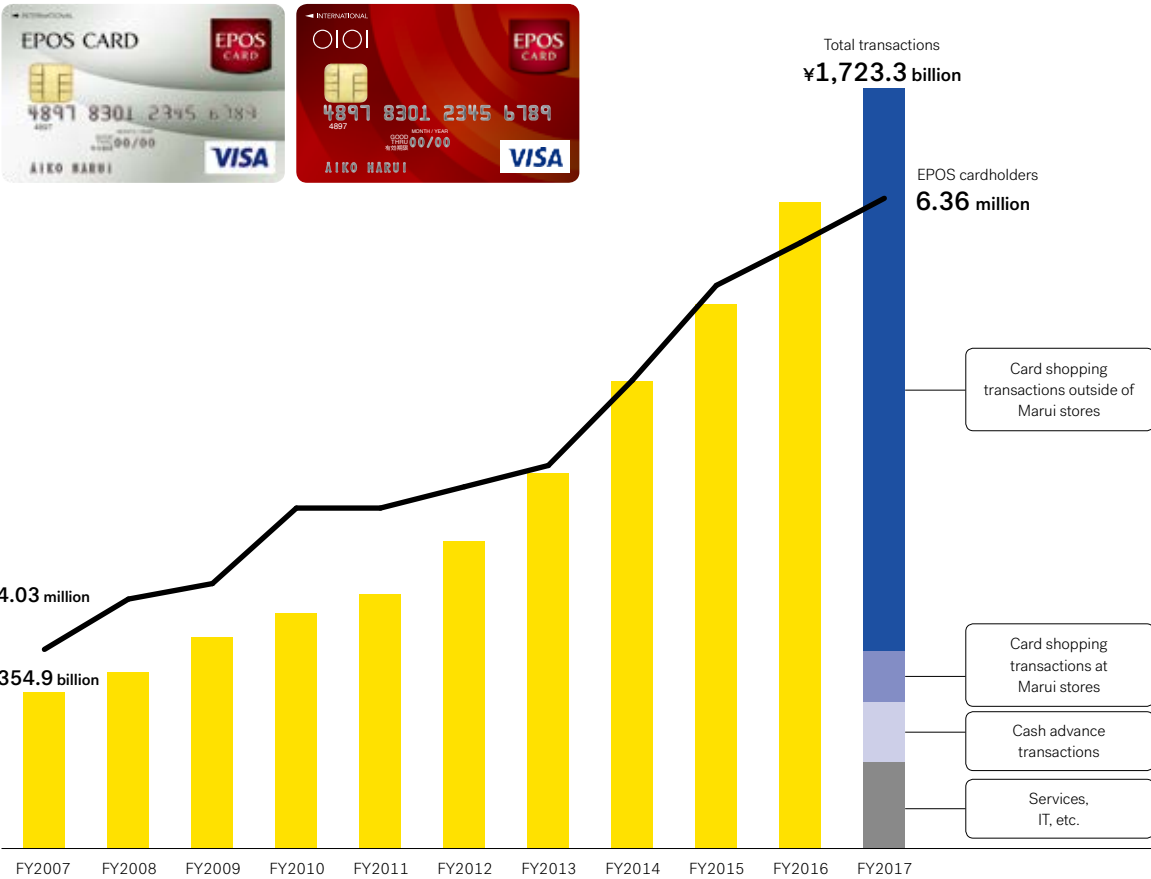
We are intensely focused on developing products that meet customer needs based on the input gathered from customers during planning meetings. After expanding our size lineup, customers expressed their appreciation by stating how they were able to feel the joy of fashion and finding shoes that fit. Knowing that I have been able to enrich the lives of customers is a major source of motivation. In future product development activities, I will maintain my approach of earnestly incorporating customer input.

FinTech Business with Annual Growth Rates of 17%

Transactions in MARUI GROUP's FinTech business have continued to grow at an average rate of 17% per year, well above the average of 7% for the credit card industry. Previously, we offered an in-house card that was only usable at MARUI GROUP stores, but everything changed when we received a direct license from Visa Worldwide

Japan Co., Ltd., allowing us to begin offering the EPOS card, a multipurpose card that is usable anywhere in the world. Since its launch in 2006, the EPOS card has contributed to ongoing growth in card shopping transactions, driving the growth of not only the FinTech business but also of MARUI GROUP as a whole.

Transactions in MARUI GROUP's FinTech Business



POINT 1

Cardholder Base Consisting Largely of Youths and Young Adults and Generating High Profitability
We set low credit limits for new applicants, making it easier for students, minors, and other individuals whose income will only start growing in the future to receive credit cards. As a result, for approximately 30%*1 of our cardholder base, the EPOS card was their first ever credit card. In addition, we encourage cardholders to upgrade to Gold cards, which feature no annual fees, based on their usage frequency and amounts. Approximately 25% of cardholders currently carry Gold or Platinum cards. Moreover, Gold cardholders tend to maintain consistently high rates of using revolving and installment payments while making transactions in larger amounts, contributing to higher earnings.

*1 Source: Epos Card Co., Ltd.

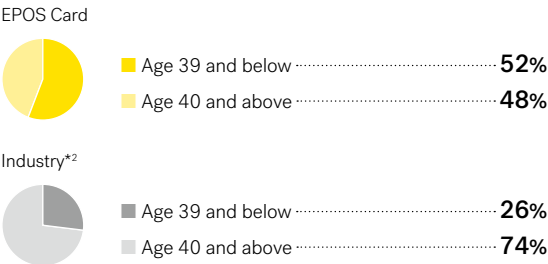
POINT 2

On-the-Spot, In-Store Issuance Made Possible by IT-Powered Operations
System management and development at MARUI GROUP is handled by Group company M & C SYSTEMS CO., LTD. This company develops over 100 systems a year and is capable of delivering speedy service and installing cutting-edge technologies. Thanks to systems developed by this company, we are able to issue EPOS cards on the spot using store tablets in as little as 20 minutes, a world record. In fact, the EPOS card is an IC-chip-equipped Visa card to be issued in this manner. By enabling customers to receive their EPOS card on the spot and use it immediately, we make it more likely that their EPOS card will become their main card, thereby realizing higher rates of active card users.

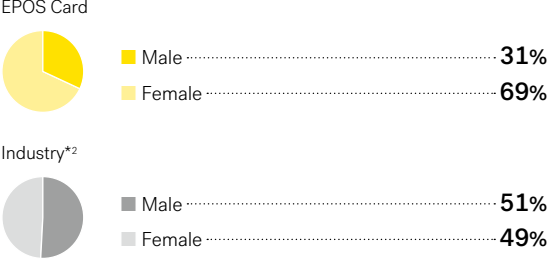
POINT 3

Unique Collaboration Scheme Supporting Nationwide Expansion
As part of our efforts to expand our cardholder base, we issue collaboration cards together with partner facilities and companies from other industries. We establish EPOS card application centers as tenants at partner facilities, which allows us to position application centers across Japan. Furthermore, although standard collaboration cards only grant cardholders access to the benefits of the one partner that corresponds to their card, EPOS collaboration cards allow holders to use the benefits of all partners with just one card. This unique scheme is beneficial for customers and collaboration partners as well as for MARUI GROUP.

Cardholders by Age



Cardholders by Gender



*2 Source: Consumer Credit Statistics from Japan (FY2016), Japan Consumer Credit Association

NEWS

Receipt of 16th Porter Prize by MARUI GROUP's Credit Card Services Business

MARUI GROUP's credit card services business has a long history dating back to its founding and the installment payments offered then that gained additional depth when the Company issued Japan's first credit card in 1960. This business was awarded the 16th Porter Prize. The rationale for this selection included a high evaluation of factors such as how we ensure the convenience of credit card issuance in recognition of our cards' position in supporting retail, how our cards are largely held by customers under the age of 40 due to our policy of building creditability together with customers, and the large ratio of revolving payment usage.

www.porterprize.org/english/pastwinner/

About the Porter Prize

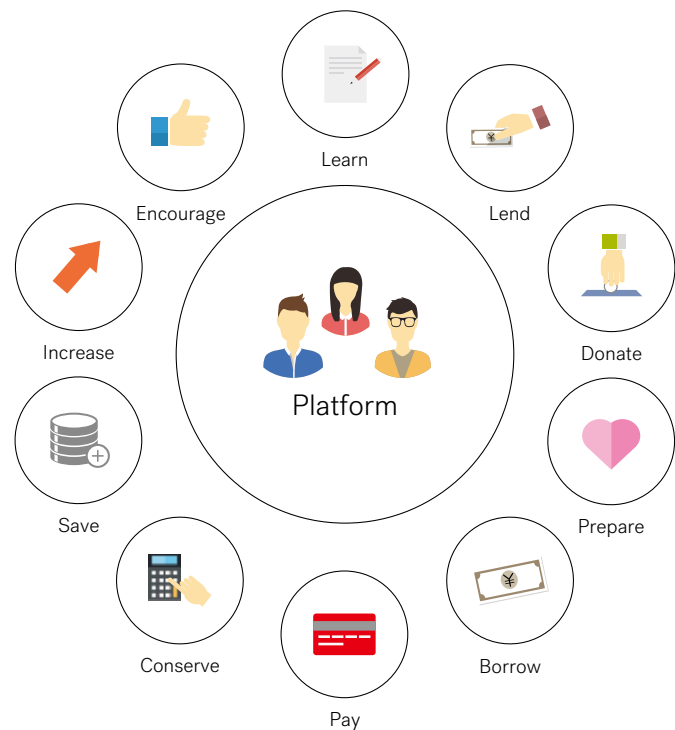
The Porter Prize is an award that was created in July 2001 to bestow recognition on Japanese companies that have achieved and maintained superior profitability in a particular industry by implementing unique strategies based on innovations in products, processes, and ways of managing. The name of the award is derived from Professor Michael E. Porter of Harvard University.

カード事業

PORTER PRIZE 2016 GRAND WINNER

Financial Services in Our Daily Lives

MARUI GROUP only provides financial services, such as payment and borrowing services, through its credit cards. In the future, however, the Company will strive to expand its offerings to include services for saving, increasing, and lending money as well as for encouraging others and preparing for contingencies. We will engage in open innovation activities with venture and other FinTech companies to develop such services in various fields.



Employee Comment



Hironobu Mamuro
Credit Management Department
Epos Card Co., Ltd.

A Card Usable by All Customers When and Where They Need It

In 2006, after receiving a direct license from Visa Worldwide Japan Co., Ltd., we began issuing EPOS cards, the world's first IC-chip-equipped Visa card to be issued on the spot in stores (system is patent pending). When the Retailing business began developing stores to cater to customers of all ages, we followed suit by starting up a Groupwide project pertaining to credit cards. Through this project, discussions regarding the ideal form of our credit card were carried out over the course of a year. The conclusion we reached was that our credit card should be a card that is usable by all customers when and where they need it. We thus decided to transition from our previous in-house credit card to a multipurpose credit card. On-the-spot, in-store issuance of an IC-chip-equipped credit card was an unprecedented feat, even for Visa, and this company's high security standards made negotiating for this privilege difficult. Luckily, MARUI GROUP had all of its system development, information security management, and card issuance procedures conducted through a Group company, which enabled us to tackle this challenge through a concerted Groupwide effort. Eventually, we succeeded in receiving approval from Visa thanks to this strength.



Pay

Easy and Smooth Payment

In March 2017, it became possible to use Apple Pay with all EPOS cards. EPOS cardholders are now able to register their card with their iPhone or Apple Watch, a simple process that allows for smooth payments at convenience stores and other locations.



Trial Introduction of Bitcoin Virtual Currency

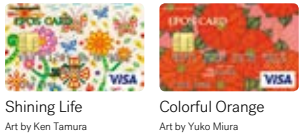
In August 2017, we introduced, on a trial basis, a service at Shinjuku Marui Annex that allows payments to be conducted using the bitcoin virtual currency. The decision to test this service was based on the April 2017 revision to the Payment Services Act as well as the rapid rise in individuals in possession of bitcoins in Japan. The service itself used the bitFlyer wallet smartphone application provided by bitFlyer, Inc., Japan's largest bitcoin broker.



Donate

Cards Designed by Differently Abled Artists

We held a card design contest for differently abled artists. Two of the submissions were selected via customer vote and then transformed into actual cards in June 2017. The issuing fee for a card with one of these designs is ¥500. All of this amount is donated to SHOUGAISHA JIRITSU SUISHIN KIKOU ASSOCIATION, an organization that supports the independence of differently abled individuals.



Donations through EPOS Points

MARUI GROUP has included a donation option on the list of EPOS point exchange options, providing an outlet for cardholders who wish to contribute to society. Well-meaning cardholders can choose from among 14 donation targets that have been sorted into four categories: support for children's education through UNICEF, humanitarian and refugee aid, environmental and regional support, and support for differently abled individuals.



Learn

Money Seminars for EPOS Cardholders

We hold Money Seminars for EPOS cardholders conducted by financial planners. Approximately 80% of the individuals that apply for these seminars are in their 30s or younger, verifying the high level of interest in financial services among young adults.



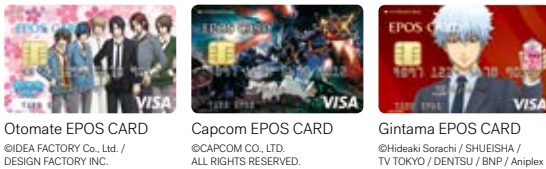
Encourage

Monthly Rent Advanced-Payment Rent Guarantee Service

The ROOM iD advanced-payment rent guarantee service bundles advanced payment and guarantee services for renters. This service eliminates the need for renters to identify a guarantor when moving into an apartment, which has become increasingly more difficult due to the declining birthrate and aging population.

Communication of Anime Content to the World

MARUI GROUP established the Anime Business Department in April 2016 to spearhead efforts to communicate anime content to the world. Anime is an art form Japan prides itself on and is said to have a market value of ¥12 trillion on an annual basis. The department engages in collaborative initiatives that increase the value of anime works and creates EPOS cards with original anime-inspired designs, much to the delight of fans.



Employee Comment



Yoshiki Murabayashi
Anime Business Department
MARUI GROUP CO., LTD.

The Gintama EPOS CARD was issued following MARUI GROUP's participation in the production committee for the live action *Gintama* movie. This card proved immensely popular, with more than 10,000 cards being issued in only two months. I am proud to know that the card and store promotions I carried out based on my experience at Epos Card helped make *Gintama* an even greater hit.

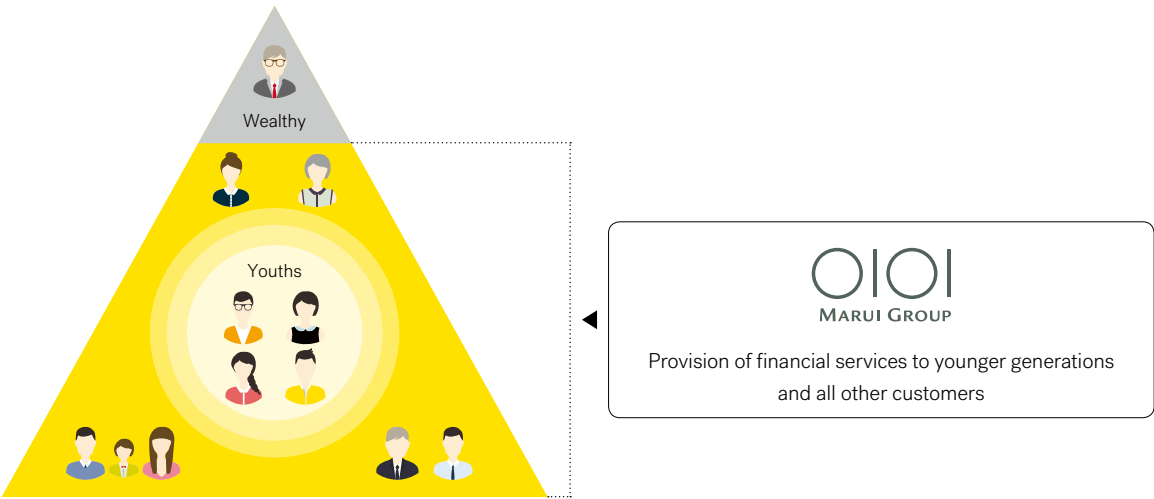
Financial Inclusion of All Customers

MARUI GROUP's vision for financial inclusion is to provide financial services that can enrich the lives of younger generations and everyone else. This vision shares the same perspective as a core concept of the United Nations Sustainable Development Goals—the idea that no one will be left behind.

Services for Younger Generations and Everyone Else

In the past, financial services have primarily been for the wealthy. The concept of FinTech seeks to break away from this tradition by providing financial services that can be used by everyone, regardless of their income or age. MARUI GROUP sees its mission as being to

promote financial inclusion by supplying financial services to everyone. Accordingly, we strive to provide financial services that enrich the lifestyles of everyone, particularly the youths and young adults for whom existing financial services lie out of reach.



Inability of People under the Age of 40 to Secure Sufficient Financial Assets

Ratio of the approximately ¥1,700 trillion worth of financial assets in Japan owned by households headed by people in their 30s or younger

6.6%

Based on Presentation on Inheritance Tax and Donation Tax, Ministry of Finance, October 2015

Increasing Emphasis on Preparing for the Future Among People Aged 18-39

Ratio of people preparing for the future through saving or investment

58.2%

Based on Public Opinion Survey Concerning People's Lifestyles, Cabinet Office, June 2017

Concept of a Prosperous Society

The impetus for MARUI GROUP turning its focus to everyone was the question of what exactly constitutes a prosperous society. An issue faced by Japan is disparity between individuals. When looking at the country, we saw that, although many were successful at accumulating material wealth, there were some that were excluded from this pursuit.

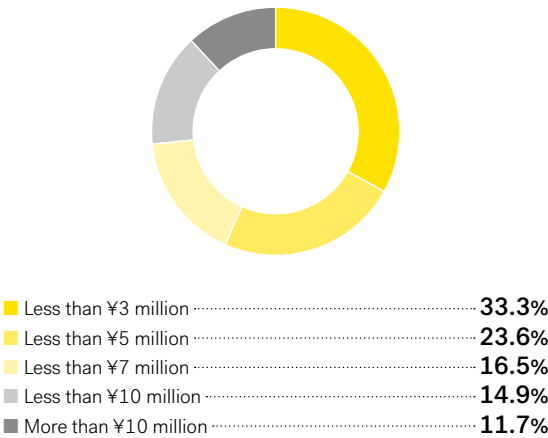
In terms of products, the industry standard sizes for women's shoes, for example, only covered the foot sizes of 72% of Japanese women, excluding many for use of these products. The world of financial services was even more exclusive, as the majority of services were only provided to a limited group of wealthy individuals. Recognizing this fact led us to conclude that society could not be said to be truly prosperous unless products and services are made available to all individuals. Moreover, we came to realize that it would not be enough to simply provide inclusive financial services as social contributions; we would need to also craft these services into a business model that could achieve sustainable growth.

MARUI GROUP's Vision of Inclusion

A large portion of MARUI GROUP's customers are aged 18 to 39. The Company history began with a business of helping young adults that could not purchase expensive furniture in single payments, and this spirit lives on in our operations today. Based on our unique credit philosophy, we have set credit limits for new applicants lower than those of other companies in order to make it easier for university students and minors without credit card experience to apply. Accordingly, the EPOS card is the first card for many of our cardholders, and we have thus been able to forge long-term relationships with these customers.

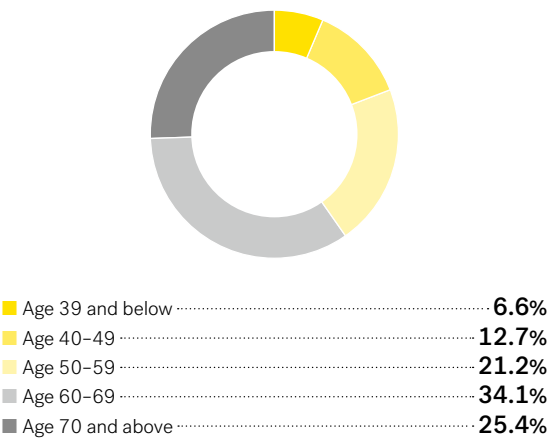
Among developed countries, the portion of financial assets that are in the form of savings is thought to be the highest in Japan. Of the approximately ¥1,700 trillion worth of financial assets in the country, only 6.6% are held by households headed by people in their 30s or below. Nonetheless, the number of youths and young adults focused on preparing for the future is rising. Looking at the social issues expected to arise in the future, MARUI GROUP is branching out from the conventional payment and borrowing services provided through credit cards to offer a wider variety of financial services in its FinTech business, including those for saving, increasing, and lending money, offering monetary encouragement, and preparing for the future. Moreover, we hope to supply these services to youths and young adults as well as to everyone else.

Households in Japan by Income Level



Based on Comprehensive Survey of Living Conditions, Ministry of Health, Labour and Welfare, 2016

Total Financial Assets in Japan by Age of Head of Household



Based on Presentation on Inheritance Tax and Donation Tax, Ministry of Finance, October 2015

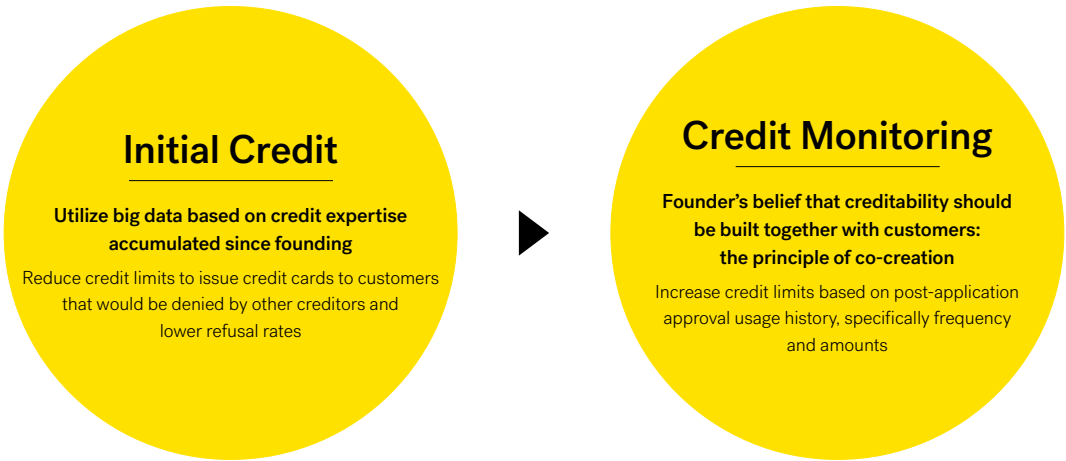
Big Data and Co-Creation Credit Expertise Supporting MARUI GROUP

Since its founding, MARUI GROUP has operated under the basic belief that creditability should be built together with customers. As opposed to being assigned credit based on a customer's age, profession, or income, we feel that credit must be shaped through a customer's usage and payment records. This belief has led to our ratio of delinquent debt being the lowest in the industry at 1.45%.

Basic Credit Philosophy

The credit standards MARUI GROUP uses in judging credit card applications and setting credit limits are based on the belief that creditability should be built together with customers, which we have adhered to since the time of the Company's founding. This belief clearly distinguishes MARUI GROUP from other companies, which generally

base judgments primarily on a customer's age, profession, and income, as the Company instead seeks to build trusting relationships with customers in accordance with their credit card usage frequency and amounts after application approval.

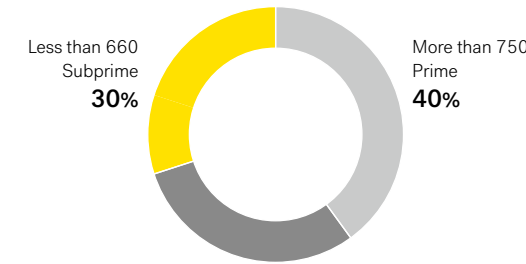


MARUI GROUP's Basic Credit Philosophy	
Credit	Creditability should be built together with customers based on usage and payment histories, regardless of age, profession, or income.
Delayed payments	Responsibility lies with both the customers and the creditor, and a payment solution should be sought together.
Customers that do not pass examinations	Such customers should be refused (while expressing appreciation for applying), and we must continue seeking to improve the accuracy of credit examinations to lower refusal rates.

U.S. Credit Scores and MARUI GROUP's Big Data

In the United States, credit cardholders are assigned credit scores based on their credit histories, and these scores are stored by credit institutions. In addition to credit card usage, credit scores also take into account factors such as housing and automobile loan repayment history, outstanding debt amounts, and other credit information to assign individuals a score of 300–850. The average credit score is around 680, and individuals with scores of less than 660 are considered to be in the subprime range. Roughly 30% of all people in the United States are in this subprime range (see Figure 1). Credit scores are not only referenced when applying for credit cards or bank loans, but also when seeking employment or renting housing. In this manner, credit scores are used to judge various aspects of people's lives, and the level of a person's creditability is decided based on their credit history.

Figure 1: Distribution of Consumers by Credit Score in the United States



Based on Fair Isaac Corporation

Similarly, MARUI GROUP uses credit-related big data collected based on customers' payment histories. When issuing a credit card to a first-time applicant, we conduct examinations based on external credit histories while also utilizing our unique credit expertise. This expertise has been accumulated over the course of MARUI GROUP's history, beginning with the sale of furniture through monthly installment payments at the time of the Company's founding, and is based on our co-creation philosophy of building creditability together with customers. Our credit framework does not entail assigning credit to customers, but rather involves setting a credit limit that is within their means and gradually increasing this limit based on their usage history. Through this framework, our cardholder base has come to largely comprise university students and minors without credit card experience and adults aged 18 to 39. Furthermore, 30% of these individuals received their first ever credit card from MARUI GROUP. From our founding up until today, we have continued to amass extensive amounts of data on customers' credit histories. This data has allowed us to develop wide-ranging expertise with regard to credit, which helps us identify the cases in which credit limits accurately match customers' means and the cases in which a customer will likely become a credit delinquent. Based on this expertise, we are able to increase the accuracy of credit examinations. This data and expertise have evolved into the big data that serves as the initial credit standards used by MARUI GROUP in issuing credit cards.

Credit Philosophy of Building Creditability Together with Customers

Through EPOS cards, we seek to provide customers with their first credit card and encourage them to use this card over the long term. To this end, we set initial credit limits lower than other credit providers in order to supply financial services, namely credit cards, to those customers that could not receive a card elsewhere. This approach has led to a large portion of EPOS cardholders being adults aged 18 to 39, a demographic that tends to have a strong inclination to make purchases. In monitoring customer credit, we use our credit management platform and seek to raise customers' credit limits based on usage history, and have maintained the industry's lowest ratio of delinquent debt as a result. It is common for customers without credit experience or that do not have bank accounts to fail to pass initial credit examinations and therefore not be issued a credit card. At MARUI GROUP stores, however, our refusal rate for credit card issuances is only 8%, whereas other providers exclude a much greater number of individuals, as indicated by the industry average refusal rate of 23%. This difference is a product of MARUI GROUP's credit philosophy of building creditability together with customers.



Toshikazu Takimoto
Managing Executive Officer
Responsible for FinTech Business

U.S. Credit Cycle and MARUI GROUP's Ratio of Low Delinquent Debt

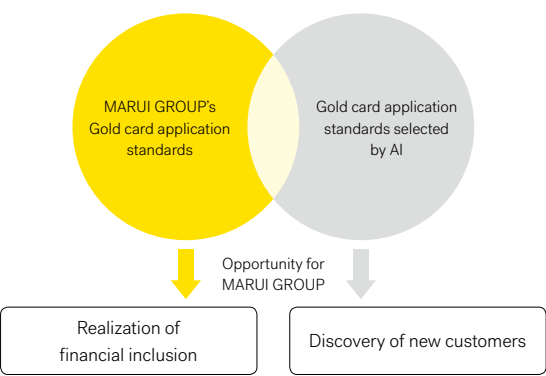
In the United States, there is an ongoing cycle in which loans to subprime individuals leads to an increase in the rate of overdue debt, which causes lenders to refrain from subsequently lending, in turn stimulating a decrease in the rate of overdue debt. This is referred to as the "credit cycle" (see Figure 3). The current stage of this cycle is the one in which its overdue debt rates rise, meaning that even credit card companies with impressive transaction volumes cannot ensure that this topline growth will translate to higher profit. When viewed from an inclusion perspective, altering lending volumes based on the credit cycle will not be at all helpful in reducing customers' concerns for their livelihood or in resolving issues surrounding subprime borrowers.

MARUI GROUP's own experience is a counter example to the credit cycle. Although the ratio of delinquent debt rose temporarily over the period from 2005 to 2008, due in part to the impacts of the revision of the Money Lending Business Act, this ratio has continued to decline thereafter, recently reaching the industry low of 1.45%. At the same time, EPOS card transactions have been growing at an average rate of 17% per year, dwarfing the Japanese credit industry average of 7% per year. This ability to defy the standard set by the U.S. credit cycle indicates that MARUI GROUP's business represents a model for achieving sustainable growth while simultaneously realizing financial inclusion (see Figure 4).

Improvement of Credit Standard Accuracy Using Artificial Intelligence

A major characteristic of MARUI GROUP's credit standards is that they are based on credit information relating to individual customers' shopping habits and lifestyles. In 2016, we conducted an experiment using artificial intelligence (AI) to verify the accuracy of our standards for Gold card applications. This experiment indicated a difference between the Gold card application standards used by the Company and those selected by AI. The results also showed that our credit standards are distinct from those of other companies using AI. At the moment, we are monitoring the usage patterns of the individuals that AI has newly selected as Gold card candidates to further improve the accuracy of our credit standards (see Figure 2).

Figure 2: Comparison of Gold Card Application Standards



Hirotsugu Kato
Director and Senior Executive Officer
General Manager, IR Department
In charge of Corporate Planning and ESG Promotion

Unprecedented Business Model Not Seen Anywhere Else in the World

When I was visiting the United States as part of our investor relations activities in July 2017, a credit card industry analyst asked how, despite having a customer base primarily consisting of youths and young adults, we were able to achieve industry-leading levels of growth while maintaining and even decreasing the ratio of delinquent debt for EPOS cards. It was through this exchange that I first learned of the credit cycle. In the United States, if the number of subprime cardholders goes up, the rise in lending to these cardholders will almost assuredly cause an increase in the ratio of delinquent debt. This principle is common sense within the industry in the United States. However, EPOS cards deny this principle by maintaining average annual growth of 17% combined with a decreasing ratio of delinquent debt. This accomplishment is no doubt a result of the credit expertise, currently grounded in co-creation and big data, that we have unconsciously exercised since the Company's founding. This particular investor relations visit made me recognize that MARUI GROUP's business model is unprecedented, not being seen anywhere else in the world. At the same time, I came to realize that the strengths of the Company were not accurately understood. Addressing this issue will be a task for future investor relations activities.

Figure 3: Credit Card Receivables and Ratio of Overdue Debt (More Than 90 Days Overdue) in the United States

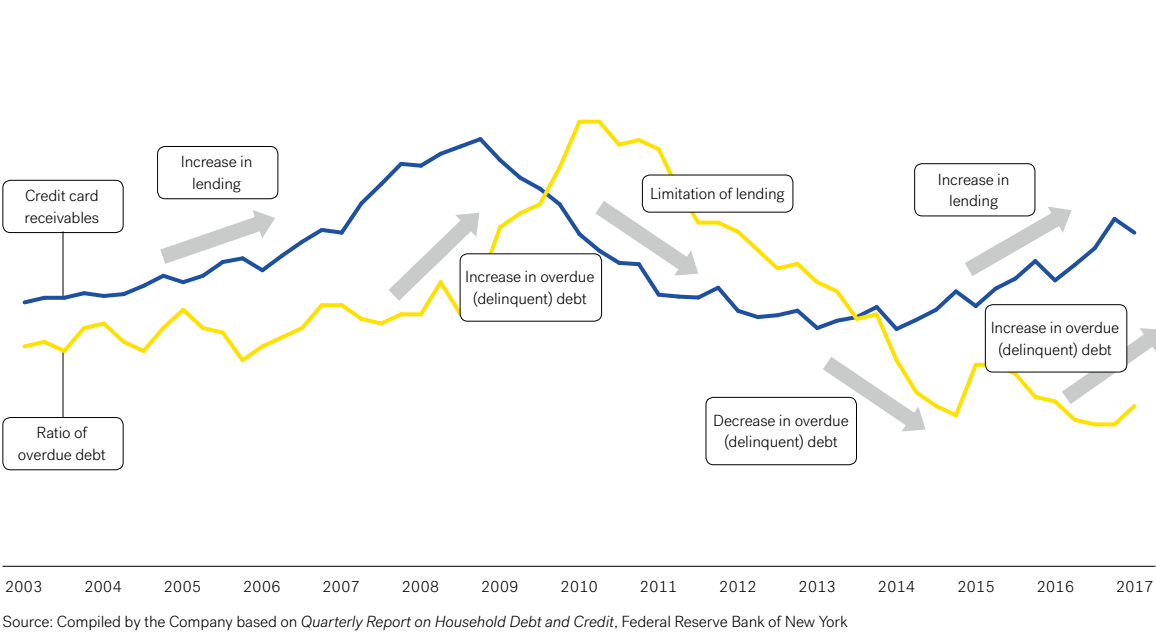
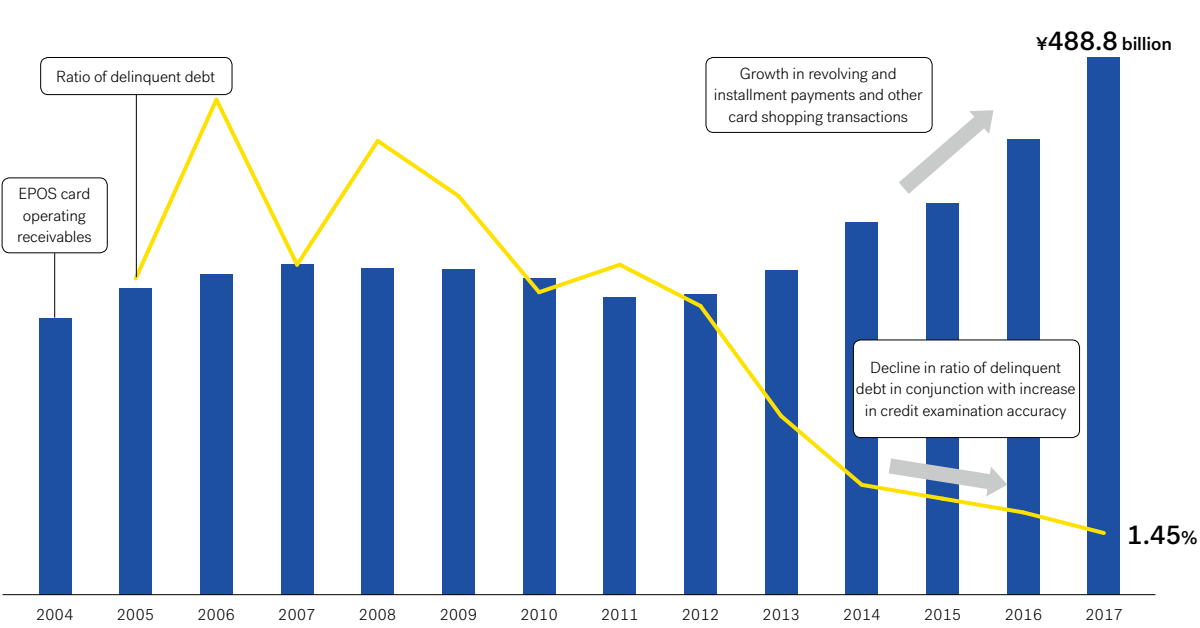


Figure 4: EPOS Card Operating Receivables and Ratio of Delinquent Debt



FinTech Financial Inclusion

Financial Inclusion—The Essence of FinTech

We arranged for a discussion between Masakazu Masujima, a leading authority on FinTech, and President Aoi on the possibilities that will be unlocked by FinTech and financial inclusion at MARUI GROUP.

There are times when data alone will not be enough to encourage someone to commit. It is important to consult with someone to get that final push.

Masakazu Masujima



Masakazu Masujima

Partner, Mori Hamada & Matsumoto
Advisory Board Member,
MARUI GROUP CO., LTD.



Hiroshi Aoi

President and Representative Director
Representative Executive Officer
MARUI GROUP CO., LTD.

Financial inclusion is the process of creating the data on which credit is built together with customers.

Hiroshi Aoi



Financial Inclusion and Co-Creation

Aoi: “Financial inclusion is the essence of FinTech.” Hearing those words from you, Mr. Masujima, in the spring of 2016 left a strong impression on me. Those words awakened me to the fact that FinTech is the path MARUI GROUP should pursue given our focus on inclusion. I also recall your mentioning that the financial crisis of 2008 led to the pursuit of this financial inclusion.

Masujima: Whether a company is in finance or in some other business, it cannot succeed without the support of a wide range of stakeholders. However, the type of financial businesses of the past only offered limited options, forcing consumers to choose from those available to them. This lack of scope led to Wall Street being dominated by the greed of such financial businesses, which began sacrificing the powerless for their own gain, pulling the trigger for the financial crisis of 2008. From the aftermath of the financial crisis emerged people that sought to provide financial services for those who had been excluded from such services previously. At that point, the needs that were present in society were able to be sufficiently met by the resources available, creating what could, in an overarching sense, be seen as the start of the financial inclusion trend.

Aoi: Prior to the financial crisis, there was a move to use financial engineering to create frameworks that would enable subprime individuals to purchase homes. However, these frameworks were hollow and lacked substance, like a sandcastle, triggering the financial crisis as they crumbled. Conversely, FinTech is backed by solid technologies and insight, giving it the necessary substance.



Masakazu Masujima
Partner, Mori Hamada & Matsumoto
Advisory Board Member, MARUI GROUP CO., LTD.

Mr. Masakazu Masujima graduated from the Faculty of Law at the University of Tokyo and from Columbia Law School. He has held positions at the Palo Alto office of Wilson Sonsini Goodrich & Rosati P.C., in the Supervisory Bureau of the Financial Services Agency, as a member of the Blockchain Study Group of the Ministry of Economy, Trade and Industry, and as a member of the Review Committee for the Sharing Economy of the National Strategy Office of Information and Communications Technology under the Cabinet Secretariat.

Masujima: You are exactly right. At that time, what people called “financial technology” was, in fact, nothing more than financial engineering and calculation. There was a logical backing to these “technologies,” but not a practical or real-world backing. Today, we have this backing in the form of data. The technologies of today enable us to constantly collect and monitor data.

Aoi: MARUI GROUP was founded in 1931. At that time, our business involved selling furniture through monthly installment payments, enabling younger generations to purchase these items on installment plans. When I think about it now, it seems as though this business could be seen as promoting a type of financial inclusion.

Masujima: That was a period in which industry was growing, meaning that individuals, particularly younger generations who had just joined the workforce, could not easily borrow money. At the same time, this was a period in which various goods and commodities were becoming available. The monthly installment payment system arose as a means of providing these items to people who wished to purchase them, but lacked the means. This system could thus be seen as embodying the philosophy of what we now call financial inclusion.

Aoi: Konosuke Matsushita, founder of Panasonic Corporation, spoke of what he called his “Tap Water Philosophy.” Basically, this philosophy stated that if electronics could be created at low costs, people would quickly come to use these products as readily as they use tap water. This process would free housewives from the hassle of doing laundry. At the time, a quality washing machine would be quite expensive. As such, it is said that the advent of installment payments and credit greatly aided in normalizing the sale of these items. Knowledge of MARUI GROUP’s contributions throughout history is a major source of motivation for me.

Masujima: It is my understanding that, for example, when a young adult that has moved from the country to the city, only living on a limited allowance from their parents, tries to pay with a credit card, Marui sales staff may caution them against overspending. In this, one can see that MARUI GROUP is attentive to its customers’ needs in the truest manner. I think it is spectacular how, rather than simply viewing customers as a source of profit, the Company has based its business on forging long-term relationships with young adults.

We have been looking for ways to provide services that help young adults accumulate assets in a manner that gives them a clear vision of their future.

Hiroshi Aoi



Aoi: That attitude is an important part of MARUI GROUP’s legacy. Among the words left by our founder, perhaps my favorite saying is that creditability should be built together with customers, rather than assigned to customers. I was moved when I first heard these words. Finance based on this idea of creating together is, with perhaps the exception of microfinance, almost nonexistent outside of MARUI GROUP, whether you look at Japan or even the entire world.

Value Created by Combining Data

Aoi: I find issue with the recent overemphasis of data. There is no doubt a lot of data, and there are some issues that can be resolved by analyzing big data using artificial intelligence. However, this reliance on data can lead to people being excluded from financial services. True inclusion is the process of creating data together, which equates to building creditability together. This process is fundamentally different from that of making one-sided decisions based purely on the data that has been collected.

Masujima: An interesting perspective can be taken with regard to data. This perspective relates to how data is not bound by the stereotypes that people impose on others. For example, people tend to group others into categories, such as “housewife” or “young businessman,” and make judgments on this basis, despite the fact that each individual is actually quite different. Product data can only give information on purchases made. Meanwhile, the full spectrum of financial data and non-financial data can tell us how the money to make a purchase was obtained, whether or not the purchaser had sufficient money at the

time, and other facts. When both financial data and non-financial data are combined, it becomes easier to determine what recommendations should be made to individual customers at a given time, and this is when data exhibits its true value.

Concern for the Future among Young Adults

Aoi: Awhile back, I was watching an interview with people that had just reached adulthood in which they were asked about their resolutions for that year, and the responses were quite shocking. The first respondent said “cutting back on spending”; the second replied “saving.” Currently, around 70% of young adults have come to harbor concerns regarding money. Not knowing exactly how to address these concerns, they tend to turn to conservation and saving. However, conservation and saving alone are not enough to alleviate such concerns or prepare for the future. In light of this situation, we have been looking for ways to provide services that help young adults accumulate assets in a manner that gives them a clear vision of their future. It is true that young adults may lack resources. However, if they accumulate assets gradually, they should be able to continue building upon their portfolios no matter how the market may fluctuate. This is an area we plan to focus on going forward.

Masujima: By analyzing Google search results, I learned that people tend to live the majority of their lives, from their 20s to their 70s, worried about money. I suspect this worry is a result of uncertainty for the future translating into monetary concerns. For this reason, I see a need for services that adapt to the circumstances of individual



Any entity would be evaluated based on the value it provides to society. This would be the ultimate form of inclusion.

Masakazu Masujima

customers in real time. If a service could, for example, analyze a customer’s current situation to project the patterns that their life may follow in the future, this service could transform concern for money into hope for the future. The support for asset accumulation that you speak of is one service with this potential. The benefits of asset accumulation include how it enables individuals to get a clearer vision of their future, thereby allowing them to live more fully in the present. In addition, I think it is possible to create services that entail working together with a customer, perhaps a car lover, to help them find support for purchasing a car without bankrupting themselves and then providing post-purchase lifestyle advice to this individual.

Co-Creation between Data and People

Aoi: The lifestyle advice you speak of refers to financial advisory services, if I am not mistaken. We have a desire to provide the younger generation with investment and asset management services, but we first must overcome the obstacle of finding a way to effectively solicit these services to such individuals. Jumping straight into investment may be a little bit overwhelming for some. For this reason, I think it would be simpler to ease these individuals into investment by grabbing their attention through providing knowledge about money or some other means of sparking their interest.

Masujima: Once a system has been developed, the costs will not change if it is supplied to one person or to one million people. In fact, it is better to provide this system to

one million people as this will yield more accurate and valuable data than offering it only to one. However, services cannot be provided by systems alone; it takes a combination of systems and people. When faced with a major decision, there are times when data alone will not be enough to encourage someone to commit to one option. In these cases, it is important to consult with someone and share information to get that final push to make a decision.

Aoi: One particularly interesting tidbit of information I learned when speaking with financial planner Aya Maeno was how Ms. Maeno always begins by asking her clients what exactly they want to accomplish. For example, if a certain customer is very fond of their pets, Ms. Maeno will advise them on ways to cut back on spending that do not detract from the funds they devote to their pets. In working to alleviate people’s concerns regarding money, Ms. Maeno adopts an approach of helping them accomplish their true goals and live the lives they desire.

Masujima: I think that this approach is the essence of engagement. The same principle underlies MARUI GROUP’s credit operations. If you provide a service that makes it apparent to customers that they are moving toward the future they desire, they will see no need to part ways with this service.

Aoi: There are countless ways in which data can be utilized, and the forms in which data and human interactions can be combined are equally vast. Accordingly, there is still a great deal of possibilities for us to explore in this area.

New Yardstick of Value Created by Virtual Currency

Masujima: The yardstick for the value of a company is generally considered to be its stock price. However, some have begun suggesting that this may not be the best measure, and virtual currency is presenting the possibility of a new yardstick. One form of value created by companies is social capital, and there is no guarantee that this type of value will be accurately reflected in a company’s stock price. Accordingly, if a financial instrument that is capable of more accurately reflecting a company’s value were to appear, there would be reason to consider using that instrument as the new yardstick.

Aoi: In the stock market of today, there is a great deal of interest in investment based on environmental, social, and governance concerns, and this trend itself is an indication of the rising influence of external factors on companies. Now, companies that are unable to effectively consider the interests of wider ranges of stakeholders will not be able to survive over the medium-to-long term. This trend is an extension of what you just mentioned about new yardsticks for value, and is a representation of how people are increasingly recognizing this as the path we must take.

Masujima: Virtual currency does not issue dividends, and you will not become any richer just by being in

possession of it. However, if everyone possesses this currency and desires to use it, the value of the currency will go up. Here, we see the possibility for the Company to create, say, “MARUI coins.” If the number of people in possession of these coins rises, their value will increase as will the assets of the people holding them. In this manner, virtual currency can forge a connection with coin-holders that is even closer than the connection formed by making customers into shareholders. My vision for virtual currency is this kind of link formed through the financial service of coins.

Aoi: That is an amazing vision. This is the first time I have heard someone speak of virtual currency as a tool for building a sustainable system that will overcome the issues of capitalism to surpass this system. However, I suspect that not everyone involved with virtual currency shares your vision.

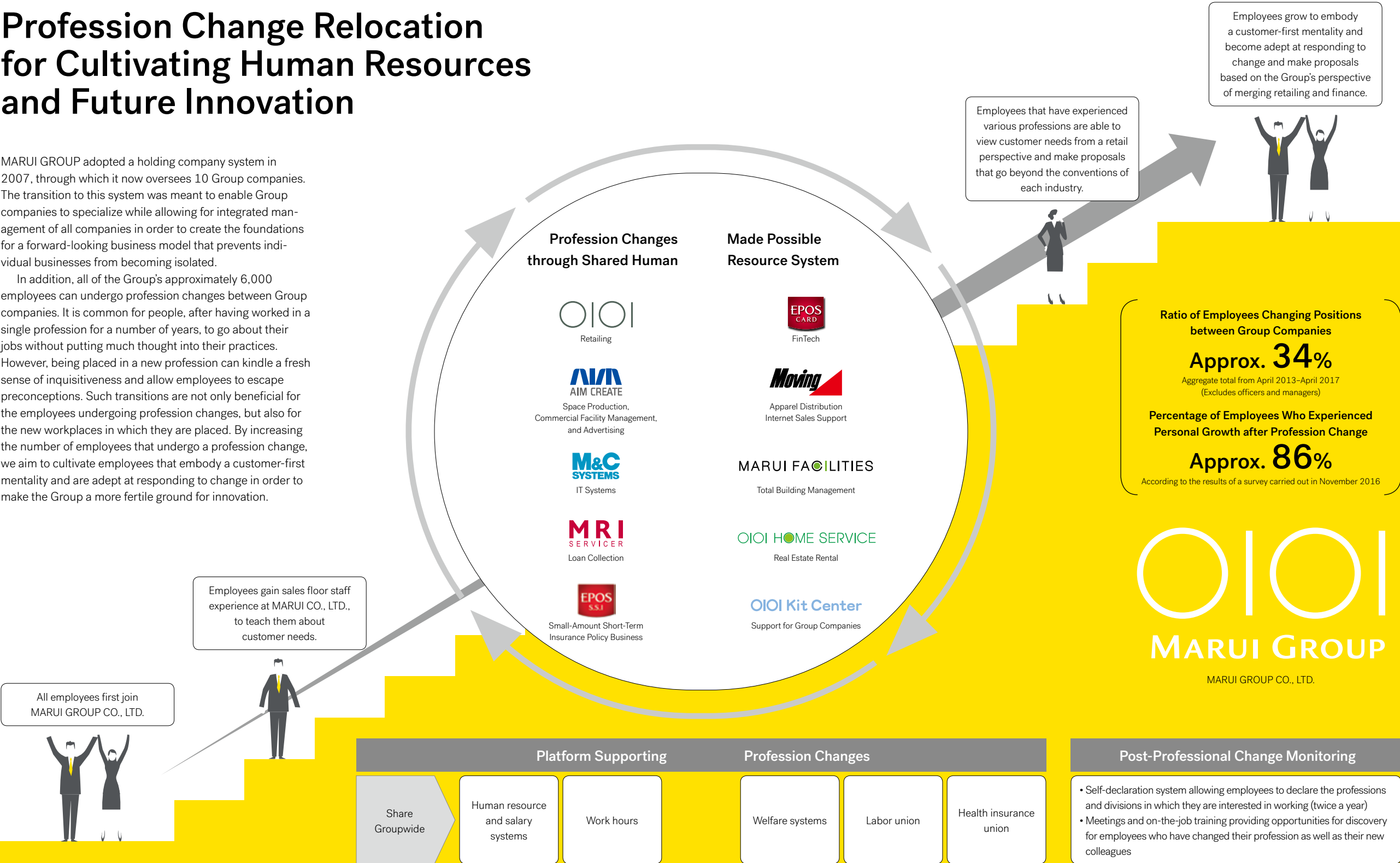
Masujima: Many people simply see virtual currency as a means of making money. Nonetheless, I believe that, if this vision for virtual currency were to become a reality, it would lead to the advent of a world in which any entity, be it a nonprofit organization, an individual, or a company, would be evaluated based on the value it provides to society, and in which its ongoing success will be contingent on this value. This would be the ultimate form of inclusion.



Profession Change Relocation for Cultivating Human Resources and Future Innovation

MARUI GROUP adopted a holding company system in 2007, through which it now oversees 10 Group companies. The transition to this system was meant to enable Group companies to specialize while allowing for integrated management of all companies in order to create the foundations for a forward-looking business model that prevents individual businesses from becoming isolated.

In addition, all of the Group's approximately 6,000 employees can undergo profession changes between Group companies. It is common for people, after having worked in a single profession for a number of years, to go about their jobs without putting much thought into their practices. However, being placed in a new profession can kindle a fresh sense of inquisitiveness and allow employees to escape preconceptions. Such transitions are not only beneficial for the employees undergoing profession changes, but also for the new workplaces in which they are placed. By increasing the number of employees that undergo a profession change, we aim to cultivate employees that embody a customer-first mentality and are adept at responding to change in order to make the Group a more fertile ground for innovation.



Promotion of All Employees’ Efforts to Benefit Customers

In the medium-term management plan launched in the fiscal year ended March 31, 2015, promoting diversity has been defined as one of the strategies for realizing MARUI GROUP’s corporate philosophy, which calls for us to “continue evolving to better aid our customers” and “equate the development of our people with the development of our company.” Our goal in promoting diversity is to create an organization in which each of our approximately 6,000 employees can exercise their individual talents and feel energized and motivated in their work. Society is currently undergoing changes, and the values and needs of people are diversifying. In order to respond to these

changes, we need employees to put forth their unique strengths, forming teams when individual effort is not enough. Moreover, we must build upon our ability to utilize these endeavors on the part of employees to improve corporate value. To achieve these objectives, we are cultivating a corporate culture in which all employees are accepting toward one another’s individuality and reforming systems to make sure employees are motivated in their work as they tackle new challenges and grow. In addition, we are implementing management reforms to utilize this culture and these systems in promoting diversity.

Three Themes for Promoting Diversity

1. Corporate culture in which the individuality of every employee is respected

- Cross-Group profession change system
- Initiatives led by Medium-Term Management Visionary Committee
- Official Groupwide project teams

2. Systems and frameworks supporting the contributions of all employees

- Work style reforms (reduction of overtime)
- Systems for supporting employees in balancing their work with childrearing and long-term care of family members

3. Management reforms for utilizing diversity

- Communication reforms
- Opportunities for everyone to participate in management
- Corporate culture facilitating self-growth



INNOVATION × 6,000

Medium-Term Management Visionary Committee

The Medium-Term Management Visionary Committee is a forum for discussing various topics that will be important to the future of Group management. In the past, meetings were primarily focused on explanations of management policies and other such matters. However, topics are now selected that require a medium-term perspective and for which initiatives will be advanced with a timeline of three-to-five years. While this committee was previously only open to members of Group management, any interested employee is able to apply for participation, and meetings have been held almost every month since. Active discussion is conducted among the around 320 members that are selected from the approximately 1,000 applications received for each meeting. Furthermore, we regularly invite outside lecturers to conduct special lectures.



Committee Meeting Discussion Topics

2016 Topics

- Analysis of MARUI GROUP’s operating environment and future projections
- Medium-term management plan for Retailing and FinTech segments
- Hakata Marui co-creation initiatives
- Report on interactions with investors
- Retail industry and MARUI GROUP as viewed by an analyst: Special lecture by Mizuho Securities Co., Ltd.
- Vision for the world realized through FinTech and MARUI GROUP’s business therein: Special lecture by Advisory Board member Masakazu Masujima
- Retail industry and MARUI GROUP as viewed by a business columnist: Special lecture by Shiho Innami of the Toyo Keizai Online Department of Toyo Keizai Inc.

2017 Topics

- Distribution industry as seen through trends in China, the United States, and Japan: Special lecture by Nomura Research Institute, Ltd.
- Social environment as it pertains to MARUI GROUP and future outlook
- Future created by the fashion business: Special lecture by Representative Director Yoko Ohara of Women’s Empowerment in Fashion
- Strategies for competing viewed as stories—requirements for effective strategies: Special lecture by Professor Ken Kusunoki of the Graduate School of International Corporate Strategy at Hitotsubashi University
- Medium-term management plan for Retailing and FinTech segments
- Capitalizing on Security and Potential of Money: Special lecture by Aya Maeno, Representative Director of Cras Inc. and Representative of FP Office will

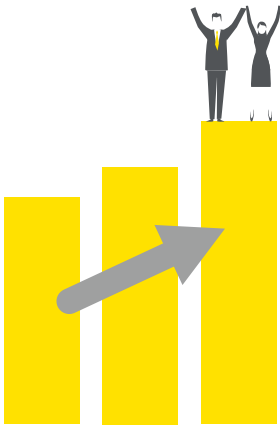


Hiroshi Nakada

Telecommunication Networks,
Store System Development Department
M & C SYSTEMS CO., LTD.

I am responsible for developing the systems for try-on stores. It was previously difficult to understand just who exactly I am making these systems for. Through participation in the Medium-Term Management Visionary Committee, however, I gained an understanding of the overarching trends in society and within the Company, helping me better determine the extent to which systems can benefit customers and how these systems can be improved. Identifying needs can facilitate the future co-creation of value.

MARUI GROUP's corporate philosophy calls for us to "continue evolving to better aid our customers" and "equate the development of our people with the development of our company." Based on this philosophy, we have established Groupwide committees and project teams with members recruited through open application. Employees seeking to participate are asked to submit short essays when applying based on which participants are selected. In this section, we present messages from 10 individuals that have participated in the Medium-Term Management Visionary Committee.



Maki Takayanagi

Sales Planning Section, Sales Planning Division
MARUI CO., LTD.

Participation in the Medium-Term Management Visionary Committee enables one to view matters from a broader perspective and a longer timetable. It can be expected that social trends will evolve more quickly and become more diverse going forward. This will result in the standards for customers' purchasing decisions becoming more complex. When I look to the future, I see MARUI GROUP's co-creation management, which involves co-creating customer happiness together with stakeholders, becoming even more important.



Kazumasa Takahashi

Women's Accessory Sales Floor, Yurakucho Marui
MARUI CO., LTD.

The pressures of daily work can cause one to focus only on their own agenda. Through my participation in the Medium-Term Management Visionary Committee, however, I was reminded of the Group's goals, which gave a clearer vision of the fundamental aim of my work. To "continue evolving to better aid our customers" is a part of our corporate philosophy and also an important goal for everyone at the Group. Even if our work is different, all Group members share an understanding of the importance of the customer. I therefore feel that our visions are aligned.



Yukito Takamura

Leasing Department, Space Production Division
AIM CREATE CO., LTD.

The Medium-Term Management Visionary Committee has made reflective thought a common habit of mine, enabling me to be more receptive to changes in my surroundings and to act from a forward-looking perspective. In my current position, I feel that I am providing store environment solutions that incorporate elements for various businesses. I am always endeavoring to utilize the information gained through meetings and my daily studies to tackle new challenges in the now.

The Medium-Term Management Visionary Committee

Equate the Development of Our People with the Development of Our Company



Emi Murata

Rakuchin Kirei Shoes Fit Studio, Kinshicho Marui
MARUI CO., LTD.

When I participated in the Medium-Term Management Visionary Committee, I was reminded that the Fit Studio try-on store I work at uses a new business model that arose from the overlap between several areas of the Group. We are seeking to further improve this model's ability to satisfy customers through a concerted Groupwide effort. For example, we have increased the connection speeds of sales-use tablets and enhanced our systems to allow for smooth coordination between EPOS card application and Internet sales site registration.



Azusa Morimoto

Real Estate Business Section, Real Estate Business Department
MARUI GROUP CO., LTD.

As I am currently working shortened hours, I recognized the Medium-Term Management Visionary Committee as an opportunity to easily maintain an understanding of the Company's strategies. Moreover, participation helped me figure out how to incorporate my desires and commitment into my work. Everyone plays a "lead role" at MARUI GROUP, and the growth of each individual is linked to the growth of the Company. Even if my time working is short, I still want to do my best to benefit customers.



Tetsuya Nakamura

Internet Marketing Section, Omni-Channel Retailing Division
MARUI CO., LTD.

Working in one place can make it difficult to break away from preconceived notions to create fresh ideas. Participation in the Medium-Term Management Visionary Committee enabled me to adopt a wider range of perspectives. This also helped me to think in terms of a medium-to-long-term timetable. I am currently engaged in e-commerce operations. At my workplace, I share my findings with coworkers who could not participate in the committee so that we can move ahead with a forward-looking perspective based on a common understanding.



Mari Yamamoto

Sales Section 3, Home Business Division
Epos Card Co., Ltd.

When I first joined, I was focused only on pleasing the customers in front of me. However, through participation in the Medium-Term Management Visionary Committee, my eyes were opened to a wider range of concerns, including the working environment for us employees, our relationships with business partners, and changes in the operating environment for MARUI GROUP. In the future, I hope to practice co-creation management with a focus on bringing happiness to myself and to those around me.



Go Yamaguchi

E-Commerce Website Section, Internet & Fulfillment Division
MOVING CO., LTD.

I have found participation in the Medium-Term Management Visionary Committee to be a prime opportunity to reflect on my current work. My first profession change brought me to MOVING, where I saw firsthand the strength granted to MARUI by possessing its own distribution and IT systems. In the past, I had been engaged in Internet sales as a buyer. My current position is also related to e-commerce, but it requires a completely different perspective. Exposure to this different perspective broadened my horizons.



Asuka Uemura

Marui Shoes Sales Floor, LaLaport Shonan Hiratsuka
MARUI CO., LTD.

Personal growth comes when you act based on new ideas or different perspectives and move beyond preconceptions. Personal growth has the potential to drive the growth of the Group. The Medium-Term Management Visionary Committee is an opportunity to gain an understanding of social trends and of MARUI GROUP's strengths and find means of incorporating this newfound understanding into one's work. In addition, discussions with other committee participants lead to various new discoveries. I have thus come to view the other participants as comrades in mutual growth.



Garnering Great Support for Inclusion

MARUI GROUP promotes co-creation management to co-create the happiness of customers together with all of its stakeholders. We have turned our eyes to inclusion as a means of unlocking opportunities for the future in response to social issues and customer needs, which change together with the times.



Special Lecture
Creation of an Organization That Utilizes Diversity

Haruaki Deguchi
Founder of LIFENET INSURANCE COMPANY



Special Lecture
Inclusion for Innovation
— Changing the Future with Barrier Value

Toshiya Kakiuchi
President, Mirairo Inc.



Talk Event
Encounter with Paralym Art,
Supporting Differently Abled Individuals

Thane Camus
Director, SHOUGAISHA JIRITSU SUISHIN KIKOU ASSOCIATION

Inclusion Fes 2017
Co-Creation of Happiness for Everyone
Promoting inclusion through our business will require a corporate culture in which the individuality of every employee is accepted and respected. To facilitate the cultivation of such a culture, we held Inclusion Fes 2017, an event for employees, in August 2017. This event provided a venue for fostering awareness among employees and allowing them to experience their differences first-hand. The event garnered great support for inclusion, with around 1,500 employees and family members attending during its two-day period.



Forum for learning how to approach others based on the Enneagram of Personality, which puts forth nine personality types



Exhibition of OUT IN JAPAN collection of photographs of members of the LGBT community by famous photographer Leslie Kee



Daily-use sign language lesson taught by Group employees with hearing impairments



Learn about Individuality



Yoga lesson for teaching employees how to relax their bodies and minds and focus on themselves in the moment



"Mizuno Style Ninja School" for supporting the physical development of children



Learn about the Body and Mind



Testing station for "vein age," bones, lung capacity, and dorsal muscle and grip strength



Lesson in which people learn how to assist individuals using wheelchairs and operate wheelchairs through actual use



Experience Others' Situations



Opportunity to experience being guided by a seeing-eye dog by using eye masks to shut out vision feedback



Specialized pregnancy simulation jackets used to teach about the difficulties and joy of pregnancy

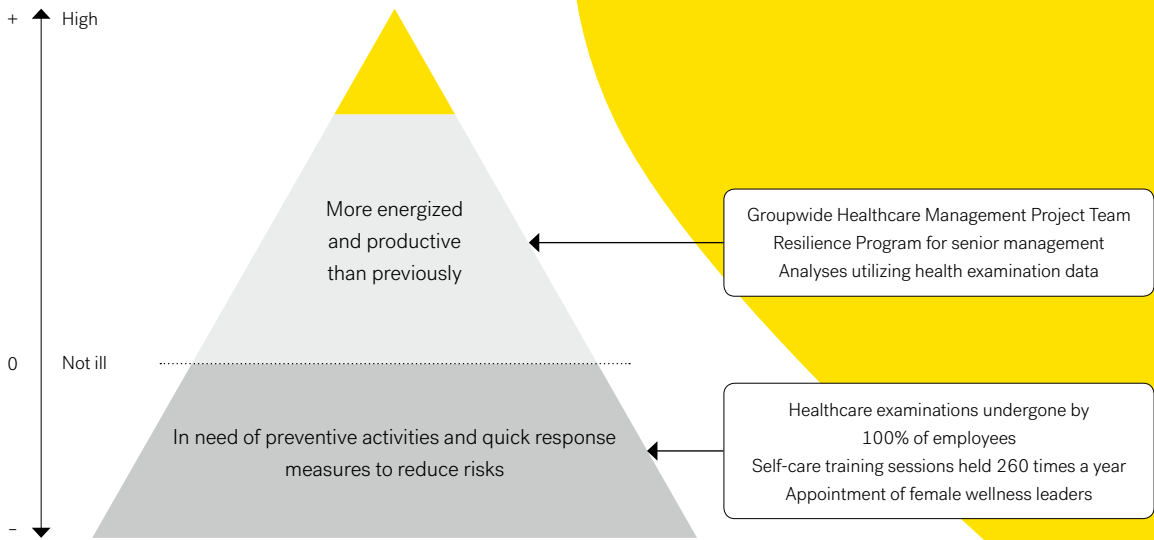
This event was planned primarily by the diverse members of official Groupwide project teams, namely the Marui Future Project Team, Healthcare Management Project Team, and Diversity Project Team. These individuals used the event as an opportunity to communicate the activities of their project team and the principles they embody.
www.0101maruigroup.co.jp/en/sustainability/

Healthcare Management as a Strategy for Further Energizing Employees

In MARUI GROUP's healthcare management, we strive to encourage employees to think through the lens of health and act accordingly in order to become more energized and thereby increase corporate value. For this reason, it is important to take the perspectives of preventing health issues and also energizing employees and enabling them to work happier. Healthcare management has been defined as an objective of the medium-term management plan, which we are promoting on a Groupwide basis through coordination between the activities of the Health

Management Division and MARUI GROUP's health insurance union. These activities have earned us much praise, leading the Company to earn the highest rank in Development Bank of Japan Inc.'s DBJ Employees' Health Management Rated Loan Program in October 2016 and to be included in the Excellent Enterprise of Health and Productivity Management—White 500, a joint program launched by the Ministry of Economy, Trade and Industry, the Tokyo Stock Exchange, and Nippon Kenko Kaigi, in February 2017.

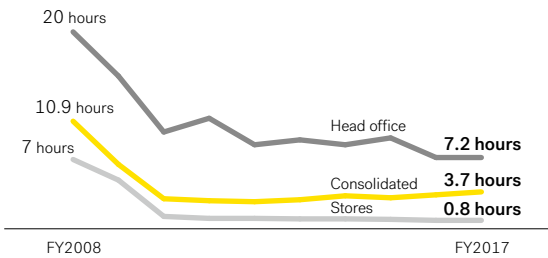
Level of Energy



Average Monthly Overtime of 3.7 Hours

MARUI GROUP views healthcare management as one aspect of workstyle reforms, and has thus diversified its workhour management and working systems since 2008. As part of these efforts, overtime reduction policies and targets have been set for each position and shifts are formulated systematically for stores using up to 50 working patterns defined in 10-minute increments. Moreover, work processes are being optimized on a Groupwide basis. For example, processes related to delivering and returning products to storage and other back-office procedures at stores are handled by Group companies to enable store employees to be primarily positioned in customer service roles. As a result, average monthly overtime hours per person were down to 3.7 in the fiscal year ended March 31, 2017, while average annual overtime hours decreased to 44. Average monthly overtime among head office employees was 7.2 hours in the fiscal year ended March 31, 2017, representing a roughly two-thirds reduction compared with the fiscal year ended March 31, 2008, while average monthly overtime at our 31 stores nationwide was 0.8 hours, making for a 90% reduction from the same year. These reductions have improved productivity along with personnel expense efficiency.

Average Monthly Overtime Hours per Person



Overtime Reduction and Benefits

	FY2008	FY2017	Benefit
Average annual overtime hours per person	130 hours	44 hours	-86 hours
Total overtime payments	¥3.3 billion	¥0.8 billion	-¥2.5 billion
Employee turnover rate (excluding mandatory retirement)	6.8%	2.6%	-4.2pt

Evolution of Healthcare Promotion Activities

1962	Establishment of MARUI GROUP's health insurance union
1970	Opened Marui Health Insurance Union Building
2008	Commencement of overtime reduction project
2011	Start of Health Improvement Program by MARUI GROUP's health insurance union Established Health Management Division and appointed dedicated Company physicians
2013	Introduced physical and mental health consultation hotline
2014	Began analyzing health examination data of all employees and relationship between lifestyle patterns and attitudes toward work Started holding self-care training sessions for all employees Appointed wellness leaders nationwide to help alleviate women's health concerns
2016	Introduced Resilience Program to energize senior managers in terms of their body, mood, mental state, and thinking Incorporated new healthcare management items into labor agreements Established outside advisory board and began analyzing healthcare management practices and data Formulated Groupwide Healthcare Management Project Team
2017	Began promoting healthcare management as one aspect of workstyle reforms

Healthcare Management Based on Data Analysis

We spoke with Dr. Yuji Yamamoto, who is responsible for analyzing employee health data, about how to illustrate the link between health and performance at MARUI GROUP as well as the concept of proactive healthcare management.

Yuji Yamamoto

Physician
Representative Director,
MinaCare Co., Ltd.
Advisory Board Member,
MARUI GROUP CO., LTD.

Reiko Kojima

MD
General Manager,
Health Management Division
Company Physician
MARUI GROUP CO., LTD.



Employees feeling happier and more energized will make MARUI GROUP a stronger company.

Reiko Kojima



Healthcare management contains the word “health” because health is indeed a management issue.

Yuji Yamamoto



Sustainable Growth Augmented by Sound Physical and Mental Health

Yamamoto: Healthcare management is an important but not entirely new concept. The reason this concept is garnering so much attention now is due in part to the nationwide discussion on how best to improve productivity, which has involved such developments as the promotion of workstyle reforms. People have thus once again come to recognize healthcare management as a major concept that relates to this issue. In terms of frameworks, we have just recently collected the data necessary for verifying and tracking the benefits of healthcare management. Another important development is how companies have come to recognize that a medium-to-long-term perspective is healthier than becoming preoccupied with short-term gains and that it is important for a diverse range of employees to be able to work in good physical and mental health. In other words, the current era is one in which the obvious must be acknowledged as such.

Kojima: The healthcare management activities of companies are generally aimed at preventing illness. However, I feel that the ability for a company to grow sustainably can be augmented by going a step further to ensure that employees are in good physical and mental health. The World Health Organization states that “Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.” This view coincides with that of MARUI GROUP.

Yamamoto: Recently, I found myself in a discussion about the role of e-commerce sites and healthcare management in an aging society. There were conflicting opinions about e-commerce sites. Some praised their ability to give senior citizens unable to leave their homes access to shopping venues, while others pointed out how such sites will reduce the need for seniors to move, accelerating their physical decline. No conclusive answer has been reached to resolve this dilemma. This type of conflict is one aspect

of healthcare management. As the population of Japan continues to age, companies will need to consider the health-related approach that management will adopt toward senior customers and society.

Kojima: MARUI GROUP’s corporate philosophy states that we should “continue evolving to better aid our customers” and “equate the development of our people with the development of our company.” Based on this philosophy, we are practicing co-creation management in which we aim to co-create the happiness of customers together with all of our stakeholders. However, we cannot hope to contribute to customer happiness if our employees are not happy and energized. For this reason, we conduct healthcare management by coordinating the preventive measures advanced by the Group’s health insurance union with the proactive healthcare measures of the Health Management Division.

Yamamoto: It is only recently that the term “healthcare management” came to be used inside the Company. However, MARUI GROUP has been implementing policies and initiatives that are congruent with the concept of healthcare management for so long that employees were probably unaware of them. At least, this is how I see it from my outside perspective. I first began to hold this view when I looked at the initiatives of the Group’s health insurance union, with which I have had relations since 2011, and this view was reinforced by my conversations with the Company’s management and with yourself, Dr. Kojima.

Relationship between Health and Performance as Illustrated through Data

Kojima: MARUI GROUP has been analyzing health examination data for its roughly 6,000 employees since 2014, allowing us to see the relationship between lifestyle patterns and attitudes toward work. On questionnaires, we had around 2,800 employees respond “I am careful about the quantity and the types of food I eat,” while



Yuji Yamamoto
Physician
Representative Director,
MinaCare Co., Ltd.
Advisory Board Member,
MARUI GROUP CO., LTD.

Dr. Yuji Yamamoto graduated from the Faculty of Medicine at the University of Tokyo in 1999, after which he worked in cardiovascular medicine and other departments. In 2007, he became the first Japanese physician to receive a Master of Business Administration from Harvard Business School. Dr. Yamamoto is certified by The Japanese Society of Internal Medicine and the Japan Medical Association. To date, he has served as a fellow at the Japan Science and Technology Agency; Capital Medica Co., Ltd.; the Cabinet Secretariat’s Medical Innovation Promotion Office; and the Center for Clinical Research at Keio University School of Medicine. Today, Dr. Yamamoto acts as a researcher at Sony Computer Science Laboratories, Inc. In 2014, he received an award in The Entrepreneur Awards Japan program. He is a medical 2035 advisor to the Ministry of Health, Labour and Welfare, and also holds his namesake Yuji Yamamoto Seminars.
www.minacare.co.jp (Japanese only)



The concept of healthcare management seeks to redefine medical expenses as fuel for strategies or as investments.

Yuji Yamamoto

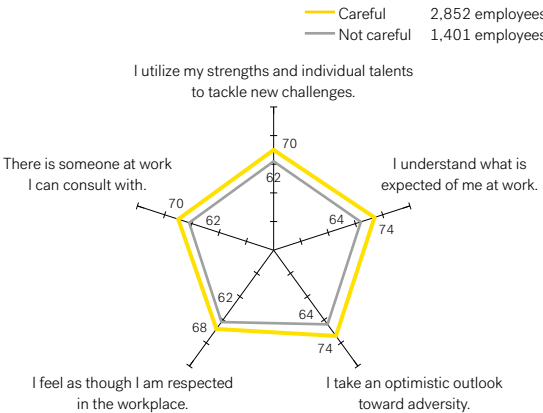
about 1,400 employees answered the opposite. We performed a cross-analysis comparing this data with data regarding attitude toward work, which was scored out of 100 points based on items including outlook toward adversity and the ability to utilize talents to tackle new challenges. There was an overall difference of approximately 10 points between employees careful about their diet and those that are not (see Analysis Result 1). Similarly, the “I get sufficient sleep” item was linked to an even more significant difference of approximately 15 points in attitude

toward work (see Analysis Result 2). These results have remained consistent for the past three years.

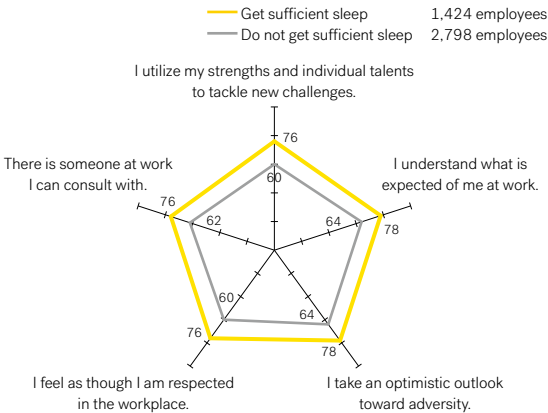
Yamamoto: Even if a company had collected health examination data, no other company would have thought of using it in such a manner. This is the norm, and it just goes to show how high above the norm MARUI GROUP is. I think that the Company has always held this commitment to health, but was only just recently able to give it form.

Kojima: The types of health data generally disclosed by companies include the rates of smokers and of employees

Analysis Result 1
The 2,852 employees that responded “I am careful about the quantity and the types of food I eat” showed a more optimistic attitude toward their work and better workplace communication in comparison to the 1,401 employees stating that they are not careful.



Analysis Result 2
The 1,424 employees that responded “I get sufficient sleep” showed a more optimistic attitude toward their work and better workplace communication in comparison to the 2,798 employees stating that they do not get sufficient sleep.



Note: Based on health examination data from the fiscal year ended March 31, 2017

We aim to energize society and cultivate happiness through the health of employees. We are thoroughly committed to building such a company while leveraging everyone’s strength.

Reiko Kojima



with obesity. When we thought about how such data would be received by employees, we realized that this data would be insufficient in drawing a clear link between health and work. It is vital that we be able to illustrate how health can affect work performance. It was for this reason that we sought to use your specialties in analyzing health data to clarify the link between health and performance. These analyses found that employees getting sufficient sleep and rest demonstrated high levels of performance in the following year that were statistically significant. This correlation was even apparent when controlling for factors such as age, rank, and gender. Moreover, employees that exercising twice or more a week for over a year also showed improvements in performance in the following year.

Yamamoto: Data illustrating the link between sleep and exercise and performance will also likely display a link to the Company’s overall performance. As such, this data is important to both employees and the Company, which should also make it clear to customers and investors why MARUI GROUP practices healthcare management.

What I would like to emphasize here is that healthcare management contains the word “health” because health is indeed a management issue. In the past, medical expenses have been seen primarily as a source of costs. The concept of healthcare management seeks to redefine medical expenses as fuel for strategies or as investments. Tracking changes in health examination data over the years will allow you to predict the “costs” that might arise from health risks or the loss of an opportunity to generate revenue.

Frameworks Promoting Autonomous Thought and Action

Kojima: In 2016, MARUI GROUP created a new section on healthcare promotion in its labor agreements, which constitute the highest level regulation within the Company. This section clearly identifies the healthcare management obligations of the Company and employees, enabling us to deploy systematic initiatives. In addition, we established the Healthcare Management Project Team in November 2016, an official, Groupwide project team. The aim of this team is to promote a healthcare management culture of autonomous thought and action on the part of employees. Seeking to respect employee autonomy, we selected participants for the project team from among volunteers, who were first asked to submit a short essay detailing the reason they wanted to participate. The project team proved immensely popular, and the number of applications received was so great that only one in five volunteers was actually able to participate. A diverse team of 51 members was selected, ranging from new employees to those in their 50s. This team gathered from stores across Japan once a month to discuss healthcare management promotion measures for a solid day each meeting. These members also played a central role in promoting initiatives at their own workplace.

Yamamoto: When starting up a new business, it is common to begin by aligning those involved along the same vector. With regard to health, however, efforts are



usually limited to one event-like workshop or a lecture from an external instructor.

Kojima: The project team thoroughly discussed the goals that MARUI GROUP should pursue in terms of health. After six months of deepening their understanding with regard to health, the project team finally reached a consensus on our new healthcare management slogan: “All in the name of happiness—Energize yourself with a healthy mind and body.” Between Healthcare Management Project Team members and the wellness leaders, roughly one in 20 Group employees is involved in promoting health.

At the same time, we also realize the necessity of understanding among management. Seeking to encourage senior managers to energize themselves, and anticipating a subsequent ripple effect to spread through the organization, we introduced the Resilience Program in February 2016, which targets general managers and other high-level managers. This program consists of a two-day intensive course, after which participants strive to develop lifestyle patterns that increase their energy with regard to their body, mood, mental state, and thinking over a 10-month period. A 360-degree evaluation of the participants’ own energy levels and their influence on others is then conducted through feedback from the program participants, their subordinates, and their family. Comparing the energy levels of program participants and individuals that have not participated, the difference was clear, with participants much more adept at working in a dedicated manner and taking effective breaks. Feedback from subordinates indicated a noted increase in the ability of certain supervisors to control their emotions while family members spoke of how they took part in this undertaking alongside the participant. Going forward, we will continue to target both employees and managers to become a company that helps energize society and cultivate happiness through the health of employees. We are thoroughly committed to building such a company while leveraging everyone’s strength.

Yamamoto: Such a proactive approach will allow all employees taking part in these initiatives to talk about healthcare in their own words, and this attitude will surely come to permeate the entire organization. It is wonderful when people are able to discuss what exactly healthcare management means to them.

Optimization of Healthcare Management Portfolio with More Accurate Data

Yamamoto: A global survey found that, when companies are concerned with employee health, employees are more motivated and loyal toward their company, which has quantifiable benefits in the form of lower employee turnover rates. Qualitatively, there can be no doubt that a stance of valuing employee health will have positive benefits for a company. It is impossible to put an exact value on the contributions that employee loyalty and low turnover rates make to profits. However, it only seems natural that such characteristics would make for stronger organizations.

Kojima: Looking ahead, we hope to develop indicators that will make it even easier to understand and illustrate the link between health and productivity and performance. These indicators will be used to propel healthcare management initiatives forward as part of our corporate activities.

Yamamoto: Seeking out the most ideal healthcare management practices for MARUI GROUP, the ones that best contribute to its profits, business continuity, and development, will lead to the creation of a healthcare management portfolio. In this portfolio, we should be able to see a logical scenario backing these practices.

Section 03

Co-Creation Management

MARUI GROUP sees all of its business assets as being borrowed from society. It is our duty to effectively utilize these “borrowings” and then return them to society with “interest.” This belief forms the foundation for our management practices.



Basic Policy of the Medium-Term Management Plan

It is stated in MARUI GROUP's corporate philosophy that we should "continue evolving to better aid our customers" and "equate the development of our people with the development of our company." Based on this philosophy, our mission is to co-create the happiness of all of our stakeholders, including our customers, employees,

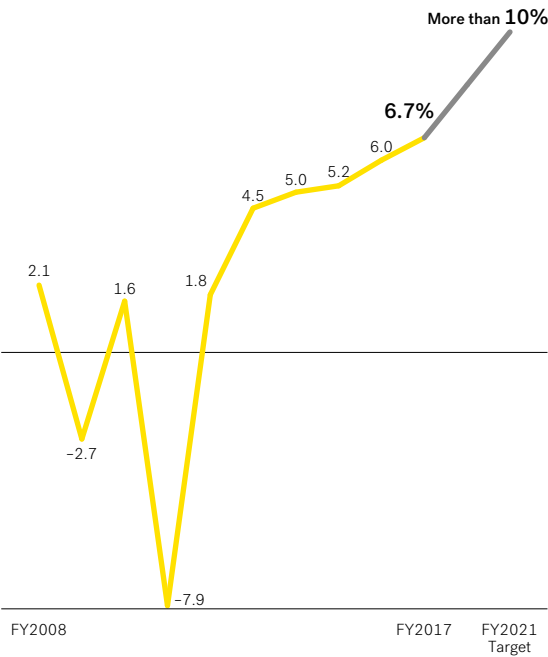
business partners, local communities, shareholders, and other investors, together with these stakeholders. Seeking to heighten the corporate value that will arise from this process, we are moving ahead with a five-year medium-term management plan with the fiscal year ending March 31, 2021, as its final year.

MARUI GROUP's 3 Focus KPIs with the Fiscal Year Ending March 31, 2021		
Achieve ROE of more than 10%, ROIC of more than 4%, and EPS of more than ¥130		
Plan Framework		
Improvement of corporate value through integrated Group operations	Creation of new businesses through transformation of Group businesses	Development of optimal capital structure and further improvement of productivity
Specific Initiatives		
Retailing	Stores	Improve capital productivity by completing transition to a business structure focused on shopping centers and fixed-term rental contracts and deploying next-generation lifestyle-oriented shopping centers
	Omni-channel retailing	Develop business focused on Internet sales while expanding scope of try-on stores that combine Group expertise and other unique business models
	Facility management and distribution	Utilize store renovation, distribution, building management, and other retailing expertise in an integrated manner and advance business-to-business operations
FinTech	Credit cards	Increase number of EPOS card fans across Japan and reinforce collaboration with commercial facilities and companies while maintaining high profit margins and simultaneously expanding business scale
	Financial services	Expand revenues from rent guarantee, insurance, and other services utilizing credit know-how to improve ROIC through business requiring minimal invested capital
	IT	Support expansion of Group business scope by utilizing new technologies to improve customer convenience
Optimal capital structure		Create structure in which ROIC consistently exceeds capital costs by improving ROIC through income growth and establishing optimal capital structure suited to Group business structure
Growth investments		Develop commercial facilities utilizing shopping center and fixed-term rental know-how, invest in venture companies to acquire new technologies, and execute other growth investments for improving corporate value
Productivity improvement		Utilize human resources as necessitated by business portfolio as a united MARUI GROUP to further improve Group productivity

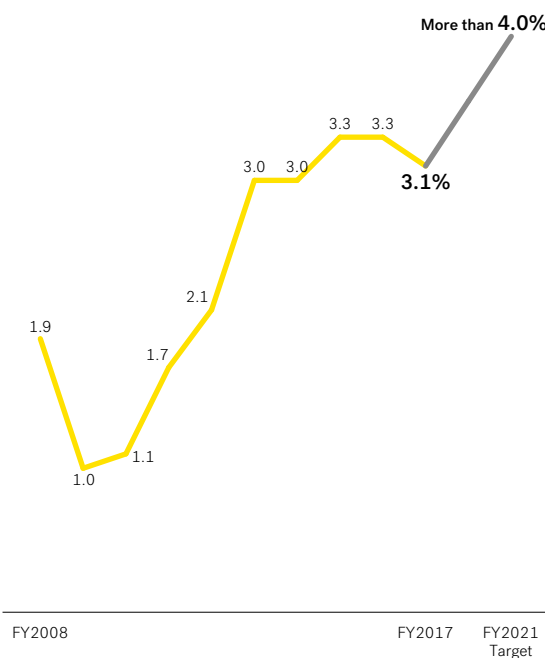
MARUI GROUP's 3 Focus KPIs

Based on its concept of co-creation management, MARUI GROUP views all of its business assets as being borrowed from society. We believe that this view will help clarify our efforts to achieve harmony between stakeholder interests and improve corporate value. The Company is committed to effectively utilizing these "borrowings" and then returning them to stakeholders with "interest." In line with this belief, MARUI GROUP identified three key performance indicators (KPIs) for gauging Groupwide performance beginning with the fiscal year ended March 31, 2017. These KPIs include return on equity (ROE) and earnings per share (EPS), which are both indicators that have been selected based on the Company's emphasis on improvements to medium-to-long-term corporate value, as well as return on invested capital (ROIC), which is an indicator of profitability in the Company's main business.

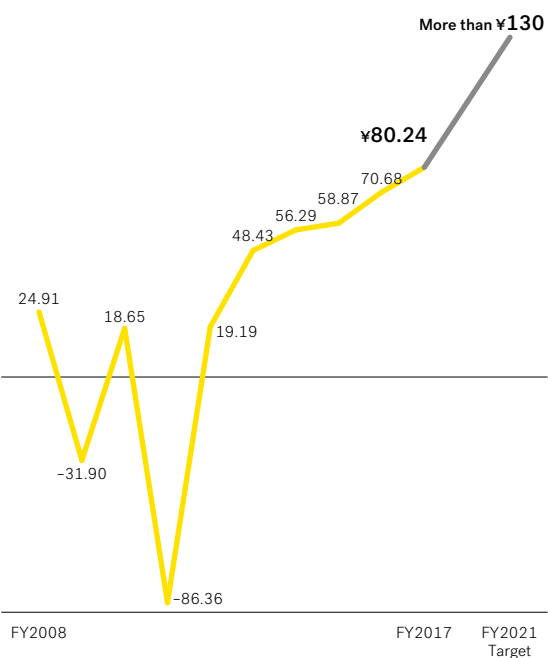
Return on Equity (ROE)



Return on Invested Capital (ROIC)



Earnings per Share (EPS)



Progress in Retailing Business and Future Strategies

Transition to Shopping Centers and Fixed-Term Rental Contracts

Over the five-year period leading up to the fiscal year ending March 31, 2019, the Retailing business is set to undergo a transition in its stores from the consignment buying system, which entails procuring and selling products, to a real estate model, which involves renting out space. As part of this transition, the source of our earnings will change from product sales to rent revenues. In the fiscal year ended March 31, 2017, progress in the shift to shopping centers and fixed-term rental contracts was faster than anticipated. We converted 62% of applicable floor space to this new model and aggregate operating income improvement realized was ¥2.9 billion. As a result of this progress, the amount of inactive floor space was also greater than expected, resulting in a decline in operating income for the Retailing business. Regardless, this is only a temporary decline stemming from the transition period.

Response to Shift from Consumption of Goods to Consumption of Experiences

In conjunction with the shift to shopping centers and fixed-term rental contracts, we are moving away from our previous, fashion-centric stores to develop

lifestyle-oriented stores focused on food, services, and sundries. The first store that opened under the real estate model was Hakata Marui. This store has continued to experience forecast-exceeding customer numbers since its opening in April 2016, and net operating income yield (NOI yield) achieved its target of more than 4% for this store. In addition, we are moving ahead with co-creation store development initiatives that incorporate the desires of local customers at previously existing stores. As part of these efforts, Shizuoka Marui and Kashiwa Marui, which previously consisted as two buildings, were renovated to be reopened with each building functioning as a separate Marui or Modi store. The Marui stores opened in spring 2016 while their Modi counterparts were opened in the fall of the same year. Going forward, we will not limit ourselves to the previous model of stores that sell products. Instead, MARUI GROUP's stores will be used to provide space that is an intrinsic benefit of physical stores to the approximately 200 million customers that visit these stores each year while taking full advantage of their prime locations in front of train stations in urban centers. In addition, stores will be home to a new business of providing sharing economy services (accommodations and space) in order to uncover new customer needs.

Promotion of Omni-Channel Retailing through Integrated Group Operation

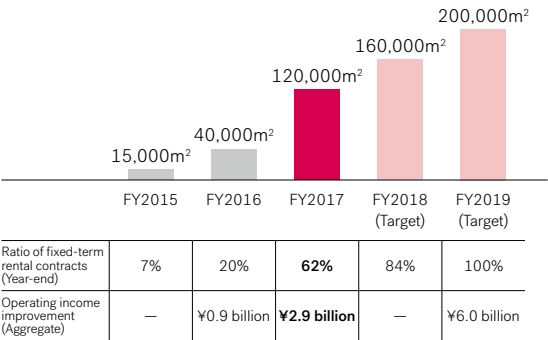
Specialty shops dealing primarily in private brand products will target medium-to-long-term earnings growth in order to contribute to improved corporate value. To this end, we are verifying profitability in existing businesses based on earnings in the fiscal year ended March 31, 2017, as well as on the lifetime value (LTV) originating from EPOS card applications and registrations for the MARUI Internet shopping "marui web channel" e-commerce site. In addition, MARUI GROUP has continued to open try-on stores, a type of short-term event store that combines the ability to experience products firsthand offered by physical stores with Internet sales. In the fiscal year ended March 31, 2017, 47 such events were held at commercial facilities nationwide. In addition, we are introducing try-on stores at a wider range of existing physical stores, with major examples including the permanent try-on stores dealing in women's shoes and apparel established at Kinshicho Marui and Shizuoka Marui. In terms of e-commerce operations, a Marui store was opened on the Wowma! Internet sales site operated by KDDI CORPORATION in February 2017. This store is expected to contribute to higher total e-commerce sales by broadening our points of contact with the approximately 38 million au customers.



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

MARUI GROUP is shifting to shopping centers and fixed-term rental contracts in order to develop lifestyle-oriented stores and stabilize earnings while also transforming its business model through the promotion of omni-channel retailing. These initiatives are stimulating significant changes in frontline operations. Our goal in these new initiatives is to respond to the needs of customers to bring them the joy they desire. This goal is shared with the co-creation activities we have continued to advance together with customers, business partners, and other stakeholders. MARUI GROUP boasts numerous unique strengths. These strengths include our stores poised in prime locations, our co-creation private brand products, our IT and distribution systems supporting our store and e-commerce operations, and the customer service and sales skills of our employees. By combining these strengths, MARUI GROUP will develop distinctive businesses to create new value decades into the future.

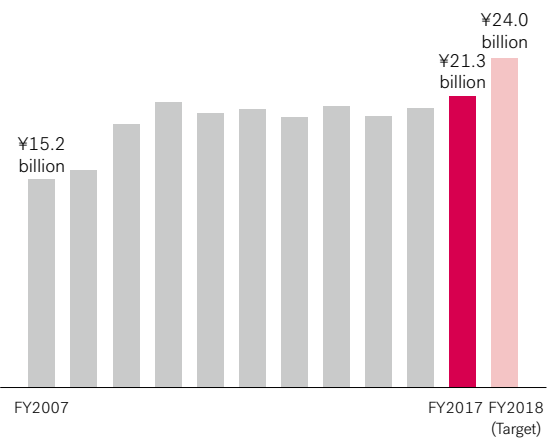
Stores: Total Fixed-Term Rental Contract Floor Space and Targets



Ratio of fixed-term rental contracts = Fixed-term rental contracted floor space ÷ Total floor space capable of being contracted as fixed-term rental
Sections not applicable for fixed-term rental contracts: Sections not applicable for fixed-term rental contracts based on requests of building owners, directly managed sales floors, event spaces, food sales floors, etc.

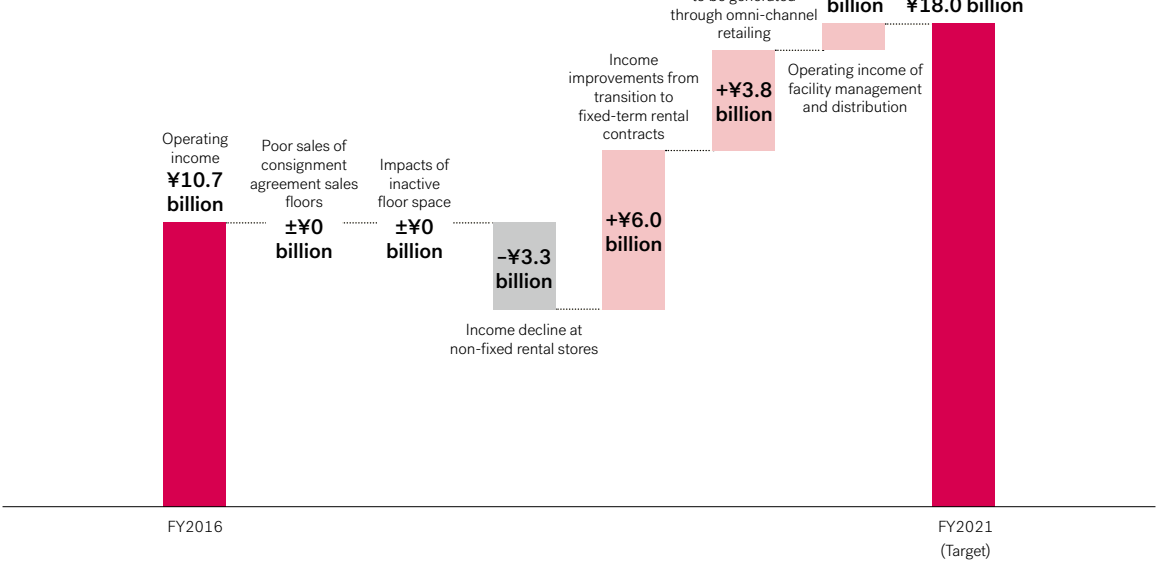
Fiscal year ended March 31, 2017:
Ratio of fixed-term rental contracts (year-end): 62%
Operating income improvement (aggregate): ¥2.9 billion

Total E-Commerce Sales and Target



Fiscal year ending March 31, 2018 (Target):
Total e-commerce sales: ¥24.0 billion

Factors Affecting Operating Income in Retailing Segment (for Period of Medium-Term Management Plan)



Progress in FinTech Business and Future Strategies

Integrated Group Operations Supporting Growth

Total transactions in the FinTech business have continued to display average annual growth rates of 17% since the launch of the EPOS card in the fiscal year ended March 31, 2007, and total transactions amounted to ¥1,723.3 billion in the fiscal year ended March 31, 2017. This impressive growth is a result of increases in credit card transactions following a rapid rise in credit usage driven by e-commerce and the shift toward consumption of experiences. Although the scale of EPOS card transaction volumes is still small in comparison to the transaction volumes of other companies, we are maintaining high profitability and efficiency. This is made possible by integrated Group operations. MARUI GROUP's operations have long been characterized by efficiency realized through the utilization of both stores and the Internet. Features of this operational style include face-to-face promotion of card application by Retailing business personnel, the ability to apply for cards via the Internet and pick them up in stores, and the option to convert to Gold cards in stores. Going forward, we will continue to leverage the competitive edge granted by the Group's systems development company to swiftly respond to customer needs while also boosting competitiveness by ensuring high card usability.

Increases in Cardholder Numbers and Usage Rates and Amounts

A total of 800,000 new cardholders were expected to be acquired during the fiscal year ended March 31, 2017, due to the opening of Hakata Marui, but the actual number only came to 740,000 as a result of difficulty recruiting cardholders for collaboration cards outside of MARUI GROUP facilities. Nonetheless, we stand committed to spreading EPOS cards throughout Japan by stepping up collaboration with commercial facilities, which are in the best position to leverage the strengths of EPOS cards. At the same time, we will increase cardholder numbers by pursuing collaboration with partners operating in fields with high growth potential, including e-commerce and service content.

We also took steps to respond to customer needs and increase convenience. These steps included expanding the range of affiliates at which installment payments can be used and improving the method of changing to revolving payments when paying. As a result, revolving and installment payment transactions grew, contributing to higher earnings.

Growth in card shopping transactions is currently being driven by Gold and Platinum cards. The number of Gold and Platinum cardholders rose 18% year on year, to 1.6 million, representing 25% of our cardholder base, and approximately 70% of all card shopping transactions could be attributed to these cardholders. MARUI GROUP will seek to increase the number of Gold and Platinum cardholders along with their usage amounts through the introduction of loyalty programs and other initiatives.

Response to Diversifying Payment Methods

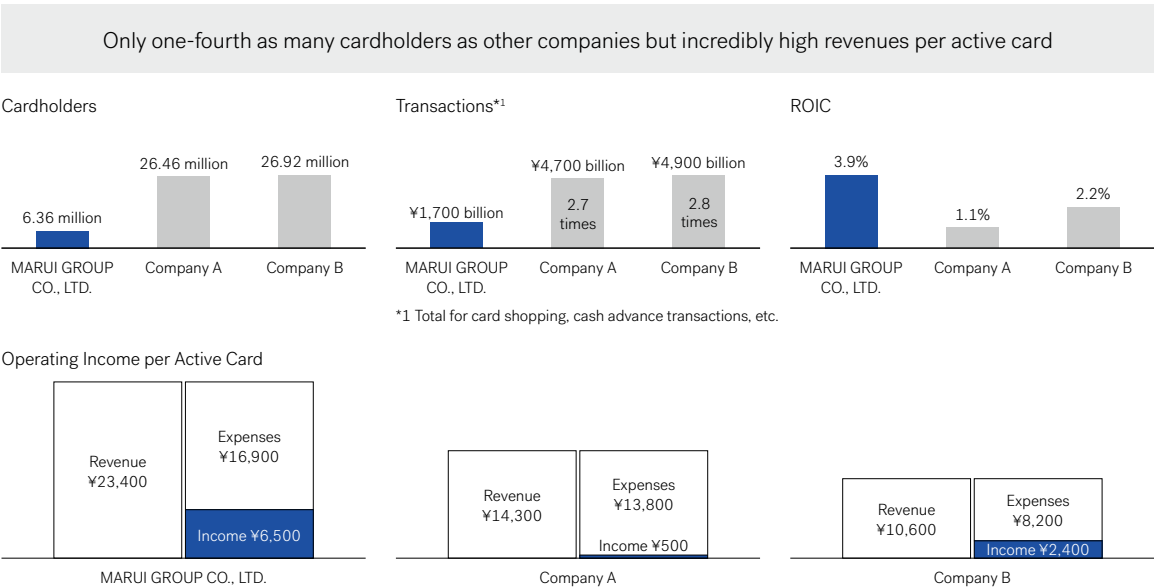
Payment methods are growing more diverse amid the rapid expansion of the mobile payment market, with new options being provided by overseas companies newly entering the market as well as by new payment services, including Rakuten Pay and Coiney. To respond to these emerging payment methods, MARUI GROUP will seek to provide optimal payment services based on the trends seen in society and among customers. For example, a payment service using the Origami Pay platform was introduced at Shibuya Modi on a trial basis in August 2016, and EPOS cards were made compatible with the Apple Pay service in March 2017.



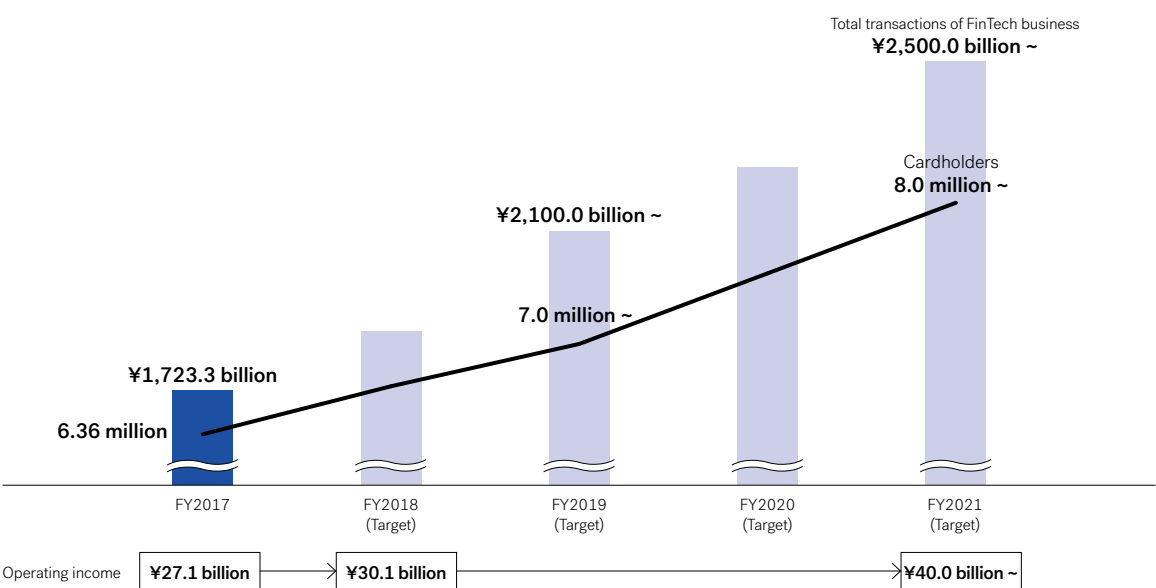
Yoshinori Saito
Senior Executive Officer
President and
Representative Director,
Epos Card Co., Ltd.

MARUI GROUP has continued to provide payment settlement and other financial services via credit cards. Recently, Japan's declining birthrate, aging population, and pension issues have led youths and young adults to harbor concern for their future, which in turn has inspired them to take interest in investment, conservation, and other money-related areas. It was based on these trends that MARUI GROUP decided to establish the FinTech Business Department in April 2017. Going forward, we will leverage the Group's management resources and promote open innovation with various companies to expand the range of the financial services we provide with the aim of realizing financial inclusion. For example, we plan to offer services for saving and increasing money and for preparing for the future.

Comparison with Competitors (Figures from FY2017, segment based; Source: MARUI GROUP)



FinTech: Medium-Term Transaction Volume, Operating Income, and Cardholder Targets



Message from the CFO

Motohiko Sato

Senior Managing Executive
Officer and CFO



Construction of an Optimal Capital Structure
in Conjunction with Business Transformation

In the fiscal year ended March 31, 2017, the first year of the plan, total Group transactions rose 14% year on year, to ¥1,933,685 million, on the back of strong card shopping transactions in the FinTech business. At the same time, operating income increased for the eighth consecutive year, to ¥31,253 million, and net income attributable to owners of parent grew for the sixth consecutive year, to ¥18,724 million. This income growth coupled with the effects of share buybacks and dividend increases led return on equity (ROE) to rise by 0.7 percentage point, to 6.7%, while earnings per share (EPS) was up 14%, to ¥80.2. Return on invested capital (ROIC), meanwhile, decreased 0.2 percentage point, to 3.1%, following lower income in the Retailing business. As a result of our steadily advancing financial strategies, ROIC exceeded weighted average cost of capital (WACC).

Seeking to ensure that we can accomplish the targets set forth by the medium-term management plan for the three key performance indicators (KPIs)—ROE, ROIC, and EPS—these KPIs have been broken down in each business to provide KPIs for frontline operations. As a result, two new business and sales floor KPIs were established for

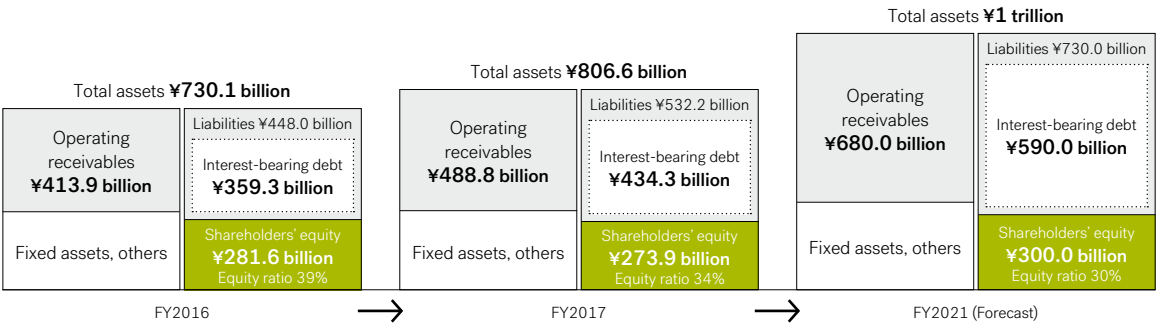
specialty shops in the Retailing business: net operating income yield (NOI yield) and lifetime value (LTV). We also took steps to make it easier for all employees to understand the KPIs and to shape their daily work accordingly. In April 2017, a project was started up to inform employees about operating environment changes pertaining to MARUI GROUP's operations and to business in general and our view of corporate value, and the topics of why the KPIs are necessary and what is needed to accomplish related targets are subjects of active discussion.

With regard to the balance sheet we target, we are in the process of achieving an optimal level for shareholders' equity out of consideration for the increase in operating receivables in the FinTech business that has continued since the launch of the EPOS card in 2006. However, we are of course aware of the fact that, should the business model targeted by MARUI GROUP change, so will its ideal capital structure. Accordingly, the construction of an optimal balance sheet will be an ongoing process conducted in conjunction with the creation of new businesses and the transformation of existing businesses currently underway and with an eye to long-term corporate value gains.

Target Balance Sheet

POINT 01
Target Balance Sheet

Total assets forecast to reach ¥1 trillion in the fiscal year ending March 31, 2021, due to increased operating receivables
Optimal capital structure defined as having equity ratio of approximately 30%



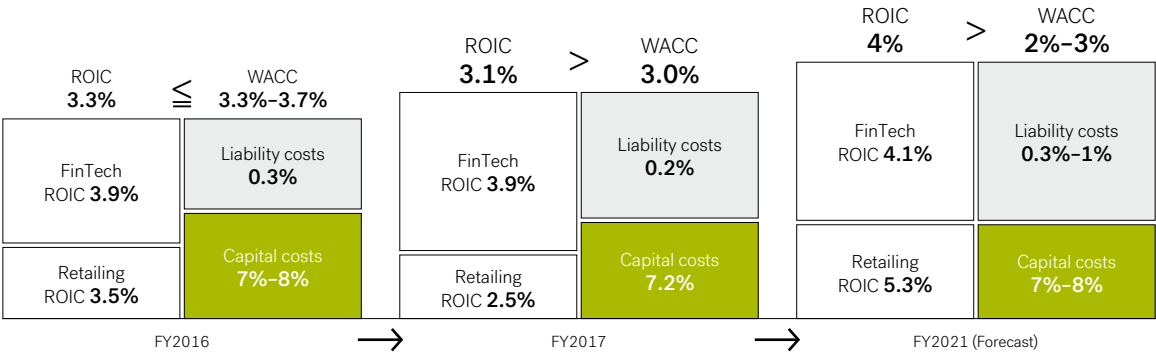
In the past, although the asset portion of our balance sheet was oriented toward finance, the liability portion remained unchanged from the days when retailing was more prominent in our operations, as indicated by high levels of shareholders' equity. As part of the provisions of the medium-term management plan with the fiscal year ending March 31, 2021, as its final year, we will procure funds in the form of interest-bearing debt to address the projected

rise in operating receivables with the aim of maintaining a level of interest-bearing debt that is equivalent to 90% of operating receivables. As for the equity ratio, we will target a ratio of approximately 30%, the level we have deemed to be optimal.

In the fiscal year ended March 31, 2017, interest-bearing debt amounted to ¥434.3 billion, rising to a level equivalent to 89% of operating receivables.

POINT 02
Creation of Corporate Value through ROIC Exceeding WACC

Surplus income achieved in the fiscal year ended March 31, 2017, through steady advance of financial strategies that aim to achieve structure in which ROIC consistently exceeds weighted average cost of capital (WACC) by increasing ROIC and lowering capital costs



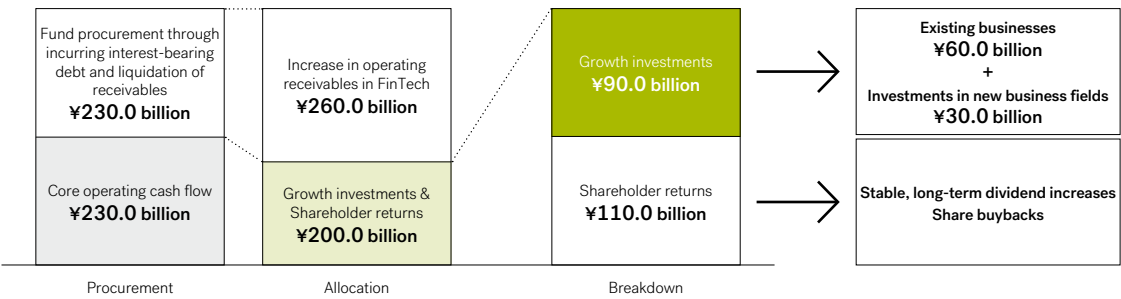
We will increase ROIC by growing financial service revenues in the FinTech business and transitioning to shopping centers and fixed-term rental contracts in the Retailing business. Meanwhile, we will deploy financial strategies of increasingly procuring funds in the growing FinTech business through low-cost interest-bearing debt to reduce the

overall capital costs of the Group.

As a result of the steady progress of financial strategies based on the above policies, MARUI GROUP succeeded in creating a structure in which ROIC exceeds WACC in the fiscal year ended March 31, 2017.

POINT 03
Cash Flow Forecasts

Five-year aggregate core operating cash flow of ¥230.0 billion forecast for period of new medium-term management plan
Allocation of cash flows to growth investments and shareholder returns to achieve ongoing growth and improve capital efficiency

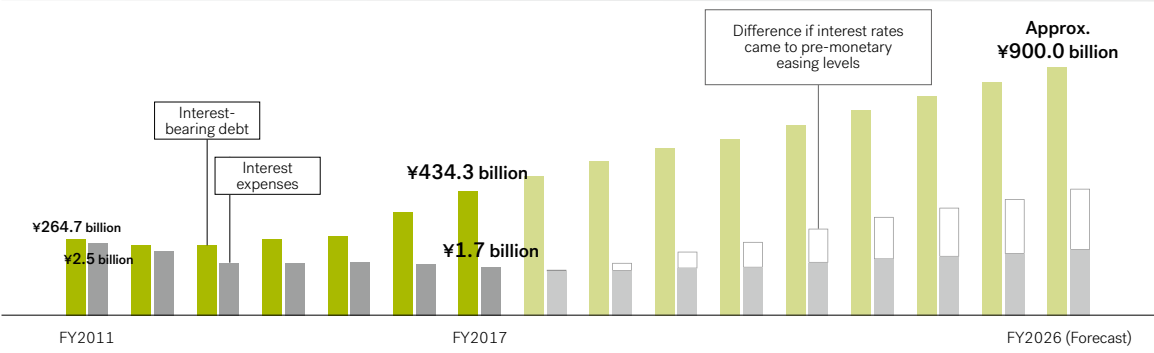


Excluding the anticipated increase in operating receivables, core operating cash flow is expected to amount to ¥230.0 billion over the period of the medium-term management plan. We will allocate ¥200.0 billion of this amount to growth investments and shareholder returns. Growth investments of ¥90.0 billion will be conducted, of which ¥30.0 billion will be used to expand and transform the Company's business through investments in new

business fields and collaborative ventures. We intend to use the remaining ¥110.0 billion for enhancing shareholder returns through dividend increases and share buybacks. We will evaluate cash flows when considering share buybacks, targeting the ideal timing for improving capital efficiency and increasing shareholder returns. Acquired treasury stock will, in principle, be canceled.

POINT 04
Interest-Bearing Debt and Interest Expense Forecasts

Preparation for future procurement risks by procuring funds through debt with longer maturity periods and fixed interest rates while arranging level repayment schedules



MARUI GROUP will stabilize its financial base by procuring funds primarily through borrowings and bonds while maintaining a level of interest-bearing debt equivalent to 90% of operating receivables.

On March 31, 2017, liabilities were roughly ¥170.0 billion higher than six years ago. Regardless, interest expenses in the fiscal year ended March 31, 2017, were down ¥0.8 billion primarily due to monetary easing measures. To mitigate risks of future interest rate hikes,

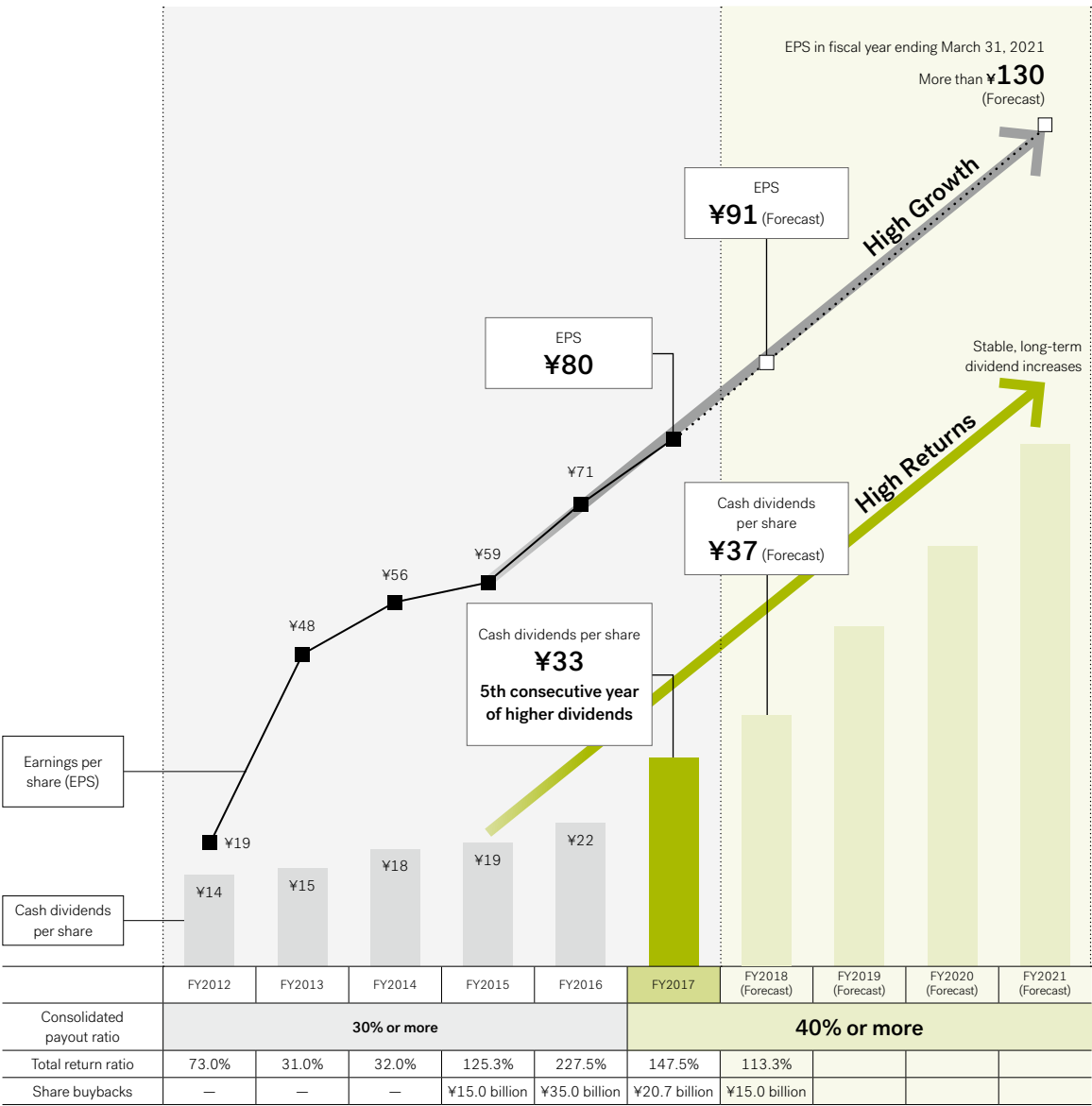
MARUI GROUP will procure funds through debt with longer maturity periods and fixed interest rates while arranging level repayment schedules. Currently, the average maturity period for debt is over 6 years, roughly double the recovery period for revolving payment receivables, and the portion of debt that uses fixed interest rates is 65%. We will procure funds in a manner that ensures the Company's performance will not fluctuate substantially should interest rates rise.

POINT 05
High Growth Coupled with High Returns

Continuous, long-term dividend increases in conjunction with EPS growth and targeting a payout ratio of 40% or more

MARUI GROUP positions returning profits to shareholders as an important management priority. The medium-term management plan targets a consolidated payout ratio of 40% or more. In line with this policy, we issued our highest ever dividend payment of ¥33 per share in the fiscal year ended March 31, 2017, and plan to raise dividend

payments to ¥37 in the fiscal year ending March 31, 2018, making for the sixth consecutive year of increased dividends. Going forward, we will target high growth coupled with high returns, which is to be realized through ongoing dividend increases based on long-term growth in EPS.



Team Supporting Co-Creation Management

As of June 26, 2017

Team Supporting Co-Creation Management



From back left

Tadashi Ooe
External Audit &
Supervisory Board
Member

Hideaki Fujizuka
Audit & Supervisory
Board Member
(Full time)

Tomoo Ishii
Director

Masao Nakamura
Director

Hirotsugu Kato
Director

Tetsuji Sunami
Audit & Supervisory
Board Member
(Full time)

Takehiko Takagi
External Audit &
Supervisory
Board Member

From front left

Masahiro Muroi
External Director

Koichiro Horiuchi
External Director

Hiroshi Aoi
President and
Representative Director

Etsuko Okajima
External Director

It has been nine years since I became an external director at MARUI GROUP. The Company has continued to practice management driven by a strong passion and a commitment to innovation. The concept of co-creation management and other benefits that are appearing now are the products of reforms that MARUI GROUP has been implementing for years.

For example, the transition toward shopping centers and fixed-term rental contracts in the Retailing business may appear to have been a sudden change to those outside of the Company. On the contrary, however, the ideal form for MARUI GROUP's Retailing business had long been percolating in President Aoi's mind. When he was able to feel confident that the aforementioned transition was the appropriate course, the gears spun into motion. The redefinition of the Credit Card Services business as the FinTech business was a similar process. The Company was not likely aware of the term "FinTech" seven or eight years ago. However, a business model merging retailing and finance has always been important to MARUI GROUP. When searching for means of creating new businesses, several options were explored. In the end, the Company was able to affirm that FinTech was the appropriate approach. Even among the Board of Directors, the emergence of the word "FinTech" felt like a natural progression.

The role of external directors is viewed to be monitoring and supervising management. I personally have been managing a company for several years, and I primarily seek to help management exercise restraint, for example, by suggesting that we consider timing a little more, rather than focusing on spurring management forward. MARUI GROUP has a corporate culture of listening to customer input that dates back to its founding. As such, meetings of the Board of Directors are very frank with discussions based on an atmosphere of mutual respect. The Nominating and Compensation Committee is membered by President Aoi, External Director Okajima, and myself, meaning that officer nominations and compensation are checked by a committee comprising a majority of external directors. I feel as though the Company's compensation systems have been clear and appropriately linked to role and performance since I was appointed. However, another step forward was taken when the Company introduced a new medium-to-long-term incentive system based on the 2016 evaluation of the Board of Directors' effectiveness. MARUI GROUP is truly a company characterized by its ability to evolve with the times.

August 2017

Realized Benefits of Past Reforms

Koichiro Horiuchi

External Director



Strategic Development of Prospective Leaders through the Start of the Co-Creation Management Academy

Etsuko Okajima

External Director

I see MARUI GROUP's co-creation management as a highly sophisticated social experiment through which a sort of "MARUI GROUP ecosystem" may be created. MARUI GROUP's stakeholder management, which entails creating needs together with the Company's stakeholders to provide value, is an undertaking that has significant meaning to society. MARUI GROUP has also recently been working together with venture companies to create new value. All of these initiatives would not be possible without President Aoi's keen foresight.

However, the type of leadership exercised by President Aoi is not the traditional type of leadership that essentially involves issuing orders. Rather, it is a gentler type of leadership that involves cultivating understanding within employees to inspire them to act voluntarily. President Aoi accomplishes this by holding frequent forums for explaining his strategies, establishing several Groupwide project teams based on volunteer participation, and involving employees that interact directly with customers and are highly knowledgeable about frontline operations in the process of producing innovation through co-creation. MARUI GROUP's corporate philosophy contains the phrase "equate the development of our people with the development of our company." This philosophy drives the Company to foster employees capable of thinking and acting autonomously, which contributes to the propensity for decisive action and the swift exploration of options that are characteristics of MARUI GROUP.

My background is in supporting the development of leadership skills. I am active in discussions regarding the strategic cultivation of future presidents and other members of management at meetings of the Nominating and Compensation Committee and the Board of Directors, and I have helped create the future leader development program. When it becomes time to appoint a new president in 10 or 20 years, the requirements of management will have grown more complicated, making the position even more challenging. Bold structural reforms require the foresight necessary to conduct management from a long-term perspective, looking at least 10 or 15 years into the future. The Co-Creation Management Academy was established with an eye to long-term management. Through this program, we will select around 20 employees aged 20 to 49 from among applicants with the aim of strategically cultivating a total of 200 prospective leaders over the next 10 years. After completing the program, participants will put the concepts they learned to practical application as they are given opportunities to make management decisions under uncertain circumstances.

August 2017

Appropriate Risk Taking Supporting Ongoing Growth Strategies

Masahiro Muroi
External Director

I was appointed as an external director at MARUI GROUP in June 2017. My background is in the IT industry, and I hope that my experience at the forefront of advanced technology and digital innovation will be helpful to the Group in formulating growth strategies.

At Nomura Research Institute, Ltd., over the course of more than 20 years, I experienced large-scale IT system development projects, cutting-edge technology-related research and business alliances at Silicon Valley in the United States, the creation of new businesses and services utilizing IT, and solutions development projects conducted through collaboration with IT venture companies. After that, I spent 13 years as an officer in the head office, where I worked in back-office areas including corporate planning, human resources, public relations, investor relations, risk management, and CSR. In the investor relations department, I spent eight years speaking directly with countless institutional investors from Japan, Europe, the Americas, and Asia. That experience proved invaluable in conducting corporate governance reforms later on.

The strength of MARUI GROUP lies in its ability to pursue self-improvement even when faced with a highly volatile operating environment. The needs of consumers, of course, change with the times, and, globally, we are seeing the rapid advance of a digital revolution. In the midst of such trends, MARUI GROUP is undertaking bold business reforms to make omni-channel retailing, FinTech, and digital content central aspects of its business. It is also moving forward with governance reforms, including the establishment of the Nominating and Compensation Committee, the revision of officer compensation systems, and the implementation of a future leader development program, which demonstrate just how progressive the Company is.

Self-improvement entails risks. Transforming business models and introducing state-of-the-art IT technologies, in particular, are accompanied by exposure to new and difficult-to-predict risks. As an external director that is also designated as an independent director, I will rigorously evaluate the appropriateness of MARUI GROUP's strategies and the extent of new risks that may accompany these strategies. At the same time, I will adopt an objective and balanced approach toward my duties and toward voicing opinions, recognizing that appropriate risk taking can support ongoing growth strategies.

August 2017



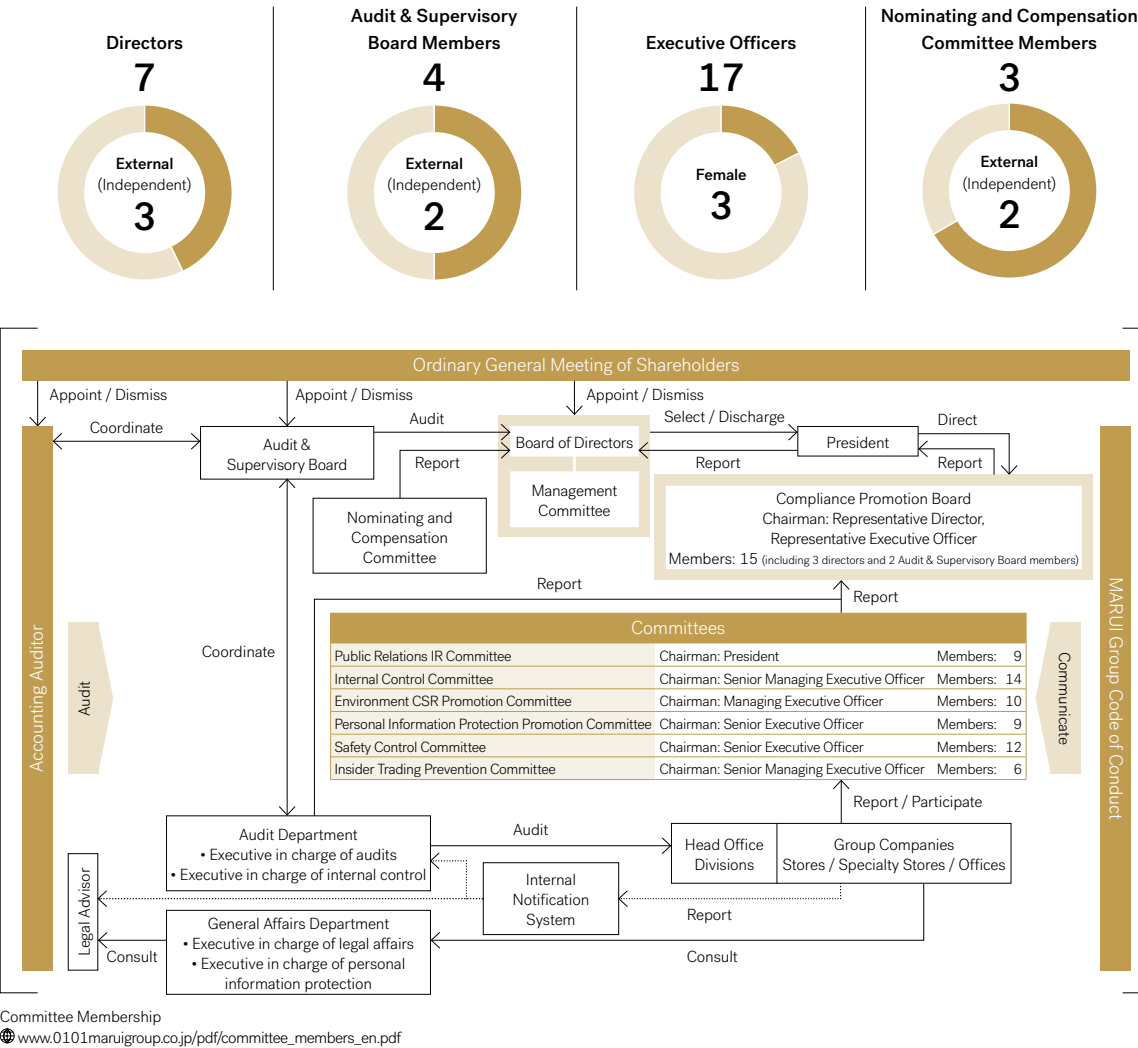
Corporate Governance

MARUI GROUP Corporate Governance Guidelines
www.0101maruigroup.co.jp/pdf/cgg_en.pdf
Corporate Governance Report
www.0101maruigroup.co.jp/pdf/cgr_en.pdf

Corporate Governance: Emphasizing Corporate Value

MARUI GROUP's corporate philosophy calls for us to "continue evolving to better aid our customers" and "equate the development of our people with the development of our company." Accordingly, we support the passion of employees to aid customers to create a virtuous cycle in which the growth of employees and the Company are reciprocally linked in order to improve corporate value. Reinforcing corporate governance is thus a top priority. We endeavor to practice sound, transparent, and efficient management to heighten earnings capacity.

In addition to its Board of Directors and Audit & Supervisory Board, MARUI GROUP has established the Management Committee, the highest decision-making body; the Nominating and Compensation Committee; six committees that manage business risks, promote speedy process improvements, and prevent accidents; and the Compliance Promotion Board, which oversees these committees.



Evaluations of the Board of Directors’ Effectiveness

The Company has been performing annual evaluations of the Board of Directors’ effectiveness since the fiscal year ended March 31, 2016, with the aim of improving the effectiveness of the Board of Directors. In these evaluations, all directors and Audit & Supervisory Board members complete a self-evaluation survey of the effectiveness of the Board of Directors with regard to such aspects as the scale and composition of the Board of Directors, operating procedures, decision-making processes, and roles and responsibilities. Based on the results of this survey, information on the current evaluation of the Board of Directors and the issues it faces are shared and constructive discussions are held in order to formulate measures for the future. In the fiscal year ended March 31, 2017, the evaluation found the Board of Directors to be functioning effectively, as was also the case in the fiscal year ended March 31, 2016.

Results of Effectiveness Evaluation from the Fiscal Year Ended March 31, 2016

Areas Applauded

- Active discussion centered on external directors appointed by reducing the total number of directors
- Respect for opinions of external directors
- Incorporation of perspectives of shareholders, investors, and other stakeholders

Issues Identified

- 1 Failure to link director compensation to medium-to-long-term performance
- 2 Lack of successor development programs

Response to Issue 1

In June 2016, director compensation systems were revised to increase the portion of variable compensation through the introduction of performance-linked stock-based compensation to serve as medium-to-long-term incentives and performance-linked bonuses to serve as short-term incentives.

Response to Issue 2

In May 2016, the Nominating and Compensation Committee was established with external directors serving as its primary members. This committee discusses director nomination and management compensation to ensure objectivity and transparency in this regard.
In April 2017, a future leader development program was instituted, based in part on input received from external directors, and the Co-Creation Management Academy program was launched.

Results of Effectiveness Evaluation from the Fiscal Year Ended March 31, 2017

Issues and Future Measures

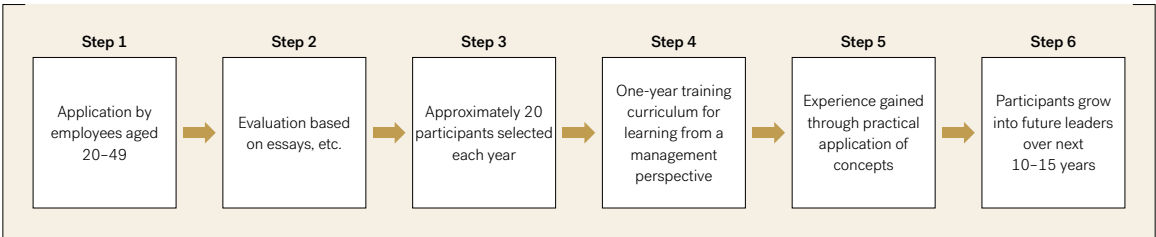
- After the June 2016 revision of compensation systems, a third-party evaluation was conducted, which found that the portion of variable compensation was low in comparison to other companies. The Company is engaged in ongoing examinations of compensation ratios based on social trends with the aim of effectively linking director compensation to medium-to-long-term improvements in corporate value.
- The future leader development program was only just introduced in April 2017 and is therefore not yet complete in terms of development provisions or implementation procedures. The Company will continue to adjust this program while seeking out the ideal form for development provisions, including future positioning and promotions, as well as for implementation procedures from a medium-to-long-term perspective.

Future Leader Development Program

MARUI GROUP unveiled its Co-Creation Management Academy future leader development program in April 2017 with the aim of cultivating human resources capable of promoting management reforms for driving ongoing improvements in corporate value. This program is based on open application, and each year 20 candidates are selected from among volunteers. Those selected are submitted to a one-year training curriculum developed under the guidance of third-party institutions and external directors to instill in them a management perspective. Participants continue to be nurtured into future leaders through their actual work even after the program is completed.



Name	Co-Creation Management Academy
Aims	<ul style="list-style-type: none">• Cultivate future leaders capable of supporting MARUI GROUP’s management into the future• Foster fundamental leadership skills including basic thinking, strategy forming, and project management• Help participants form their own visions so that they can exercise leadership in guiding the organization• Promote cross-organizational networking and endow perspectives emphasizing overall optimization• Create community of program participants through follow-up monitoring of participants beginning from the following fiscal year after they complete the program• Encourage participants to seek internal and external learning opportunities in fields other than those in which they generally work to broaden their perspectives and foster resourcefulness
Applicable ages	20–49
Guidance	Mikiharu Noma, Associate Professor Graduate School of International Corporate Strategy, Hitotsubashi University External directors of MARUI GROUP



Mikiharu Noma
Associate Professor,
Graduate School of
International Corporate Strategy,
Hitotsubashi University

Medium-to-Long-Term Development of Human Resources—A Wellspring of Corporate Value





The goal of the Co-Creation Management Academy is to cultivate future leaders for MARUI GROUP. The first group of participants in this program consisted of 21 members, eight of whom were women, and these members were of all ages and of diverse perspectives. Also, a number of these individuals excelled at adopting a perspective focused on overall optimization, as opposed to individual optimization, which was most likely a product of MARUI GROUP’s program for relocation at Group companies. Moreover, the participants had a strong sense of responsibility fueling a passion to contribute to the future of management. When formulating the curriculum for the Co-Creation Management Academy, I focused on two main points. The first point was to broaden participants’ knowledge while elevating their viewpoint to the level required of management. The second point was to hold in-depth discussions on how to respond to new industrial revolutions, FinTech, and other disruptive innovations. Over the period of one year, participants were submitted to an ongoing process of input, which included reviews of case studies, discussions with leaders, and identification of issues faced by MARUI GROUP, and reflection. The medium-to-long-term development of human resources forms a wellspring of corporate value. I look forward to seeing the fledglings from the Co-Creation Management Academy come to soar as future leaders, and I am confident in their ability to do so.

Discontinuation of Takeover Defense Measures

At the Ordinary General Meeting of Shareholders held in June 2008, the Company received approval to implement takeover defense measures. These measures were later discontinued at the Ordinary General Meeting of Shareholders held in June 2017. This decision was made based on trends regarding recent takeover defense measures as well as the results of discussions with institutional investors and other domestic and overseas shareholders. In light of these exchanges, it was judged that the discontinuation of these measures would facilitate efforts to contribute to the common interests of the shareholders of the Company by strengthening corporate governance, advancing the medium-term management plan, and further improving corporate value.

Establishment of an Advisory Board

In July 2016, the Advisory Board was established to formulate strategies for accomplishing the goals of the medium-term management plan and for realizing medium-to-long-term improvements to corporate value. We welcomed one new member to this committee in July 2017, raising the total number of members to four. The purpose of the Advisory Board is to enable MARUI GROUP to receive multifaceted advice and proposals from external experts with insight into business strategies and various business areas. We anticipate that such advice will be a powerful asset in the Groupwide pursuit of improved corporate value as we seek to address the rapidly changing operating environment and the diversifying society. Regular monthly meetings of the Advisory Board are held, at which representatives from relevant areas attend, and advice is also sought on specific themes.

Advisory Board Members	Area of Specialty and Past Activities
<div></div> <div>Tadasu Ohe President, PLANTEC ASSOCIATES INC.</div>	Mr. Tadasu Ohe graduated from the Graduate School of Engineering at the University of Tokyo and also completed a Master's course at this university. After working at the architecture firm of Kiyonori Kikutake, he established PLANTEC ARCHITECTS INC. in 1985. Mr. Ohe provides MARUI GROUP with store renovation and distribution center environment improvement proposals to help the Company better utilize its real estate from the user's perspective.
<div></div> <div>Masakazu Masujima Partner, Mori Hamada & Matsumoto</div>	Mr. Masakazu Masujima graduated from the Faculty of Law at the University of Tokyo and from Columbia Law School. He has held positions at the Palo Alto office of Wilson Sonsini Goodrich & Rosati P.C., in the Supervisory Bureau of the Financial Services Agency, in Blockchain Study Group of the Ministry of Economy, Trade and Industry, and in the Review Committee for the Sharing Economy of the National Strategy Office of Information and Communications Technology. Mr. Masujima provides MARUI GROUP with advice in relation to the development of the FinTech business. →P.48 Dialogue 02
<div></div> <div>Yuji Yamamoto Physician Representative Director, MinaCare Co., Ltd.</div>	Dr. Yuji Yamamoto graduated from the Faculty of Medicine at the University of Tokyo in 1999, after which he worked in cardiovascular medicine and other departments. He is certified by The Japanese Society of Internal Medicine and the Japan Medical Association. Today, Dr. Yamamoto fulfills his current role while also acting as a researcher at Sony Computer Science Laboratories, Inc. He helps MARUI GROUP analyze the relationship between health and productivity as part of its healthcare management efforts while also offering guidance on how to be included in healthcare management-related indexes. →P.64 Dialogue 03
<div></div> <div>Meyumi Yamada (New) Executive Director, Chief Quality Officer, istyle Inc.</div>	Ms. Meyumi Yamada graduated from the Department of Biological Science and Technology at Tokyo University of Science. She first gained experience at a cosmetics manufacturer. Building upon the cosmetics e-mail magazine that she had been distributing personally, Ms. Yamada drafted plans for @cosme, Japan's largest cosmetics and beauty information website, in 1999, and took part in starting up its website. She has also been a member of consumption- and Internet-related committees under the Ministry of Economy, Trade and Industry. Ms. Yamada provides MARUI GROUP with advice on omni-channel retailing strategies from a woman's perspective.

Engagement with Stakeholders

MARUI GROUP views corporate value as the intersection between the interests and happiness of all stakeholders. The Company's policy of co-creation management is also extended to corporate governance as we practice constructive engagement with all stakeholders.

Co-Creation with Customers	Co-Creation with Shareholders and Other Investors	
<p>The planning meetings we hold with customers are not just a venue for soliciting customer feedback; they are a co-creation activity that invites customers to take part in the value creation process for developing stores and products that all customers choose.</p>	<p>Through coordination between the IR Department and the ESG Promotion Department, MARUI GROUP has been enhancing communication with investors and stepping up information disclosure. These initiatives have earned the Company praise, with it receiving various awards and being included in numerous indexes.</p>	
		
<p>Planning Meetings Held with Customers</p> <p>More Than 600</p> <p>For planning Hakata Marui</p>	<p>Institutional Investors Met with</p> <p>Approx. 300</p> <p>Fiscal year ended March 31, 2017</p>	
Co-Creation with Business Partners	Co-Creation with Employees	Co-Creation with Communities and Society
<p>The Marui Group Procurement Policy was formulated in 2016, and we conduct surveys and on-site investigations together with business partners to ensure a stable supply of products and confirm partners' human rights and work environment initiatives.</p>	<p>Our intra-Group project teams, including the Diversity Project Team, Marui Future Project Team, Healthcare Promotion Project, Medium-Term Management Visionary Committee, and other such forums, provide opportunities for employees to discuss and share thoughts with individuals from other companies.</p>	<p>MARUI GROUP is engaged in co-creation activities with society. It participated in the TOKYO RAINBOW PRIDE 2017 LGBT pride event and held an event that utilized the anime series <i>Osomatsu-san</i>. We aim to increase the number of EPOS card collaboration partners.</p>
		
<p>Business Partners Participating in Explanatory Forums</p> <p>Approx. 100</p> <p>Fiscal year ended March 31, 2016</p>	<p>Employees Participating in Intra-Group Project Teams</p> <p>Approx. 320</p> <p>Fiscal year ended March 31, 2017</p>	<p>Number of Visitors Attending TOKYO RAINBOW PRIDE 2017</p> <p>100,000</p> <p>May 7-8, 2017</p>

Sustainability Management

As it seeks to provide enriching lifestyles to all customers, MARUI GROUP is turning its attention to inclusion. One of the core concepts of the United Nations Sustainable Development Goals, which have been adopted by Japan and 192 other countries around the world, is the idea that no one will be left behind, an inherently inclusion-based sentiment. This concept is the same as directives of MARUI GROUP’s management. We seek to promote inclusion through our business activities by conducting co-creation together with all of our stakeholders. This is the way we will go about creating an inclusive society that offers happiness to all.

To reinforce the management systems for supporting these efforts, we established the ESG Promotion Department in October 2016 and changed the name of the CSR Promotion Department, which was initially created in 2005, to the Sustainability Department in April 2017.

Core Theme 1

Customer Diversity and Inclusion

We will seek to develop products, services, and stores that bring joy to all customers, regardless of their age, gender, or physical characteristics.



Core Theme 2

Workplace Inclusion

Based on MARUI GROUP's corporate philosophy of striving to “continue evolving to better aid our customers” and “equate the development of our people with the development of our company,” we will provide all employees with venues through which they can excel.



Core Theme 3

Ecological Inclusion

We will develop eco-friendly businesses that are considerate of natural capital and propose ecologically sound lifestyles that are in harmony with nature and the environment.



Core Theme 4

Co-Creation Corporate Governance

We will develop management frameworks that include stakeholders in order to achieve harmony between the interests and the happiness of all stakeholders.



Process for Establishing Core Themes

Focusing our concept of co-creation management and the impact this approach will have on society, the environment, and natural capital, we examined the issues and opportunities this approach will create, based on which we defined four core themes for initiatives from the perspective of inclusion. In formulating these themes, we held meetings with ESG-minded investors, sustainability experts, nonprofit organizations, and other stakeholders in the greater society as well as with customers, business partners, and Group officers and employees. In addition, we referenced the ratings of ESG evaluation institutions; internal and external guidelines, such as those of the Global Reporting Initiative, ISO 26000, the Sustainability Accounting Standards Board, and the International Integrated Reporting Council; and the SDGs.

More details on initiatives based on core themes can be found on the Company’s sustainability website, which was renovated on July 1, 2017.
www.0101maruigroup.co.jp/en/sustainability/

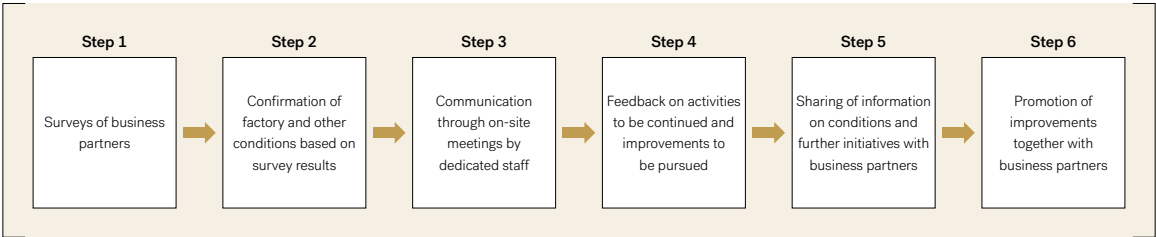
Responsible Procurement Practiced Together with Business Partners

The MARUI GROUP Procurement Policy was formulated in 2016. A step ahead of the announcement of this policy, the Company held an explanatory forum for roughly 100 business partners related to its private brands. At this explanatory forum, we discussed the importance of addressing human rights, labor, and other issues across the supply chain, explaining MARUI GROUP’s policies in this regard while using actual cases. Business partners participating in the forum expressed their understanding of our stance.

In 2017, we began conducting surveys and on-site audits of business partners with regard to initiatives regarding the supply and procurement of safe and trustworthy products as well as human rights, labor, and other



issues. On-site audits involve meetings with dedicated staff from the Sustainability Department as well as inspections at the domestic and overseas factories of manufacturing subcontractors. Through these inspections, we confirm the environmental measures and working conditions at these factories.

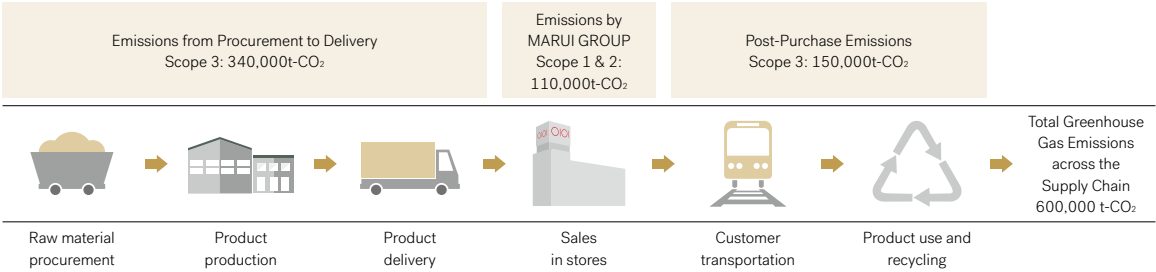


Tracking of Environmental Footprint across the Value Chain

The Company has traditionally calculated emissions of CO₂ and other greenhouse gases based on Scope 1 and Scope 2 of the Greenhouse Gas Protocol, and it began calculating emissions under Scope 3 during the fiscal year ended March 31, 2014. We are thereby able to track environmental impacts across the entire value chain, including direct and indirect emissions from MARUI GROUP (Scope 1 and

Scope 2) as well as emissions from raw material procurement, transportation, and products purchased by customers. Through this type of traceability that exceeds the boundaries of the Group, we are advancing initiatives for reducing environmental impacts together with customers, business partners, communities, and society as a whole.

Scope 3 Emissions Data (Fiscal Year Ended March 31, 2017)



The Company calculates emissions volumes based on the *Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain*, released by the Ministry of the Environment and the Ministry of Economy, Trade and Industry. The results of Scope 3 emissions calculations have been confirmed by Mizuho Information & Research Institute, Inc.

Scope 3 Emissions Data
www.0101maruigroup.co.jp/en/sustainability/theme03/environment_01.html

Directors, Audit & Supervisory Board Members, and Executive Officers

As of June 26, 2017

Directors, Audit & Supervisory Board Members, and Executive Officers

Directors



Hiroshi Aoi

President and Representative Director
Shares held: 1,538,300
Born: January 17, 1961

- Jul. 1986 Joined the Company
- Apr. 1991 Director and General Manager, Sales Planning Headquarters
- Apr. 1995 Managing Director and Deputy General Manager, Sales Promotion Headquarters and General Manager, Sales Planning Division
- Jan. 2001 Managing Director and General Manager, Sales Promotion Headquarters
- Jun. 2004 Executive Vice President and Representative Director
- Apr. 2005 President and Representative Director
- Oct. 2006 President and Representative Director Representative Executive Officer (Incumbent)

Participation in committees:

Management Committee (Chairman)
Compliance Promotion Board (Chairman)
Public Relations IR Committee (Chairman)
Nominating and Compensation Committee



Koichiro Horiuchi

External Director
Shares held: 0
Born: September 17, 1960

- Apr. 1983 Joined Long-Term Credit Bank of Japan
- Mar. 1988 Joined FUJI KYUKO CO., LTD. General Manager, Corporate Planning Division, FUJI KYUKO CO., LTD.
- Jun. 1988 Director, FUJI KYUKO CO., LTD.
- Feb. 1989 Senior Managing Director, FUJI KYUKO CO., LTD.
- Jun. 1989 Representative Director and Senior Managing Director, FUJI KYUKO CO., LTD.
- Sep. 1989 President and Representative Director, FUJI KYUKO CO., LTD. (Incumbent)
- Jun. 2008 External Director (Incumbent)
- Jun. 2012 External Audit & Supervisory Board Member, Yamanashi Chuo Bank, Ltd. (Incumbent)

Participation in committees:

Nominating and Compensation Committee



Etsuko Okajima

External Director
Shares held: 0
Born: May 16, 1966

- Apr. 1989 Joined Mitsubishi Corporation
- Jan. 2001 Joined McKinsey & Company
- Jul. 2005 Representative and CEO, GLOBIS Management Bank
- Jun. 2007 President & CEO, ProNova Inc. (Incumbent)
- Jun. 2014 External Director, Astellas Pharma Inc. (Incumbent)
- External Director (Incumbent)
- Mar. 2016 Outside Director, Link and Motivation Inc. (Incumbent)

Participation in committees:

Nominating and Compensation Committee



Hirotsugu Kato

Director
Shares held: 4,500
Born: July 30, 1963

- Mar. 1987 Joined the Company
- Apr. 2015 Executive Officer and General Manager, Corporate Planning Division
- Oct. 2015 Executive Officer and General Manager, Corporate Planning Division and IR Department
- Jun. 2016 Director and Senior Executive Officer, General Manager, Corporate Planning Division and IR Department
- Oct. 2016 Director and Senior Executive Officer, General Manager, Corporate Planning Division and IR Department In charge of ESG Promotion
- Apr. 2017 Director and Senior Executive Officer, General Manager, IR Department In charge of Corporate Planning and ESG Promotion (Incumbent) Managing Director, M & C SYSTEMS CO., LTD. (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee
Internal Control Committee
Insider Trading Prevention Committee

Audit & Supervisory Board Members



Hideaki Fujizuka

Audit & Supervisory Board Member (Full time)
Shares held: 600
Born: September 1, 1955

- Apr. 1980 Joined Mitsubishi Bank Ltd. (currently The Bank of Tokyo Mitsubishi UFJ, Ltd.)
- Jun. 2007 Executive Officer and General Manager, General Affairs Dept., The Bank of Tokyo Mitsubishi UFJ, Ltd.
- Jun. 2010 President and Director, Chitose Kosan, Co., Ltd.
- Apr. 2012 Director, Senior Executive Managing Officer and Group President of Corporate Center, Olympus Corporation
- Apr. 2015 Director, Olympus Corporation
- Jun. 2015 Audit & Supervisory Board Member (Full time) (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee



Tetsuji Sunami

Audit & Supervisory Board Member (Full time)
Shares held: 2,000
Born: August 13, 1958

- Mar. 1981 Joined the Company
- Jan. 2002 General Manager, Store Planning Division, Sales Promotion Headquarters
- Oct. 2004 General Manager, DM Business Division, Sales Promotion Headquarters
- Apr. 2006 Representative and CEO, Marui Voi, Co., Ltd.
- Oct. 2007 Managing Director, M & C SYSTEMS CO., LTD.
- Apr. 2011 Representative and CEO, MRI Co., Ltd.
- Jun. 2014 Audit & Supervisory Board Member (Full time) (Incumbent)

Participation in committees:

Compliance Committee
Compliance Promotion Board
Internal Control Committee



Masahiro Muroi

External Director
Shares held: 0
Born: July 13, 1955

- Apr. 1978 Joined Nomura Computer System Co., Ltd. (currently Nomura Research Institute, Ltd.)
- Jun. 2000 Member of the Board, Nomura Research Institute, Ltd.
- Apr. 2002 Senior Corporate Managing Director, Member of the Board, Nomura Research Institute, Ltd.
- Apr. 2009 Representative and Senior Executive Managing Director, Member of the Board, Nomura Research Institute, Ltd.
- Apr. 2013 Representative and Vice President, Member of the Board, Nomura Research Institute, Ltd.
- Jun. 2016 External Director, Ryoden Corporation (Incumbent)
- Jun. 2017 External Director (Incumbent)



Masao Nakamura

Director
Shares held: 20,800
Born: June 11, 1960

- Apr. 1983 Joined the Company
- Apr. 2007 Executive Officer and General Manager, Group Business Promotion Division
- Jun. 2008 Director and Executive Officer, General Manager, Corporate Planning Division and General Manager, Business Development Division
- Apr. 2011 Managing Director and Managing Executive Officer President and Representative Director, MARUI CO., LTD.
- Apr. 2015 Director and Managing Executive Officer Responsible for Retailing and Store Operation Business President and Representative Director, MARUI CO., LTD.
- Apr. 2016 President and Representative Director, AIM CREATE CO., LTD. (Incumbent)
- May 2016 Director and Managing Executive Officer Responsible for Retailing Business (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee



Tomoo Ishii

Director
Shares held: 17,500
Born: July 16, 1960

- Apr. 1983 Joined the Company
- Apr. 2007 Executive Officer and General Manager, Group Compliance Division
- Jun. 2009 Director and Executive Officer, General Manager, General Affairs Division
- Apr. 2013 Director and Executive Officer, General Manager, Personnel Division
- Apr. 2015 Director and Managing Executive Officer, and Chief Operating Officer, Healthcare Promotion and General Manager, Personnel Division In charge of General Affairs and Healthcare Promotion
- Apr. 2016 Director and Managing Executive Officer, and Chief Operating Officer, Healthcare Promotion In charge of General Affairs, Personnel and Healthcare Promotion (Incumbent)
- Apr. 2017 President and Representative Director, MOVING CO., LTD. (Incumbent) Director, MARUI FACILITIES Co., Ltd. (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee
Environment CSR Promotion Committee
Safety Control Committee



Tadashi Ooe

External Audit & Supervisory Board Member
Shares held: 71,700
Born: May 20, 1944

- Apr. 1969 Registered as Attorney
- Apr. 1989 Practicing-Attorney, Professor for Civil Advocacy, Legal Training and Research Institute of the Supreme Court of Japan
- Mar. 1994 Outside Audit & Supervisory Board Member, Canon Inc. (Incumbent)
- Jun. 2004 External Audit & Supervisory Board Member (Incumbent)
- Jun. 2011 Director, Jeco Co., Ltd. (Incumbent)
- Jun. 2015 Outside Director, Nissan Chemical Industries, Ltd. (Incumbent)



Takehiko Takagi

External Audit & Supervisory Board Member
Shares held: 3,400
Born: January 23, 1945

- Jul. 2001 Chief, Kanazawa Regional Taxation Bureau
- Jul. 2002 President, National Tax College
- Jul. 2003 Retired from National Tax Administration Agency
- Aug. 2003 Registered as Certified Public Tax Accountant
- May 2006 External Audit & Supervisory Board Member, TOH-TEN-KOH Corporation (Incumbent)
- Jun. 2008 External Audit & Supervisory Board Member (Incumbent)
- Jun. 2010 External Audit & Supervisory Board Member, KAWADA TECHNOLOGIES, Inc. (Incumbent)

Number of shares held as of March 31, 2017

Executive Officers



Hiroshi Aoi

Representative Executive Officer
Born: January 17, 1961

Jul. 1986 Joined the Company
Apr. 1991 Director and General Manager,
Sales Planning Headquarters
Apr. 1995 Managing Director and
Deputy General Manager,
Sales Promotion Headquarters and
General Manager, Sales Planning Division
Jan. 2001 Managing Director and General Manager,
Sales Promotion Headquarters
Jun. 2004 Executive Vice President and
Representative Director
Apr. 2005 President and Representative Director
Oct. 2006 President and Representative Director
Representative Executive Officer
(Incumbent)

Participation in committees:

Management Committee (Chairman)
Compliance Promotion Board (Chairman)
Public Relations IR Committee (Chairman)
Nominating and Compensation Committee



Toshikazu Takimoto

Managing Executive Officer
Born: November 5, 1959

Mar. 1982 Joined the Company
Mar. 2006 Director, Epos Card Co., Ltd.
General Manager,
Credit Card Services Division
Mar. 2009 Executive Officer and General Manager,
Group Profit Improvement Division
Oct. 2009 Director, Epos Card Co., Ltd.
Apr. 2011 Managing Director, Epos Card Co., Ltd.
Apr. 2012 President and Representative Director,
Epos Card Co., Ltd.
Jun. 2012 Director and Executive Officer
Apr. 2015 Managing Executive Officer
In charge of Credit Card Services Business
President and Representative Director,
Epos Card Co., Ltd.
Apr. 2016 Managing Executive Officer
Responsible for FinTech Business
(Incumbent)
President and Representative Director,
MARUI HOME SERVICE Co., Ltd.
(Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee



Motohiko Sato

Senior Managing Executive Officer
Born: December 17, 1953

Mar. 1977 Joined the Company
Jun. 2005 Director and General Manager,
Group Corporate Planning Division
Jun. 2008 Managing Director and
Managing Executive Officer
Apr. 2012 Senior Managing Director and
Senior Managing Executive Officer
Apr. 2015 Director and Senior Managing
Executive Officer, and CFO
In charge of Corporate Planning and Finance
Responsible for Credit Card Services
Business and Information Systems
Jun. 2016 Senior Managing Executive Officer and CFO
In charge of Corporate Planning,
IR and Finance
Apr. 2017 Senior Managing Executive Officer and CFO
In charge of IR and Finance (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee
Internal Control Committee (Chairman)
Insider Trading Prevention Committee (Chairman)



Tomoo Ishii

Managing Executive Officer
Born: July 16, 1960

Apr. 1983 Joined the Company
Apr. 2007 Executive Officer and General Manager,
Group Compliance Division
Jun. 2009 Director and Executive Officer,
General Manager,
General Affairs Division
Apr. 2013 Director and Executive Officer,
General Manager, Personnel Division
Apr. 2015 Director and Managing Executive Officer,
and Chief Operating Officer,
Healthcare Promotion and
General Manager, Personnel Division
In charge of General Affairs and
Healthcare Promotion
Apr. 2016 Director and Managing Executive Officer,
and Chief Operating Officer,
Healthcare Promotion
In charge of General Affairs, Personnel
and Healthcare Promotion (Incumbent)
Apr. 2017 President and Representative Director,
MOVING CO., LTD. (Incumbent)
Director, MARUI FACILITIES Co., Ltd.
(Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee
Environment CSR Promotion Committee
Safety Control Committee



Masao Nakamura

Managing Executive Officer
Born: June 11, 1960

Apr. 1983 Joined the Company
Apr. 2007 Executive Officer and General Manager,
Group Business Promotion Division
Jun. 2008 Director and Executive Officer,
General Manager, Corporate Planning
Division and General Manager,
Business Development Division
Apr. 2011 Managing Director and
Managing Executive Officer
President and Representative Director,
MARUI CO., LTD.
Apr. 2015 Director and Managing Executive Officer
Responsible for Retailing and Store
Operation Business
President and Representative Director,
MARUI CO., LTD.
Apr. 2016 President and Representative Director,
AIM CREATE CO., LTD. (Incumbent)
May 2016 Director and Managing Executive Officer
Responsible for Retailing Business
(Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee



Takashi Wakashima

Managing Executive Officer
Born: November 19, 1956

Mar. 1981 Joined the Company
Jun. 2006 Director, Deputy General Manager,
Sales Promotion Headquarters and
General Manager, Sales Planning Division
Apr. 2011 Director and Executive Officer
President and Representative Director,
MOVING CO., LTD. (Incumbent)
Apr. 2013 Director and Executive Officer
In charge of CSR Promotion and
Real Estate Business & Architecture
President and Representative Director,
Totsuka Commercial Buildings
Management Co., Ltd. (Incumbent)
Jun. 2013 President and Representative Director,
Nakano Suncuore Co., Ltd. (Incumbent)
Jun. 2015 Director and Managing Executive Officer
In charge of CSR Promotion and Real
Estate Business & Architecture
Director, AIM CREATE CO., LTD. (Incumbent)
Apr. 2017 Director and Managing Executive Officer
In charge of Sustainability and Real Estate
Business & Architecture (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Environment CSR Promotion Committee (Chairman)



Nariaki Fuse

Senior Executive Officer
Born: June 3, 1959

Mar. 1982 Joined the Company
Apr. 2007 Director, M & C SYSTEMS CO., LTD.
Apr. 2011 Executive Officer
Managing Executive Officer,
M & C SYSTEMS CO., LTD.
Apr. 2013 President and Representative Director,
M & C SYSTEMS CO., LTD. (Incumbent)
Jun. 2013 Director and Executive Officer
Apr. 2015 Senior Executive Officer
In charge of Audit and
Information Systems
Apr. 2016 Senior Executive Officer and CIO
In charge of Audit (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Internal Control Committee
Personal Information Protection
Promotion Committee (Chairman)



Hirotsugu Kato

Senior Executive Officer
Born: July 30, 1963

Mar. 1987 Joined the Company
Apr. 2015 Executive Officer and General Manager,
Corporate Planning Division
Oct. 2015 Executive Officer and General Manager,
Corporate Planning Division and
IR Department
Jun. 2016 Director and Senior Executive Officer
General Manager, Corporate Planning
Division and IR Department
Oct. 2016 Director and Senior Executive Officer,
General Manager, Corporate Planning
Division and IR Department
In charge of ESG Promotion
Apr. 2017 Director and Senior Executive Officer,
General Manager, IR Department
In charge of Corporate Planning and
ESG Promotion (Incumbent)
Managing Director,
M & C SYSTEMS CO., LTD. (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee
Internal Control Committee
Insider Trading Prevention Committee



Hajime Sasaki

Senior Executive Officer
Born: November 24, 1963

Mar. 1986 Joined the Company
Oct. 2007 Director and General Manager,
Card Planning Division, Epos Card Co., Ltd.
Apr. 2012 Director and General Manager,
Private Brand Department, MARUI CO., LTD.
Apr. 2013 Executive Officer
Apr. 2014 Managing Director and General Manager,
Specialty Store Department,
MARUI CO., LTD.
Jun. 2014 Director
Apr. 2015 Director and Senior Executive Officer
Responsible for Retailing and Store
Operation Business
Senior Managing Director, MARUI CO., LTD.
Director, Epos Card Co., Ltd.
Apr. 2016 Senior Executive Officer (Incumbent)
President and Representative Director,
MARUI CO., LTD. (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Internal Control Committee
Safety Control Committee (Chairman)



Yoshiaki Kogure

Executive Officer
Born: September 5, 1960

Apr. 1983 Joined the Company
Mar. 2006 General Manager,
Group Financial Department
Apr. 2007 Executive Officer (Incumbent)
Jul. 2008 General Manager, Personnel Division
Oct. 2009 General Manager, Voi Business
Department, MARUI CO., LTD.
Apr. 2011 General Manager,
Corporate Planning Division
Apr. 2013 President and Representative Director,
MARUI FACILITIES Co., Ltd. (Incumbent)
May 2013 President and Representative Director,
Shiki City Development Co., Ltd.
(Incumbent)
Apr. 2015 Director, MARUI HOME SERVICE Co., Ltd.
(Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Internal Control Committee



Yoshinori Saito

Senior Executive Officer
Born: July 25, 1962

Mar. 1986 Joined the Company
Jul. 2008 Executive Officer
General Manager, Financial Department
Apr. 2011 Director and General Manager, Direct
Marketing Department, MARUI CO., LTD.
Apr. 2013 Director and General Manager,
Collaboration Card Business Department,
Epos Card Co., Ltd.
Oct. 2013 Director and General Manager,
Sales Promotion Department,
Epos Card Co., Ltd.
Apr. 2015 Managing Director, Epos Card Co., Ltd.
Director, M & C SYSTEMS CO., LTD.
(Incumbent)
Apr. 2016 Senior Executive Officer (Incumbent)
President and Representative Director,
Epos Card Co., Ltd. (Incumbent)
Director, MRI Co., Ltd. (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Internal Control Committee
Personal Information Protection
Promotion Committee



Masahiro Aono

Executive Officer
Born: March 4, 1962

Mar. 1984 Joined the Company
Mar. 2008 General Manager, Women's Clothing and
Accessories Department, MARUI CO., LTD.
Apr. 2010 General Manager, Women's Fashion
Department, MARUI CO., LTD.
Apr. 2011 Director and General Manager, Business
Promotion Department, MARUI CO., LTD.
Apr. 2013 Executive Officer (Incumbent)
Apr. 2014 Director and General Manager,
Store Business Promotion Department,
MARUI CO., LTD. (Incumbent)
Apr. 2015 Managing Director, MARUI CO., LTD.
(Incumbent)
Director, AIM CREATE CO., LTD.
(Incumbent)

Participation in committees:

Management Committee
Safety Control Committee



Yuko Ito

Executive Officer
Born: June 2, 1962

- Mar. 1986

Joined the Company
- Oct. 2007

General Manager,
Construction Department (Incumbent)
- Apr. 2012

Director and General Manager,
Creative Management Department
Deputy General Manager,
Space Production Business Division,
AIM CREATE CO., LTD.
- Apr. 2014

Executive Officer (Incumbent)
- Apr. 2016

Director and General Manager,
Design Management Department
Deputy General Manager,
Space Production Business Division,
AIM CREATE CO., LTD.
- Oct. 2016

Director and General Manager,
Creative Management Department
Deputy General Manager,
Space Production Business Division,
AIM CREATE CO., LTD. (Incumbent)

Participation in committees:
Management Committee
Environment CSR Promotion Committee



Miyuki Kawara

Executive Officer
Born: August 6, 1963

- Mar. 1986

Joined the Company
- Apr. 2007

Store Manager, Kobe Marui,
MARUI CO., LTD.
- Oct. 2008

General Manager, Brand Development
Department, MARUI CO., LTD.
- Apr. 2012

General Manager,
CSR Promotion Department
- Apr. 2015

Director and General Manager,
Collaboration Card Business Department,
Sales Promotion Department,
Epos Card Co., Ltd.
- Apr. 2016

Executive Officer (Incumbent)
Director and General Manager,
Sales Promotion Department,
Epos Card Co., Ltd. (Incumbent)

Participation in committees:
Management Committee
Personal Information Protection
Promotion Committee



Mayuki Igayama

Executive Officer
Born: June 19, 1964

- Mar. 1987

Joined the Company
- Apr. 2009

General Manager,
New Business Department
- Oct. 2009

Deputy General Manager,
Voi Business Department,
MARUI CO., LTD.
- Apr. 2012

General Manager,
Direct Marketing Department,
MARUI CO., LTD.
- Apr. 2014

Director and General Manager,
Direct Marketing Department,
MARUI CO., LTD.
- Apr. 2015

Executive Officer (Incumbent)
Director, MOVING CO., LTD. (Incumbent)
- Apr. 2016

Director and General Manager,
Omni-Channel Retailing Division
MARUI CO., LTD. (Incumbent)

Participation in committees:
Management Committee
Personal Information Protection
Promotion Committee



Masahisa Aoki

Executive Officer
Born: July 16, 1969

- Apr. 1992

Joined MOVING CO., LTD.
- Apr. 2015

Store Manager, Shinjuku Marui Annex,
MARUI CO., LTD.
- Oct. 2015

General Manager,
Pre-Opening Development Office,
Anime Business Department
- Apr. 2016

General Manager,
Anime Business Department (Incumbent)
- Apr. 2017

Executive Officer (Incumbent)

Participation in committees:
Management Committee



Junko Tsuda

Executive Officer
Born: May 25, 1972

- Mar. 1995

Joined the Company
- Apr. 2014

Store Manager, Nakano Marui,
MARUI CO., LTD.
- Apr. 2015

Executive Officer
Director and Store Manager,
Marui Family Shiki,
MARUI CO., LTD.
- Apr. 2017

Executive Officer and General Manager
New Business Development Department
(Incumbent)

Participation in committees:
Management Committee
Compliance Promotion Board

Overview of MARUI GROUP

As of March 31, 2017

Company Overview

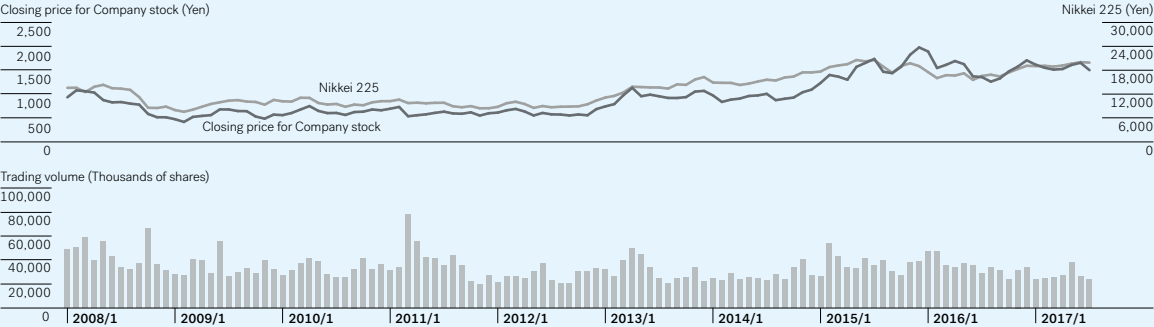
Name	MARUI GROUP CO., LTD.
Head office	3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
Date of foundation	February 17, 1931
Date of establishment	March 30, 1937
Capital	¥35,920 million
Business activities	Corporate planning and management for Group companies conducting Retailing business and FinTech businesses
Stores	Marui: 25 located in Kanto, Tokai, Kansai, and Kyushu regions Modi: 6 located in Kanto and Tokai region
Total sales floor area	452,100m ²
Number of employees	5,732 (Group total, excludes temporary employees)
Main banks	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation Mitsubishi UFJ Trust and Banking Corporation Mizuho Bank, Ltd. Development Bank of Japan Inc.
Accounting auditor	KPMG AZSA LLC

Stock Information

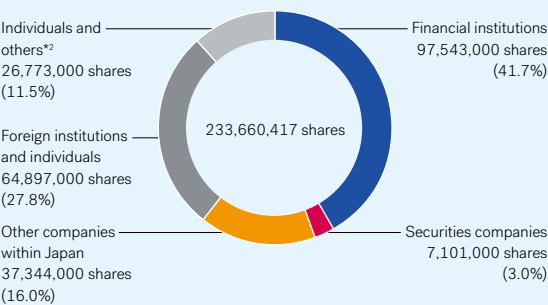
Stock listing	Tokyo Stock Exchange, First Section (loan margin trading issues)
Securities code	8252
Number of authorized shares	1,400,000,000
Number of common shares issued*1	233,660,417
Number of shareholders	24,080

*1 Number of common shares issued includes 4,202,450 shares of treasury stock, equivalent to 1.8% of the total number of shares of common stock issued.

Stock Price



Distribution of Shares Held by Shareholder Type



*2 Individuals and others includes 4,202,450 shares of treasury stock.

Major Shareholders

Name	Number of shares (Thousands of shares)	Percentage of total shares issued*3 (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	30,135	13.1
Japan Trustee Services Bank, Ltd. (Trust Account)	17,144	7.5
GOLDMAN, SACHS & CO. REG	6,185	2.7
Aoi Real Estate Co., Ltd.	6,019	2.6
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,808	2.5
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	5,460	2.4
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,179	1.8
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,814	1.7
Toho Co., Ltd.	3,779	1.6
AOI SCHOLARSHIP FOUNDATION	3,234	1.4

*3 Percentage of total shares issued is calculated excluding treasury stock and including 502,300 shares held under the Board Incentive Plan Trust scheme and the Employee Stock Ownership Plan Trust scheme.

Financial and Non-Financial Summary

MARUI GROUP CO., LTD., and its consolidated subsidiaries

FACT BOOK
www.0101maruigroup.co.jp/en/ir/lib/fact.html
ESG DATA BOOK
www.0101maruigroup.co.jp/en/sustainability/lib/databook.html

Financial and Non-Financial Summary

	Millions of yen										
Fiscal years ended March 31	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Group transactions	—	—	—	—	—	—	—	1,297,250	1,469,111	1,703,353	1,933,685
Retailing* ¹	—	—	—	—	—	—	—	—	—	341,478	326,327
FinTech* ¹	—	—	—	—	—	—	—	—	—	1,473,539	1,723,254
Eliminations* ²	—	—	—	—	—	—	—	—	—	(111,664)	(115,896)
Total operating revenues* ³	—	—	—	—	—	—	—	253,077	249,847	245,867	237,022
Revenue* ³	552,140	493,533	447,400	419,255	406,472	412,408	407,366	416,460	404,947	—	—
Gross profit	210,288	177,565	160,125	149,926	144,736	147,240	148,172	156,642	159,448	160,035	165,964
Selling, general and administrative expenses	166,599	159,382	150,986	139,488	129,940	129,224	123,886	129,495	131,406	130,419	134,711
EBITDA* ⁴	61,415	36,870	28,522	29,695	30,457	33,085	35,237	37,134	38,338	39,286	41,374
Operating income	43,688	18,183	9,138	10,438	14,795	18,015	24,285	27,146	28,042	29,615	31,253
Net income (loss) attributable to owners of parent	4,248	7,603	(8,750)	5,104	(23,638)	5,251	13,255	15,409	16,036	17,771	18,724
Segment income* ¹											
Retailing* ¹	—	—	—	—	—	—	—	—	—	10,658	7,759
FinTech* ¹	—	—	—	—	—	—	—	—	—	23,094	27,111
Retailing and Store Operation* ¹	19,309	10,645	1,252	37	2,110	7,547	9,885	10,562	8,074	7,856	—
Credit Card Services* ¹	21,892	5,740	6,725	10,272	13,704	10,619	13,177	15,634	20,126	22,186	—
Retailing-Related Services* ¹	6,913	6,772	3,740	2,509	1,568	2,567	3,792	4,523	3,333	3,674	—
Total assets	740,373	695,491	685,351	664,357	628,910	615,130	624,173	664,019	675,627	730,126	806,575
Shareholders' equity	402,610	336,445	310,818	312,188	284,526	289,975	303,637	315,446	306,795	281,610	273,883
Installment sales accounts receivable	51,310	73,781	88,761	95,871	111,760	142,995	171,187	213,466	227,121	279,763	348,191
Consumer loans outstanding	248,464	222,534	207,117	191,486	158,707	132,280	123,739	125,215	128,030	134,107	140,569
Interest-bearing debt	239,308	277,537	292,061	283,676	264,692	245,175	243,762	264,824	277,839	359,324	434,327
Net cash provided by (used in) operating activities	23,828	13,919	15,316	30,811	30,280	24,897	5,111	(9,227)	12,310	(35,310)	(45,955)
Core operating cash flow* ⁵	—	—	—	—	—	—	—	—	25,484	26,788	28,188
Net cash provided by (used in) investing activities	(28,025)	3,134	(18,234)	(13,034)	(7,033)	(3,913)	435	(6,791)	(3,867)	(4,063)	1,995
Net cash provided by (used in) financing activities	6,300	(32,241)	2,409	(14,519)	(22,926)	(23,660)	(5,571)	16,141	(7,267)	40,719	47,630
Cash and cash equivalents	44,722	29,535	29,026	32,283	32,603	29,928	29,940	30,053	31,229	32,575	36,245
Capital investments	30,293	23,649	24,073	17,398	14,332	7,941	7,665	11,238	9,786	12,882	15,696
Depreciation and amortization	17,727	18,686	19,384	19,257	15,661	15,069	10,951	9,988	10,296	9,670	10,121
Earnings (loss) per share (yen)	12.92	24.91	(31.90)	18.65	(86.36)	19.19	48.43	56.29	58.87	70.68	80.24
Net assets per share (yen)	1,233	1,207	1,135	1,140	1,039	1,059	1,109	1,152	1,166	1,161	1,196
Cash dividends per share (yen)	28.0	28.0	28.0	14.0	14.0	14.0	15.0	18.0	19.0	22.0	33.0
Payout ratio (%)	216.7	112.4	—	75.1	—	73.0	31.0	32.0	32.3	31.1	41.1
Total return ratio (%)	646.1	911.3	—	75.1	—	73.0	31.0	32.0	125.3	227.5	147.5
Operating income margin (%)* ⁶	7.9	3.7	2.0	2.5	3.6	4.4	6.0	10.7	11.2	12.0	13.2
Return on equity (%)	1.0	2.1	(2.7)	1.6	(7.9)	1.8	4.5	5.0	5.2	6.0	6.7
Return on invested capital (%)	—	1.9	1.0	1.1	1.7	2.1	3.0	3.0	3.3	3.3	3.1
Return on assets (%)	6.1	2.4	1.1	1.5	2.2	2.8	3.9	4.3	4.2	4.1	4.1
Equity ratio (%)	54.4	48.4	45.4	47.0	45.2	47.1	48.6	47.5	45.4	38.6	34.0
Stock price at year-end (yen)	1,445	1,061	523	678	537	690	975	885	1,365	1,613	1,513
Market capitalization (including treasury stock) (billions of yen)	532.7	338.0	166.6	216.0	171.1	219.8	310.6	282.0	380.3	449.4	353.5
Price earnings ratio (times)	111.8	42.6	—	36.4	—	36.0	20.1	15.7	23.2	22.8	18.9
Price book-value ratio (times)	1.2	0.9	0.5	0.6	0.5	0.7	0.9	0.8	1.2	1.4	1.3
Number of common shares issued (including treasury stock)	368,660,417	318,660,417	318,660,417	318,660,417	318,660,417	318,660,417	318,660,417	318,660,417	278,660,417	278,660,417	233,660,417
Number of shares of treasury stock	42,222,840	39,913,811	44,918,979	44,941,174	44,946,398	44,947,345	44,948,289	44,901,353	15,588,364	36,270,334	4,704,750
Total number of employees	8,154	7,147	7,085	6,847	6,492	6,218	6,101	5,966	5,918	5,899	5,732
Ratio of female employees (%)	39.9	44.4	44.6	44.7	44.4	44.4	44.3	44.5	44.6	45.5	45.1
Ratio of female managers (%)	—	—	—	—	—	—	6.4	7.3	8.5	8.9	10.0
Employee turnover rate (excluding mandatory retirement) (%)	—	—	—	—	—	—	2.8	2.3	2.0	1.6	2.6
Total number of stores	28	25	25	25	26	27	27	27	27	28	31
Total sales floor area (thousand m ²)	381.4	381.4	444.8	453.3	457.8	458.4	453.1	446.5	444.0	441.8	452.1
EPOS cardholders (including Akai Card) (ten thousands of members)	403	429	437	476	476	487	498	542	591	613	636
Ratio of delinquent debt (%)	3.42	4.22	3.91	3.19	3.35	3.10	2.32	1.84	1.68	1.57	1.45
Energy consumption (GJ)	—	—	—	—	—	—	1,998,182	2,525,815	2,350,595	2,305,099	2,341,454
GHG emissions (Scope 1 & 2) (t-CO ₂)* ⁷ * ⁸	142,006	125,628	122,136	130,600	114,900	96,300	86,765	119,129	111,216	103,613	118,183
GHG emissions (Scope 3) (t-CO ₂)* ⁷ * ⁸	—	—	—	—	—	—	—	550,612	530,595	509,070	489,439

*1 Beginning with the fiscal year ended March 31, 2017, the prior segments of Retailing and Store Operation, Credit Card Services, and Retailing-Related Services were reorganized into the Retailing and FinTech segments.
*2 Eliminations under total Group transactions represent the deduction of credit card transactions recorded in Retailing.
*3 Beginning with the fiscal year ended March 31, 2016, the display method was changed from total value display to net value display, the portion that represents income to the Company, for sales recorded through sale or return arrangements. In conjunction with this change, the previous "operating revenues" line item was replaced with the new "revenue" line item.

*4 EBITDA (earnings before interest, taxes, and depreciation and amortization) = Operating income + Depreciation and amortization
*5 Core operating cash flow represents net cash provided by (used in) operating activities less the increase in operating receivables.
*6 Operating income margin is calculated using operating revenues for the fiscal year ended March 31, 2013, and prior fiscal years and revenue for the fiscal year ended March 31, 2014, and subsequent fiscal years.
*7 Scope 1 & 2 represent GHG emissions from the Group. Scope 3 represents GHG emissions from areas including raw material procurement, transportation, and use by customers. Scope 3 emissions calculations are verified by Mizuho Information & Research Institute, Inc.
*8 In the fiscal year ended March 31, 2014, the scope of data collection was expanded to include the entire Group.

Consolidated Balance Sheets

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries
As of March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Assets			
Current assets:			
Cash and deposits (Notes 7 and 23)	¥ 32,586	¥ 36,257	\$ 323,723
Notes and accounts receivable–trade (Note 7)	7,459	4,840	43,214
Accounts receivable–installment (Notes 5 and 7)	279,763	348,191	3,108,848
Operating loans (Notes 6 and 7)	134,107	140,569	1,255,080
Allowance for doubtful accounts (Note 7)	(7,800)	(9,352)	(83,500)
	413,530	484,249	4,323,651
Inventories	12,759	10,437	93,187
Deferred tax assets (Note 12)	5,569	6,934	61,910
Other	21,594	20,920	186,785
Total current assets	486,040	558,799	4,989,276
Property and equipment (Note 14):			
Land	99,683	103,540	924,464
Buildings and structures	261,491	257,647	2,300,419
Construction in progress	420	195	1,741
Other	34,523	33,547	299,526
Accumulated depreciation	(221,121)	(216,277)	(1,931,044)
Property and equipment, net	174,996	178,654	1,595,125
Investments and other assets:			
Investment securities (Notes 7 and 8)	19,610	18,110	161,696
Investments in unconsolidated subsidiaries and affiliates (Note 7)	772	872	7,785
Intangible assets	6,502	6,295	56,205
Leasehold and other deposits (Note 7)	34,895	34,031	303,848
Deferred tax assets (Note 12)	4,619	6,870	61,339
Other	2,688	2,941	26,258
Total investments and other assets	69,088	69,121	617,151
Total assets	¥ 730,126	¥ 806,575	\$ 7,201,562
Liabilities and net assets			
Current liabilities:			
Accounts payable–trade (Note 7)	¥ 24,318	¥ 15,850	\$ 141,517
Short-term loans payable and current portion of long-term loans payable (Notes 7 and 11)	48,324	50,827	453,812
Current portion of bonds payable (Notes 7 and 11)	30,000	20,000	178,571
Commercial paper (Notes 7 and 11)	10,000	5,000	44,642
Income taxes payable (Note 7)	4,731	7,214	64,410
Provision for bonuses	3,756	3,671	32,776
Provision for point card certificates	6,586	9,181	81,973
Provision for loss on redemption of gift certificates	159	158	1,410
Other	30,601	33,150	295,982
Total current liabilities	158,477	145,051	1,295,098
Non-current liabilities:			
Bonds payable (Notes 7 and 11)	80,000	85,000	758,928
Long-term loans payable (Notes 7, 9, and 11)	191,000	273,500	2,441,964
Deferred tax liabilities (Note 12)	1,855	4,003	35,741
Provision for loss on interest repayment	6,078	11,487	102,562
Provision for loss on guarantees	164	197	1,758
Provision for stock benefits (Note 4)	-	179	1,598
Asset retirement obligations (Note 13)	881	887	7,919
Other	9,567	11,928	106,500
Total non-current liabilities	289,547	387,184	3,457,000
Total liabilities	448,025	532,236	4,752,107
Contingent liabilities (Note 17)			
Net assets (Note 16)			
Shareholders' equity:			
Capital stock	35,920	35,920	320,714
Authorized: 1,400,000,000 shares of common stock			
Issued: 278,660,417 shares as of March 31, 2016 and 233,660,417 shares as of March 31, 2017			
Capital surplus	91,307	91,307	815,241
Retained earnings	210,237	155,079	1,384,633
Treasury stock (Note 27)			
36,270,334 shares as of March 31, 2016 and 4,704,750 shares as of March 31, 2017	(54,238)	(7,389)	(65,973)
Total shareholders' equity	283,226	274,918	2,454,625
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	(1,616)	(1,034)	(9,232)
Total accumulated other comprehensive income	(1,616)	(1,034)	(9,232)
Subscription rights to shares (Note 15)	53	2	17
Non-controlling interests	437	453	4,044
Total net assets	282,101	274,339	2,449,455
Total liabilities and net assets	¥730,126	¥806,575	\$7,201,562

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

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries
For the fiscal years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Consolidated Statements of Income			
Revenue (Note 14)	¥245,867	¥237,022	\$2,116,267
Cost of sales (Notes 14 and 18)	85,832	71,057	634,437
Gross profit	160,035	165,964	1,481,821
Selling, general and administrative expenses (Notes 14 and 19)	130,419	134,711	1,202,776
Operating income	29,615	31,253	279,044
Non-operating income (expenses):			
Interest income	86	103	919
Dividend income	370	338	3,017
Gain on bad debt recovered	1,190	1,231	10,991
Gain on sale of property and equipment (Note 14)	—	13,659	121,955
Gain on sale of investment securities	972	208	1,857
Interest expenses	(1,797)	(1,682)	(15,017)
Financing expenses	(296)	(187)	(1,669)
Loss on retirement of property and equipment (Note 20)	(1,920)	(2,918)	(26,053)
Loss on closing of stores (Note 20)	—	(1,310)	(11,696)
Impairment loss (Note 21)	(107)	(291)	(2,598)
Loss on sale of investment securities	—	(330)	(2,946)
Loss on interest repayment	—	(377)	(3,366)
Provision for loss on interest repayment	(1,201)	(11,487)	(102,562)
Other, net	(5)	(164)	(1,464)
	(2,709)	(3,210)	(28,660)
Income before income taxes	26,905	28,043	250,383
Income taxes (Note 12)			
Income taxes–current	5,676	10,420	93,035
Income taxes–deferred	3,434	(1,126)	(10,053)
	9,110	9,293	82,973
Net income	17,794	18,749	167,401
Net income attributable to non-controlling interests	23	24	214
Net income attributable to owners of parent	¥ 17,771	¥ 18,724	\$ 167,178
Per share data (Note 26)		Yen	U.S. dollars (Note 1)
	2016	2017	2017
Net income per share:			
Basic	¥ 70.68	¥ 80.24	\$ 0.71
Diluted	70.67	80.24	0.71
Cash dividends	22.00	33.00	0.29
Net assets per share	1,161.81	1,196.23	10.68
The accompanying notes are an integral part of these consolidated financial statements.			
Consolidated Statements of Comprehensive Income		Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Net income	¥17,794	¥18,749	\$167,401
Other comprehensive income (Note 22):			
Valuation difference on available-for-sale securities	(2,598)	581	5,187
Total other comprehensive income	(2,598)	581	5,187
Comprehensive income	¥15,196	¥19,331	\$172,598
Comprehensive income attributable to:			
Owners of parent	¥15,172	¥19,306	\$172,375
Non-controlling interests	23	24	214
The accompanying notes are an integral part of these consolidated financial statements.			

Consolidated Statements of Changes in Net Assets

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries
For the fiscal years ended March 31, 2016 and 2017

	Shareholders' equity					Accumulated other comprehensive income		Subscription rights to shares	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Total			
Balance as of April 1, 2015	¥35,920	¥91,307	¥197,875	¥(19,290)	¥305,813	¥ 982	¥ 982	¥ 39	¥420	¥307,255
Changes of items during period:										
Dividends from surplus			(5,391)		(5,391)					(5,391)
Net income attributable to owners of parent			17,771		17,771					17,771
Purchase of treasury stock				(35,002)	(35,002)					(35,002)
Disposal of treasury stock		(17)		54	36					36
Retirement of treasury stock					—					—
Transfer from retained earnings to capital surplus		17	(17)		—					—
Net changes of items other than shareholders' equity						(2,598)	(2,598)	13	16	(2,568)
Total changes of items during period	—	—	12,361	(34,947)	(22,586)	(2,598)	(2,598)	13	16	(25,154)
Balance as of April 1, 2016	¥35,920	¥91,307	¥210,237	¥(54,238)	¥283,226	¥(1,616)	¥(1,616)	¥ 53	¥437	¥282,101
Changes of items during period:										
Dividends from surplus			(6,386)		(6,386)					(6,386)
Net income attributable to owners of parent			18,724		18,724					18,724
Purchase of treasury stock				(20,698)	(20,698)					(20,698)
Disposal of treasury stock		(1)		53	51					51
Retirement of treasury stock		(67,494)		67,494	—					—
Transfer from retained earnings to capital surplus		67,495	(67,495)		—					—
Net changes of items other than shareholders' equity						581	581	(51)	16	546
Total changes of items during period	—	—	(55,157)	46,849	(8,308)	581	581	(51)	16	(7,761)
Balance as of March 31, 2017	¥35,920	¥91,307	¥155,079	¥ (7,389)	¥274,918	¥(1,034)	¥(1,034)	¥ 2	¥453	¥274,339

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity					Accumulated other comprehensive income		Subscription rights to shares	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Total			
Balance as of April 1, 2016	\$320,714	\$ 815,241	\$1,877,116	\$(484,267)	\$2,528,803	\$(14,428)	\$(14,428)	\$ 473	\$3,901	\$2,518,758
Changes of items during period:										
Dividends from surplus			(57,017)		(57,017)					(57,017)
Net income attributable to owners of parent			167,178		167,178					167,178
Purchase of treasury stock				(184,803)	(184,803)					(184,803)
Disposal of treasury stock		(8)		473	455					455
Retirement of treasury stock		(602,625)		602,625	—					—
Transfer from retained earnings to capital surplus		602,633	(602,633)		—					—
Net changes of items other than shareholders' equity						5,187	5,187	(455)	142	4,875
Total changes of items during period	—	—	(492,473)	418,294	(74,178)	5,187	5,187	(455)	142	(69,294)
Balance as of March 31, 2017	\$320,714	\$ 815,241	\$1,384,633	\$ (65,973)	\$2,454,625	\$(9,232)	\$(9,232)	\$ 17	\$4,044	\$2,449,455

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

Consolidated Statements of Cash Flows

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries
For the fiscal years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Cash flows from operating activities:			
Income before income taxes	¥ 26,905	¥ 28,043	\$ 250,383
Depreciation and amortization	9,670	10,121	90,366
Increase (decrease) in provision for point card certificates	1,996	2,595	23,169
Increase (decrease) in provision for allowance for doubtful accounts	(310)	1,552	13,857
Increase (decrease) in provision for loss on interest repayment	(6,574)	5,409	48,294
Increase (decrease) in provision for bonuses	(7)	(85)	(758)
Interest and dividend income	(457)	(441)	(3,937)
Interest expenses	1,797	1,682	15,017
Loss (gain) on retirement of property and equipment	655	1,149	10,258
Loss (gain) on sale of property and equipment	—	(13,659)	(121,955)
Loss (gain) on sale of investment securities	(972)	122	1,089
Decrease (increase) in notes and accounts receivable–trade	(1,006)	2,618	23,375
Decrease (increase) in accounts receivable–installment	(52,641)	(68,428)	(610,964)
Decrease (increase) in operating loans	(6,076)	(6,461)	(57,687)
Decrease (increase) in inventories	4,145	2,800	25,000
Increase (decrease) in accounts payable–trade	(2,683)	(8,468)	(75,607)
Other, net (Note 21)	(2,657)	4,505	40,223
Subtotal	(28,215)	(36,943)	(329,848)
Interest and dividend income received	388	350	3,125
Interest expenses paid	(1,811)	(1,692)	(15,107)
Income taxes paid	(5,741)	(7,882)	(70,375)
Income taxes refund	68	212	1,892
Net cash provided by (used in) operating activities	(35,310)	(45,955)	(410,312)
Cash flows from investing activities:			
Purchase of property and equipment	(9,058)	(18,059)	(161,241)
Proceeds from sale of property and equipment	—	14,607	130,419
Purchase of investment securities	(678)	(399)	(3,562)
Proceeds from sale of investment securities	3,340	2,016	18,000
Payments for leasehold and other deposits	(619)	(275)	(2,455)
Proceeds from collection of leasehold and other deposits	1,485	2,097	18,723
Other, net	1,467	2,009	17,937
Net cash provided by (used in) investing activities	(4,063)	1,995	17,812
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(6,042)	7,502	66,982
Net increase (decrease) in commercial paper	—	(5,000)	(44,642)
Proceeds from long-term loans payable	97,000	92,500	825,892
Repayments of long-term loans payable	(17,500)	(15,000)	(133,928)
Proceeds from issuance of bonds	24,875	24,883	222,169
Redemption of bonds	(17,000)	(30,000)	(267,857)
Purchase of treasury stock	(35,035)	(20,711)	(184,919)
Cash dividends paid (Note 16)	(5,391)	(6,386)	(57,017)
Other, net	(185)	(157)	(1,401)
Net cash provided by (used in) financing activities	40,719	47,630	425,267
Net increase (decrease) in cash and cash equivalents	1,345	3,670	32,767
Cash and cash equivalents at beginning of period	31,229	32,575	290,848
Cash and cash equivalents at end of period (Note 23)	¥ 32,575	¥ 36,245	\$ 323,616

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

Notes to Consolidated Financial Statements

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries
As of and for the fiscal years ended March 31, 2016 and 2017

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of MARUI GROUP CO., LTD. (“the Company”) and its consolidated subsidiaries (collectively, “the Group”) have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations as well as in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates.

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

The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto were translated from the presented Japanese yen amounts into U.S. dollar amounts at the rate of ¥112 = \$1, the approximate rate of exchange at March 31, 2017, and were then rounded down to the nearest thousand. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollars do not necessarily agree with the sums of the individual amounts. This translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan. Such translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at that or any other rate.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements as of and for the fiscal years ended March 31, 2016 and 2017, include the accounts of the Company and its nine significant subsidiaries.

Under the control or influence concept, those companies in which the Company, either directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for using the equity method. For the fiscal years ended March 31, 2016 and 2017, there was no subsidiary or affiliate accounted for using the equity method. Investments in the remaining unconsolidated subsidiaries and affiliates are stated at cost. If the equity method of accounting was applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation.

The fiscal year-end of all consolidated subsidiaries is March 31, the same as that of the Company.

(2) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the consolidated balance sheet dates. All revenues and expenses associated with foreign currencies are translated into Japanese yen at the exchange rates prevailing when such transactions were made. The resulting exchange gains or losses are credited or charged to income.

(3) Cash and cash equivalents

In preparing the consolidated statements of cash flows, the Group considers cash on hand, readily available deposits, and highly liquid short-term investments with maturities of three months or less when purchased that are exposed to an insignificant risk of changes in value to be cash and cash equivalents.

(4) Investment securities

Investment securities held by the Group are all classified as available-for-sale securities.

Available-for-sale securities with a determinable market value are stated at fair value based on the market value at the balance sheet date, and unrealized gains or losses, net of applicable income taxes, are reported as a separate component of net assets. Cost of securities sold is computed based on the moving-average method. Available-for-sale securities without a determinable market value are stated at cost determined by the moving-average method.

Investments in unconsolidated subsidiaries and affiliates are stated at cost determined by the moving-average method.

(5) Inventories

Inventories are measured at the lower of cost determined by the monthly weighted-average method or net selling value.

(6) Depreciation and amortization

Property and equipment (excluding leased assets) are depreciated by the straight-line method.

Intangible assets are amortized by the straight-line method. Capitalized computer software costs for internal use are amortized by the straight-line method over the estimated useful lives (within five years).

For finance leases which do not transfer ownership of the leased assets to the lessee, leased assets are depreciated by the straight-line method over the lease terms with no residual value.

(7) Allowance for doubtful accounts

The allowance for doubtful accounts is stated at the amount determined based on the historical experience of bad debt with respect to ordinary receivables (“general reserve”), plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables of customers experiencing financial difficulties (“specific reserve”).

(8) Provision for bonuses

The provision for bonuses is accrued at the fiscal year-end to which such bonuses are attributable.

(9) Provision for point card certificates

Credit points are awarded to customers when they make purchases using the Group’s member card and, upon request, the Company will issue gift certificates or allow customers to use their accumulated credit points for their payment.

The provision for point card certificates is accrued to the estimated amount required based on the balance of credit points awarded to card members outstanding at the fiscal year-end.

(10) Provision for loss on redemption of gift certificates

The monetary value of gift certificates and other certificates that have not been redeemed for a set period of time after issuance is recognized as income. However, some gift certificates and other certificates can be redeemed after the recognition of income.

The provision for loss on redemption of gift certificates is provided at the estimated amount to be redeemed in the future based on historical experience.

(11) Provision for loss on interest repayment

The provision for loss on interest repayment is provided to the estimated amount of repayment claims on consumer loan interests at the fiscal year-end. Based on the current situation in which repayment claims continue to increase although the actual repayments decrease, the Company re-examined the amount of provision and recorded the necessary amount as of March 31, 2017.

(12) Provision for loss on guarantees

The provision for loss on guarantees is provided at the estimated amount of loss arising from the Group’s guarantee obligations of customers’ liabilities in relation to loans to individuals from financial institutions with which the Group has guarantee service arrangements.

(13) Provision for stock benefits

The provision for stock benefits is provided at the estimated amount for stock benefits to directors and employees at the fiscal year-end in accordance with the internal rule for stock delivery.

(14) Basis for revenue recognition

The charges for installment sales and interest income on consumer loans are recognized on an accrual basis based on the remaining loan balances.

(15) Hedge accounting

The Group utilizes interest rate swaps to mitigate the fluctuation risk of interests on loans payable.
The Group applies the special accounting treatment for interest rate swaps as all requirements for this treatment are fulfilled. The Group omits the evaluation of hedge effectiveness for interest rate swaps under the special accounting treatment.

(16) Consumption taxes

National and local consumption taxes are accounted for by the tax-excluded method. Non-deductible consumption tax and other taxes imposed on fixed assets are recorded as expenses as incurred.

3. CHANGE IN PRESENTATION

Consolidated Statements of Income
The account “Impairment loss,” which was previously included in “Other, net,” is shown separately for the fiscal year ended March 31, 2017. The balance in the previous fiscal year has been reclassified to conform to the current year’s presentation. As a result, the amount of ¥107 million included in “Other, net” for the fiscal year ended March 31, 2016 is reclassified as “Impairment loss” of ¥107 million.

4. ADDITIONAL INFORMATION

Stock Benefit Employee Stock Ownership Plan Trust

Effective from the fiscal year ended March 31, 2017, the Company introduced the “Stock Benefit Employee Stock Ownership Plan Trust (“ESOP Trust”)” to provide an incentive to the Group’s employees holding senior management positions (hereinafter the “Senior Managers”), aiming to enhance their commitment to further improve the business performance and corporate value over the medium-to-long term.

(1) Overview of the plan

The Company will set up a trust with the Senior Managers who fulfill certain requirements as beneficiaries, by contributing funds to acquire the Company’s stock. The trust will acquire the Company’s own stock from the stock market for the number of shares required for delivering to the Senior Managers based on the prescribed internal rule for stock delivery. Then, in accordance with the internal rule, the Company will make a delivery or payment of its shares and cash equivalents to the amount obtained by converting a part of the shares into cash based on the rank of each Senior Manager and degree of achievement of the performance target.

The Company applies the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees, etc. through Trusts” (PITF No. 30, March 26, 2015) for the accounting treatment of the plan.

(2) The Company’s shares held at the trust

The Company’s shares held at the trust are carried at their book value at the trust (excluding incidental expenses) and accounted for as treasury stock under net assets. The book value and the number of shares as of March 31, 2017 are ¥479 million (\$4,276 thousand) and 340,800 shares, respectively.

Officer Remuneration Board Incentive Plan Trust

Effective from the fiscal year ended March 31, 2017, the Company also introduced the “Officer Remuneration Board Incentive Plan Trust (“BIP Trust”)” to provide an incentive to (i) Directors and Executive Officers (excluding External Directors and non-residents in Japan) of the Company and (ii) Directors of 10 subsidiaries of the Group (excluding External Directors and non-residents in Japan; collectively, with the Directors and Executive Officers of the Company, the “Executives”).

(1) Overview of the plan

The Company will set up a trust with the Executives who fulfill certain requirements as beneficiaries, by contributing funds to acquire the Company’s stock. The trust will acquire the Company’s own stock from the stock market for the number of shares required for delivering to the Executives based on the prescribed internal rule for stock delivery. Then, in accordance with the internal rule, the Company will make a delivery or payment of its shares and cash equivalents to the amount obtained by converting a part of the shares into cash based on the rank of each Executive and degree of achievement of the performance target.

The Company applies the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees, etc. through Trusts” (PITF No. 30, March 26, 2015) for the accounting treatment of the plan.

(2) The Company’s shares held at the trust

The Company’s shares held at the trust are carried at their book value at the trust (excluding incidental expenses) and accounted for as treasury stock under net assets. The book value and the number of shares as of March 31, 2017 are ¥217 million (\$1,937 thousand) and 161,500 shares, respectively.

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the fiscal year ended March 31, 2017, the Company applied the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

5. ACCOUNTS RECEIVABLE-INSTALLMENT

The following balances for lump sums receivable and revolving receivable were securitized and are therefore excluded from the consolidated balance sheets as of March 31, 2016 and 2017:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Card shopping:			
Lump sums receivable	¥55,000	¥55,000	\$491,071
Revolving receivable	13,928	9,290	82,946

6. LOAN COMMITMENTS

Certain consolidated subsidiaries that operate in the credit card business provide consumer loan services to customers.

The unused balance of loans contingent with the loan commitments was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Total loan limits	¥1,090,691	¥1,139,270	\$10,172,053
Amount executed as loans	134,107	140,569	1,255,080
Unused balance	¥ 956,583	¥ 998,701	\$ 8,916,973

Under the provisions of the loan service contract, the Group is able to decline a loan request or decrease a loan limit when a customer's financial condition or other circumstances change. Thus, the total unused balance will not necessarily be executed as loans.

7. FINANCIAL INSTRUMENTS

(1) Status of financial instruments

(a) Policy on financial instruments

The Group raises necessary funds for business operations through bank loans and corporate bond issuance. Temporary surplus funds are invested in highly safe short-term deposits. Derivative transactions are utilized to avoid the interest rate fluctuation risk on loans. The Group does not use derivative transactions for speculative purposes.

(b) Financial instruments, their risks, and the risk management system

Accounts receivable–installment and operating loans are exposed to the credit risk of customers. In accordance with the internal risk management rules, the Group mitigates such risk by monitoring and evaluating the credit status of each customer by means of third-party personal credit information agencies and the Group's own credit monitoring system.

Investment securities primarily consist of shares issued by business partners and are exposed to both credit risk and market risk. The Group mitigates such risks by regularly monitoring the share price and the financial condition of the issuers.

Leasehold and other deposits consist of security deposits to rent properties for stores.

Accounts payable–trade is settled in the short term.

Long-term loans payable with a floating interest rate is exposed to interest rate fluctuation risk. The Group utilizes interest rate swaps to avoid such risk by fixing the future interest rate.

(2) Estimated fair value of financial instruments

Carrying value, fair value, and the difference between them as of March 31, 2016 and 2017, are summarized below.

Financial instruments for which the fair value is extremely difficult to determine are excluded from the following table (See Note 2 on page 117).

	2016			2017		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1) Cash and deposits	¥ 32,586	¥ 32,586	¥ —	¥ 36,257	¥ 36,257	¥ —
(2) Notes and accounts receivable–trade	7,459	7,459	—	4,840	4,840	—
(3) Accounts receivable–installment	279,763			348,191		
Allowance for doubtful accounts*1	(5,246)			(6,236)		
	274,517	312,365	37,847	341,955	385,860	43,904
(4) Operating loans	134,107			140,569		
Allowance for doubtful accounts*2	(2,114)			(2,349)		
	131,993	152,737	20,744	138,219	157,324	19,105
(5) Investment securities:						
Available-for-sale securities	19,329	19,329	—	17,429	17,429	—
(6) Leasehold and other deposits	8,404	8,324	(80)	6,993	6,902	(90)
Assets, total	¥474,290	¥532,801	¥58,510	¥545,695	¥608,615	¥62,919
(1) Accounts payable–trade	¥ 24,318	¥ 24,318	¥ —	¥ 15,850	¥ 15,850	¥ —
(2) Short-term loans payable and current portion of long-term loans payable	48,324	48,324	—	50,827	50,827	—
(3) Current portion of bonds payable	30,000	30,000	—	20,000	20,000	—
(4) Commercial paper	10,000	10,000	—	5,000	5,000	—
(5) Income taxes payable	4,731	4,731	—	7,214	7,214	—
(6) Bonds payable	80,000	80,650	650	85,000	85,049	49
(7) Long-term loans payable	191,000	191,382	382	273,500	272,556	(943)
Liabilities, total	¥388,374	¥389,407	¥ 1,032	¥457,391	¥456,498	¥ (893)
Derivative transactions	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

*1 The amount presents the total of general reserve and specific reserve for accounts receivable–installment.

*2 The amount presents the total of general reserve and specific reserve for operating loans.

	Thousands of U.S. dollars (Note 1)		
	2017		
	Carrying value	Fair value	Difference
(1) Cash and deposits	\$ 323,723	\$ 323,723	\$ —
(2) Notes and accounts receivable–trade	43,214	43,214	—
(3) Accounts receivable–installment	3,108,848		
Allowance for doubtful accounts	(55,678)		
	3,053,169	3,445,178	392,000
(4) Operating loans	1,255,080		
Allowance for doubtful accounts	(20,973)		
	1,234,098	1,404,678	170,580
(5) Investment securities			
Available-for-sale securities	155,616	155,616	—
(6) Leasehold and other deposits	62,437	61,625	(803)
Assets, total	\$4,872,276	\$5,434,062	\$561,776
(1) Accounts payable–trade	\$ 141,517	\$ 141,517	\$ —
(2) Short-term loans payable and current portion of long-term loans payable	453,812	453,812	—
(3) Current portion of bonds payable	178,571	178,571	—
(4) Commercial paper	44,642	44,642	—
(5) Income taxes payable	64,410	64,410	—
(6) Bonds payable	758,928	759,366	437
(7) Long-term loans payable	2,441,964	2,433,535	(8,419)
Liabilities, total	\$4,083,848	\$4,075,875	\$ (7,973)
Derivative transactions	\$ —	\$ —	\$ —

Note 1. Calculation method for fair value of financial instruments and information on securities and derivative transactions

Assets:

(1) Cash and deposits and (2) Notes and accounts receivable–trade

The fair value approximates their carrying value because of their short maturities.

(3) Accounts receivable–installment and (4) Operating loans

The fair value is determined as their present value by discounting, using the risk-free rate, their future cash flows adjusted for their credit risk identified in the credit control process. With regard to bad receivables and loans, allowance for doubtful accounts is estimated based on the present value of their estimated future cash flows. The fair value approximates the amount of carrying value less allowance for doubtful accounts. Thus, the amount of carrying value less allowance for doubtful accounts is used as fair value.

(5) Investment securities

The fair value is based on quotes on an exchange.

(6) Leasehold and other deposits

The fair value is determined as their present value by discounting future cash flows at the risk-free rate adjusted for credit risk premium. The amount includes the current portion of leasehold and other deposits.

Liabilities:

(1) Accounts payable–trade, (2) Short-term loans payable and current portion of long-term loans payable, (3) Current portion of bonds payable, (4) Commercial paper, and (5) Income taxes payable

The fair value approximates their carrying value because of their short maturities.

(6) Bonds payable

The fair value is based on the present value calculated by discounting the sum of principal and interests using an interest rate, for which credit risk and redemption periods are taken into account.

(7) Long-term loans payable

The carrying value of long-term loans payable with a floating interest rate approximates its fair value since the interest rate reflects the market rate in the short term. Thus, carrying value is used as its fair value. The fair value of long-term loans payable hedged by interest rate swaps under special accounting treatment is calculated by discounting the sum of principal and interests accounted for together with interest rate swaps using a reasonably estimated interest rate applied to similar borrowings. The fair value of long-term loans payable with fixed interest rates is calculated by discounting the sum of principal and interests using an interest rate that would be applied to similar new borrowings.

Derivative transactions

See Note 9, “DERIVATIVE TRANSACTIONS,” for details.

Note 2. Financial instruments whose fair value is extremely difficult to determine

	Thousands of U.S. dollars (Note 1)	
	2016	2017
Unlisted stocks	¥ 1,053	¥ 1,553
Part of security deposits	28,103	27,796

Unlisted stocks are not included in (5) Investment securities in the table on page 116, as there were no market prices available and it is extremely difficult to determine the fair value. Similarly, part of security deposits is not included in (6) Leasehold and other deposits.

Note 3. Redemption schedule for monetary claims and securities with maturities

	Millions of yen			
	2016			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 32,586	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	7,459	—	—	—
Accounts receivable–installment	154,581	83,294	23,502	18,386
Operating loans	62,913	70,885	245	63
Leasehold and other deposits	1,352	2,986	2,218	1,846
Total	¥258,892	¥157,166	¥25,966	¥20,296

	Millions of yen			
	2017			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 36,257	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	4,840	—	—	—
Accounts receivable–installment	186,538	107,079	29,073	25,500
Operating loans	66,131	74,243	138	56
Leasehold and other deposits	745	3,770	721	1,755
Total	¥294,512	¥185,094	¥29,932	¥27,312

	Thousands of U.S. dollars (Note 1)			
	2017			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$ 323,723	\$ —	\$ —	\$ —
Notes and accounts receivable–trade	43,214	—	—	—
Accounts receivable–installment	1,665,517	956,062	259,580	227,678
Operating loans	590,455	662,883	1,232	500
Leasehold and other deposits	6,651	33,660	6,437	15,669
Total	\$2,629,571	\$1,652,625	\$267,250	\$243,857

See Note 11, "SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT," for the schedule of aggregate annual maturities of long-term loans payable and long-term debt.

8. INVESTMENT SECURITIES

(1) Information on available-for-sale securities as of March 31, 2016 and 2017, is as follows:

	Millions of yen			2017		
	2016			2017		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Carrying value exceeding acquisition cost:						
Stocks	¥ 9,072	¥ 8,510	¥ 562	¥10,633	¥ 9,956	¥ 677
Subtotal	9,072	8,510	562	10,633	9,956	677
Carrying value not exceeding acquisition cost:						
Stocks	10,256	12,544	(2,287)	6,795	8,959	(2,164)
Subtotal	10,256	12,544	(2,287)	6,795	8,959	(2,164)
Total	¥19,329	¥21,054	¥(1,725)	¥17,429	¥18,915	¥(1,486)

	Thousands of U.S. dollars (Note 1)		
	2017		
	Carrying value	Acquisition cost	Difference
Carrying value exceeding acquisition cost:			
Stocks	\$ 94,937	\$ 88,892	\$ 6,044
Subtotal	94,937	88,892	6,044
Carrying value not exceeding acquisition cost:			
Stocks	60,669	79,991	(19,321)
Subtotal	60,669	79,991	(19,321)
Total	\$155,616	\$168,883	\$(13,267)

Unlisted stocks in the amount of ¥281 million and ¥681 million (\$6,080 thousand) as of March 31, 2016 and 2017, respectively, are not included in the table above since their market price is not readily available and it is extremely difficult to determine their fair value.

(2) Information on sale of available-for-sale securities for the fiscal years ended March 31, 2016 and 2017, is as follows:

	Millions of yen					
	2016			2017		
	Proceeds from sales	Gains	Losses	Proceeds from sales	Gains	Losses
Stocks	¥3,340	¥972	¥0	¥2,016	¥208	¥330
Total	¥3,340	¥972	¥0	¥2,016	¥208	¥330

	Thousands of U.S. dollars (Note 1)		
	2017		
	Proceeds from sales	Gains	Losses
Stocks	\$18,000	\$1,857	\$2,946
Total	\$18,000	\$1,857	\$2,946

(3) When the fair value of investment securities declines by 30% to 50%, the Group recognizes an impairment loss after comprehensively evaluating the recoverability of the market price. No significant impairment loss on investment securities was recognized for the fiscal years ended March 31, 2016 and 2017.

9. DERIVATIVE TRANSACTIONS

For the fiscal years ended March 31, 2016 and 2017, the Group's derivative transactions were limited to interest rate swaps that qualified for hedge accounting and met the requirements for the special accounting treatment for interest rate swaps as described below. There were no derivative transactions for which hedge accounting was not applied.

Hedge accounting method:	Special treatment for interest rate swaps
Type of derivative transactions:	Interest rate swaps, receive floating / pay fixed
Hedged item:	Long-term loans payable

Millions of yen						Thousands of U.S. dollars (Note 1)		
2016			2017			2017		
Contract amount			Contract amount			Contract amount		
Total	Due after one year	Fair value	Total	Due after one year	Fair value	Total	Due after one year	Fair value
¥27,000	¥22,000	*	¥22,000	¥17,000	*	\$196,428	\$151,785	*

* Interest rate swaps under the special accounting treatment are accounted for as an integral component of the long-term loans payable designated as hedged items. Thus, their fair value is included in that of long-term loans payable.

10. LEASES

(As a Lessee)

The Group capitalizes leased assets under finance leases that do not transfer ownership. These assets mainly comprise build-ings and properties in connection with the Retailing segment.

The future minimum lease payments under non-cancellable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Within one year	¥ 4,782	¥ 3,861	\$ 34,473
Over one year	25,136	21,275	189,955
Total	¥29,919	¥25,136	\$224,428

(As a Lessor)

The future minimum lease receipts under non-cancellable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Within one year	¥ 7,049	¥12,058	\$107,660
Over one year	9,485	8,881	79,294
Total	¥16,534	¥20,939	\$186,955

11. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable and current portion of long-term loans payable as of March 31, 2016 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Short-term loans payable	¥33,324	¥40,827	\$364,526
Current portion of long-term loans payable	15,000	10,000	89,285
Total	¥48,324	¥50,827	\$453,812

Annual weighted-average interest rates of short-term loans payable were 0.36% and 0.27% and those of current portion of long-term loans payable were 0.42% and 0.65% for the fiscal years ended March 31, 2016 and 2017, respectively.

Annual weighted-average interest rates of commercial paper, due within a year, were 0.001% and (0.01)% for the fiscal years ended March 31, 2016 and 2017, respectively.

Long-term debt as of March 31, 2016 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
0.28% long-term loans from banks and others due through 2028, excluding current portion	¥191,000	¥273,500	\$2,441,964
13th series unsecured 1.51% corporate bond, due 2017	10,000	—	—
18th series unsecured 0.97% corporate bond, due 2017	10,000	—	—
20th series unsecured 0.79% corporate bond, due 2017	10,000	10,000	89,285
21st series unsecured 0.57% corporate bond, due 2017	10,000	10,000	89,285
22nd series unsecured 0.85% corporate bond, due 2019	5,000	5,000	44,642
23rd series unsecured 0.342% corporate bond, due 2016	10,000	—	—
24th series unsecured 0.582% corporate bond, due 2018	10,000	10,000	89,285
25th series unsecured 0.344% corporate bond, due 2019	10,000	10,000	89,285
26th series unsecured 0.562% corporate bond, due 2021	10,000	10,000	89,285
27th series unsecured 0.337% corporate bond, due 2020	15,000	15,000	133,928
28th series unsecured 0.543% corporate bond, due 2022	10,000	10,000	89,285
29th series unsecured 0.050% corporate bond, due 2019	—	15,000	133,928
30th series unsecured 0.130% corporate bond, due 2021	—	10,000	89,285
Lease obligation	1,868	1,719	15,348
	302,868	380,219	3,394,812
Less: Current portion	30,149	20,149	179,901
Total	¥272,719	¥360,070	\$3,214,910

The aggregate annual maturities of long-term debt subsequent to March 31, 2017, are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
Year ending March 31	Long-term loans payable	Bonds payable	Lease obligation	Long-term loans payable	Bonds payable	Lease obligation
2018	¥ 10,000	¥ 20,000	¥ 149	\$ 89,285	\$178,571	\$ 1,330
2019	31,000	10,000	149	276,785	89,285	1,330
2020	40,000	30,000	149	357,142	267,857	1,330
2021	42,000	15,000	149	375,000	133,928	1,330
2022 and thereafter	160,500	30,000	1,121	1,433,035	267,857	10,008
Total	¥283,500	¥105,000	¥1,719	\$2,531,250	\$937,500	\$15,348

12. DEFERRED TAX ACCOUNTING

Major components of deferred tax assets and deferred tax liabilities as of March 31, 2016 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Deferred tax assets:			
Depreciation	¥ 6,016	¥ 5,741	\$ 51,258
Impairment loss	5,232	5,073	45,294
Provision for loss on interest repayment	2,114	3,982	35,553
Provision for point card certificates	2,291	3,194	28,517
Net unrealized loss on non-current assets	1,357	1,353	12,080
Provision for bonuses	1,293	1,263	11,276
Net operating loss carried forward	1,105	315	2,812
Other	4,990	6,034	53,875
Subtotal	24,403	26,958	240,696
Valuation allowance	(7,192)	(6,969)	(62,223)
Total deferred tax assets	¥17,210	¥19,988	\$178,464
Deferred tax liabilities:			
Reserve for special account for advanced depreciation of non-current assets	¥ 8,523	¥ 9,900	\$ 88,392
Valuation difference on available-for-sale securities	4	23	205
Other	350	263	2,348
Total deferred tax liabilities	¥ 8,877	¥10,187	\$ 90,955
Deferred tax assets, net	¥ 8,332	¥ 9,801	\$ 87,508

Income taxes consist of corporation, inhabitants', and enterprise taxes. Reconciliations between the statutory tax rate and the effective tax rate reflected in the consolidated statements of income were as follows:

	2016	2017
Statutory tax rate	33.1%	30.9%
Adjustments:		
Permanent differences such as entertainment expenses, etc.	0.3	0.3
Permanent differences such as dividends	(0.1)	(0.1)
Change in valuation allowance	(0.8)	(0.9)
Inhabitants' tax	0.6	0.5
Difference in tax rates of consolidated subsidiaries	2.1	3.6
Tax credit	(1.3)	(1.5)
Adjustments due to changes in tax rate	0.4	—
Other	(0.4)	0.3
Effective tax rate	33.9%	33.1%

13. ASSET RETIREMENT OBLIGATIONS

(1) Asset retirement obligations recognized on the consolidated balance sheets

The Group's asset retirement obligations mainly include the cost of restoring the store sites to their original condition under the real estate lease contracts of stores. The Group calculated its asset retirement obligations by assuming the lease period as the expected period of use and applying discount rates of 0.00% to 1.38%.

Asset retirement obligations as of March 31, 2016 and 2017, consisted of the following:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Beginning balance	¥635	¥974	\$8,696
Increase due to acquisition of property and equipment	348	7	62
Increase due to change in estimate*	80	—	—
Adjustments due to passage of time	2	4	35
Decrease due to fulfillment of obligation	(93)	(93)	(830)
Ending balance	¥974	¥892	\$7,964

* The reasonable estimate of obligation became available for stores to be closed.

(2) Asset retirement obligations other than those recognized on the consolidated balance sheets

While the Group estimates asset retirement obligations based on the real estate lease contracts of stores, it is not possible to reasonably estimate the cost of restoring the store sites to their original condition under the general lease contracts since the period of use is not clearly determined. Therefore, the Group does not recognize the asset retirement obligations for stores other than those that are planning to be closed.

14. INVESTMENT AND RENTAL PROPERTY

Certain consolidated subsidiaries hold commercial properties, including land, for rental in the Tokyo metropolitan area and other areas. The net rental income in connection with these properties for the fiscal years ended March 31, 2016 and 2017, was ¥5,320 million and ¥10,929 million (\$97,580 thousand), respectively. For the fiscal year ended March 31, 2017, the Group recognized ¥13,659 million (\$121,955 thousand) of gain on sale of property and equipment, primarily land. The rental income was included in revenue and the associated rental expenses were included in cost of sales and selling, general and administrative expenses. The carrying value and the fair value of such assets were as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Carrying value*1:			
Beginning balance	¥32,367	¥ 45,240	\$ 403,928
Changes during the year*2	12,873	41,008	366,142
Ending balance	¥45,240	¥ 86,249	\$ 770,080
Fair value*3	¥95,079	¥159,321	\$1,422,508

*1 Carrying value represents the amount on the consolidated balance sheets that is carried at the acquisition cost less accumulated depreciation.

*2 Major items are the increases due to reclassification of holding purposes of properties in the amounts of ¥12,900 million and ¥37,267 million (\$332,741 thousand) for the fiscal years ended March 31, 2016 and 2017, respectively.

*3 Fair value is based on the appraised value provided by third-party real estate appraisers.

15. SUBSCRIPTION RIGHTS TO SHARES

For the fiscal year ended March 31, 2016, the amount of costs incurred for subscription rights to shares ("stock options") was ¥50 million and was included in selling, general and administrative expenses. No stock option is granted for the fiscal year ended March 31, 2017.

The outline of stock options of the Company is as follows:

	2013	2015	2016
Date of resolution	June 27, 2012	June 26, 2014	June 25, 2015
Title and number of grantees	7 Directors and 5 Executive Officers of the Company	8 Directors and 5 Executive Officers of the Company	4 Directors and 12 Executive Officers of the Company
Type and number of shares to be issued upon exercise of stock options	Common stock 52,000 shares	Common stock 43,500 shares	Common stock 32,000 shares
Granted date	August 3, 2012	July 11, 2014	July 10, 2015
Vesting conditions	No provision	No provision	No provision
Eligible service period	No provision	No provision	No provision
Exercise period	From April 1, 2013 to March 31, 2023	From April 1, 2015 to March 31, 2025	From April 1, 2016 to March 31, 2026

The following table describes the scale and changes in stock options that existed during the fiscal year ended March 31, 2017. The number of stock options is translated into the number of shares.

	Number of shares					
	2013		2015		2016	
Before vested:						
As of March 31, 2016	—		—		—	
Granted	—		—		—	
Forfeited	—		—		—	
Vested	—		—		—	
As of March 31, 2017	—		—		—	
After vested:						
As of March 31, 2016	2,600		2,100		32,000	
Vested	—		—		—	
Exercised	2,600		2,100		30,600	
Forfeited	—		—		—	
As of March 31, 2017	—		—		1,400	
	Yen	U.S. dollars (Note 1)	Yen	U.S. dollars (Note 1)	Yen	U.S. dollars (Note 1)
Exercise price	¥ 1	\$0.008	¥ 1	\$0.008	¥ 1	\$0.008
Average exercise price	1,481	13.22	1,479	13.20	1,577	14.08
Fair value at granted date	485	4.33	844	7.53	1,589	14.18

Since it is difficult to reasonably estimate the number of stock options that will expire in the future, the number of stock options that were forfeited is shown as the number of vested options.

16. NET ASSETS

Under the Companies Act of Japan (“the Act”), the entire amount paid for new shares is required to be designated as capital stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The Act provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus (other than additional paid-in capital) and retained earnings (other than legal earnings reserve) be transferred to additional paid-in capital and the legal earnings reserve, respectively, until the total of additional paid-in capital and the legal earnings reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders’ meeting, or by resolution of the Board of Directors if certain conditions are met.

Under the Act, additional paid-in capital and the legal earnings reserve may not be distributed as dividends; the Act allows all additional paid-in capital and all legal earnings reserve to be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

The following tables summarize the dividends paid for the fiscal years ended March 31, 2016 and 2017:

2016					
Resolution	Class of share	Total amount of dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on June 25, 2015	Common stock	¥2,630	¥10	March 31, 2015	June 26, 2015
Board of Directors’ meeting held on November 6, 2015	Common stock	2,761	11	September 30, 2015	December 4, 2015

2017							
Resolution	Class of share	Total amount of dividend		Dividend per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)	(Yen)	(U.S. dollars) (Note 1)		
Annual general meeting of shareholders held on June 29, 2016	Common stock	¥2,666	\$23,803	¥11	\$0.09	March 31, 2016	June 30, 2016
Board of Directors’ meeting held on November 4, 2016	Common stock	3,719	33,205	16	0.14	September 30, 2016	December 5, 2016

Note: The amount of dividend resolved at the Board of Directors’ meeting held on November 4, 2016 includes ¥8 million (\$71 thousand) of dividend for the BIP Trust and ESOP Trust.

Dividends with a record date during the fiscal year ended March 31, 2017, but with an effective date subsequent to the fiscal year ended March 31, 2017, were as follows:

Resolution	Class of share	Total amount of dividend		Source	Dividend per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)		(Yen)	(U.S. dollars) (Note 1)		
Annual general meeting of shareholders held on June 26, 2017	Common stock	¥3,900	\$34,821	Retained earnings	¥17	\$0.15	March 31, 2017	June 27, 2017

Note: The amount of dividend resolved at the annual general meeting of shareholders held on June 26, 2017 includes ¥8 million (\$71 thousand) of dividend for the BIP Trust and ESOP Trust.

The following table summarizes the number of shares of common stock, issued and outstanding, and treasury stock:

	Number of shares	
	2016	2017
Common stock, issued and outstanding:		
At the beginning of the year	278,660,417	278,660,417
Decrease due to retirement of treasury stock	—	(45,000,000)
At the end of the year	278,660,417	233,660,417
Treasury stock:		
At the beginning of the year	15,588,364	36,270,334
Increase due to purchase of treasury stock in the stock market	20,723,600	12,966,300
Increase due to acquisition of stock through BIP Trust and ESOP Trust	—	502,300
Increase due to purchase of odd lot shares	1,770	1,178
Decrease due to retirement of treasury stock	—	(45,000,000)
Decrease due to exercise of stock options	(43,400)	(35,300)
Decrease due to sale of stock to odd lot shareholders	—	(62)
At the end of the year	36,270,334	4,704,750

17. CONTINGENT LIABILITIES

The Group has commitments to guarantee customers’ liabilities in relation to personal loans to individuals from financial institutions with which the Group has guarantee service arrangements.

As of March 31, 2016 and 2017, the amounts of the Group’s guarantee obligations were ¥23,018 million and ¥25,428 million (\$227,035 thousand), respectively.

18. COST OF SALES

For the fiscal years ended March 31, 2016 and 2017, cost of sales included the revaluation loss on inventories in the amounts of ¥94 million and ¥48 million (\$428 thousand), respectively.

19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2016 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Advertisement	¥ 13,941	¥ 12,425	\$ 110,937
Provision for point card certificates	6,586	9,181	81,973
Provision for allowance for doubtful accounts	7,289	9,610	85,803
Salaries and allowances	32,770	32,023	285,919
Provision for bonuses	3,513	3,441	30,723
Rent	15,782	16,308	145,607
Depreciation and amortization	8,614	8,960	80,000
Other	41,920	42,760	381,785
	¥130,419	¥134,711	\$1,202,776

20. LOSS ON RETIREMENT OF PROPERTY AND EQUIPMENT AND LOSS ON CLOSING OF STORES

Loss on retirement of property and equipment for the fiscal years ended March 31, 2016 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Buildings and structures	¥ 546	¥ 988	\$ 8,821
Furniture and fixtures	1,374	1,930	17,232
	¥1,920	¥2,918	\$26,053

For the fiscal year ended March 31, 2017, the Group recognized ¥1,310 million (\$11,696 thousand) of loss on closing of stores, which primarily consisted of restoration costs involved in the closing of stores.

21. IMPAIRMENT LOSS

The impairment loss recognized for the fiscal year ended March 31, 2017, is as follows:

Use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars (Note 1)
Stores	Kawasaki store	Buildings and structures	¥278	\$2,482
	Kawasaki, Kanagawa, etc.	Other	12	107
		Total	¥291	\$2,598

The Group has grouped its fixed assets by either store or rental property, which is the minimum cash-generating unit. The carrying value of each asset group is written down to its respective recoverable amount and in doing so is recognized as an impairment loss.

The Group estimated the recoverable amount of each asset group based on value in use or fair value less costs to sell. If a store reports continuous operating losses, the Group evaluates that the value in use of the store is zero since positive cash flows cannot be expected in the future. If a store is planned to be closed or disposed of, the Group evaluates that the fair value less costs to sell is zero.

For the fiscal year ended March 31, 2016, the disclosure was omitted due to immateriality.

22. COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Valuation difference on available-for-sale securities:			
Amounts incurred for the year	¥(2,117)	¥116	\$1,035
Reclassification adjustments	(972)	122	1,089
Before tax effect adjustment	(3,089)	238	2,125
Tax effect	491	343	3,062
Valuation difference on available-for-sale securities	(2,598)	581	5,187
Total other comprehensive income	¥(2,598)	¥581	\$5,187

23. CASH FLOW STATEMENTS

Reconciliations of cash and cash equivalents in the consolidated statements of cash flows to accounts and amounts in the accompanying consolidated balance sheets as of March 31, 2016 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Cash and deposits	¥32,586	¥36,257	\$323,723
Time deposits with maturity in excess of three months	(11)	(11)	(98)
Cash and cash equivalents	¥32,575	¥36,245	\$323,616

24. SEGMENT INFORMATION

(1) Overview of reportable segments

The Group defines its reportable segments as a component of the Group for which separate financial information is available and whose operating results are regularly evaluated by the Board of Directors to make decisions about how resources are to be allocated among the Group and assess their performance.

The Group consists of the following two reportable segments identified by products and services: "Retailing" and "FinTech."

The Retailing segment engages in management of commercial property rental, retailing operations of clothes and accessories, store design, advertising, apparel distribution maintenance, and management of buildings and other facilities. The FinTech segment engages in the credit card services, the consumer loans, and the rent payment guarantee businesses, IT systems, and real estate rental.

(2) Basis of measurement for the amounts of segment revenue, segment income or loss, segment assets, and other items

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "SIGNIFICANT ACCOUNTING POLICIES."

Segment income is measured on the basis of operating income. Intersegment sales and transfers are accounted for based on the prevailing market price.

	2016			Millions of yen	
	Reportable segment			Adjustment *1	Consolidated *2
	Retailing	FinTech	Total		
Revenue:					
Outside customers	¥163,231	¥ 82,636	¥245,867	¥ —	¥245,867
Intersegment	6,159	2,539	8,699	(8,699)	—
Total	¥169,390	¥ 85,176	¥254,566	¥ (8,699)	¥245,867
Segment income	¥ 10,658	¥ 23,094	¥ 33,753	¥ (4,138)	¥ 29,615
Segment assets	¥291,250	¥455,449	¥746,699	¥(16,572)	¥730,126
Other items:					
Depreciation and amortization	¥ 8,029	¥ 1,653	¥ 9,683	¥ (12)	¥ 9,670
Increase in property and equipment and intangible assets	10,675	2,448	13,124	(684)	12,439

*1 Adjustment to segment income consists of intersegment elimination of ¥1,534 million and corporate expenses of ¥(5,673) million that are not allocated to each reportable segment. Adjustment to segment assets mainly consists of intersegment elimination of ¥(286,850) million and corporate assets of ¥268,207 million, which mainly present the Company's loans in connection with the Group's cash management system.

*2 Segment income is reconciled to operating income on the consolidated statements of income.

Millions of yen					
2017					
Reportable segment			Adjustment *1	Consolidated *2	
Retailing	FinTech	Total			
Revenue:					
Outside customers	¥142,113	¥ 94,909	¥237,022	¥ —	¥237,022
Intersegment	5,975	2,192	8,168	(8,168)	—
Total	¥148,089	¥ 97,101	¥245,190	¥ (8,168)	¥237,022
Segment income	¥ 7,759	¥ 27,111	¥ 34,870	¥ (3,616)	¥ 31,253
Segment assets	¥297,606	¥536,050	¥833,656	¥(27,081)	¥806,575
Other items:					
Depreciation and amortization	¥ 8,422	¥ 1,759	¥ 10,182	¥ (61)	¥ 10,121
Increase in property and equipment and intangible assets	14,376	2,040	16,416	(719)	15,696

Thousands of U.S. dollars (Note 1)					
2017					
Reportable segment			Adjustment *1	Consolidated *2	
Retailing	FinTech	Total			
Revenue:					
Outside customers	\$1,268,866	\$ 847,401	\$2,116,267	\$ —	\$2,116,267
Intersegment	53,348	19,571	72,928	(72,928)	—
Total	\$1,322,223	\$ 866,973	\$2,189,196	\$ (72,928)	\$2,116,267
Segment income	\$ 69,276	\$ 242,062	\$ 311,339	\$ (32,285)	\$ 279,044
Segment assets	\$2,657,196	\$4,786,160	\$7,443,357	\$(241,794)	\$7,201,562
Other items:					
Depreciation and amortization	\$ 75,196	\$ 15,705	\$ 90,910	\$ (544)	\$ 90,366
Increase in property and equipment and intangible assets	128,357	18,214	146,571	(6,419)	140,142

*1 Adjustment to segment income consists of intersegment elimination of ¥2,037 million (\$18,187 thousand) and corporate expenses of ¥(5,654) million (\$(50,482) thousand) that are not allocated to each reportable segment. Adjustment to segment assets mainly consists of intersegment elimination of ¥(362,554) million (\$(3,237,089) thousand) and corporate assets of ¥335,571 million (\$2,996,169 thousand), which mainly present the Company's loans in connection with the Group's cash management system.

*2 Segment income is reconciled to operating income on the consolidated statements of income.

Change in reportable segments

The Group previously classified its business segments into three reportable segments: "Retailing and Store Operation," "Credit Card Services," and "Retailing-Related Services." In order to further improve its corporate value through integrated Group operations, the Group redefined and reorganized its business segments into two reportable segments: "Retailing" and "FinTech."

The segment information for the fiscal year ended March 31, 2016, was restated based on the current classification of segments.

Disclosures on related information with regard to the concentration of products and services, location, and major customers have been omitted since there was no relevant information to be disclosed.

For the fiscal years ended March 31, 2016 and 2017, an impairment loss of ¥107 million and ¥291 million (\$2,598 thousand), respectively, was reported by the Retailing segment.

25. RELATED PARTY INFORMATION

Related party information where directors and their close relatives substantially own a majority of the voting rights is as follows:

2016									
Name of company	Location	Capital (Millions of yen)	Business	Voting rights	Relationship	Transaction	Amount (Millions of yen)	Account name	Balance (Millions of yen)
Nakano Co., Ltd.	Shinjuku, Tokyo	¥10	Real estate rental	Direct 0.9%	Property rental Concurrent position as director	Property rental	¥42	Leasehold and other deposits	¥41
								Other current liabilities	1
Seiwa Kogyo Co., Ltd.	Shinjuku, Tokyo	¥10	Real estate rental	Direct 0.7%	Property rental Concurrent position as director	Property rental stores	¥42	Leasehold and other deposits	191

The monetary amounts above do not include consumption taxes. Terms and conditions for rental agreements are determined similarly to those of third-party transactions.

2017									
Name of company	Location	Capital (Millions of yen)	Business	Voting rights	Relationship	Transaction	Amount (Millions of yen)	Account name	Balance (Millions of yen)
Nakano Co., Ltd.	Shinjuku, Tokyo	¥10 (\$89 thousand) (Note 1)	Real estate rental	Direct 1.0%	Property rental Concurrent position as director	Property rental	¥42 (\$375 thousand) (Note 1)	Leasehold and other deposits	¥41 (\$366 thousand) (Note 1)
								Other current liabilities	1 (\$8 thousand) (Note 1)
Seiwa Kogyo Co., Ltd.	Shinjuku, Tokyo	10 (\$89 thousand) (Note 1)	Real estate rental	Direct 0.7%	Property rental Concurrent position as director	Property rental stores	32 (\$285 thousand) (Note 1)	Leasehold and other deposits	191 (\$1,705 thousand) (Note 1)

The monetary amounts above do not include consumption taxes. Terms and conditions for rental agreements are determined similarly to those of third-party transactions.

26. PER SHARE INFORMATION

Net income per share, both basic and diluted, for the fiscal years ended March 31, 2016 and 2017, is as follows:

	Yen		U.S. dollars (Note 1)
	2016	2017	2017
Net income per share	¥70.68	¥80.24	\$0.71
Diluted net income per share	70.67	80.24	0.71

	Thousands of shares	
	2016	2017
Weighted-average number of outstanding shares	251,434	233,346
Diluted shares:		
Assumed exercise of stock options	27	8

Net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of outstanding shares.

For the computation of net income per share and diluted net income per share, the number of shares held by BIP Trust and ESOP Trust is deducted from the weighted-average number of outstanding shares (293 thousand shares for the fiscal year ended March 31, 2017).

27. SUBSEQUENT EVENT

At the Board of Directors’ meeting held on May 11, 2017, the Company resolved to acquire treasury stock in accordance with Article 156 of the Companies Act as applied with relevant changes in interpretation pursuant to the provisions of Article 165, paragraph (3).

Reason for acquisition

Based on the medium-term business plan to be achieved by the fiscal year ending March 2021, the Group aims to achieve profitable growth by innovating Group business and integrating operations in light of potential changes in the business environment. As its financial strategy, the Group will effectively utilize basic operating cash flows that will be generated in the next five years in order to optimize capital structure for the business; thus, the Group will enhance investment growth and shareholder return. The Group will improve its corporate value by achieving the following targets: an ROE of 10%, an ROIC of 4%, and an EPS of ¥130 as early as possible.

Based on these Group strategies, following the acquisition of treasury stock in the total amount of ¥20,000 million (\$178,571 thousand) in the fiscal year ended March 31, 2017, the Company resolved to acquire treasury stock as follows:

(i) Class of shares	Common stock
(ii) Maximum number of shares to acquire	12 million shares (5.24% of total outstanding shares)
(iii) Maximum amount for acquisition	¥15,000 million (\$133,928 thousand)
(iv) Acquisition period	From May 12, 2017 to March 31, 2018

Independent Auditor’s Report



Independent Auditor’s Report

To the Board of Directors of MARUI GROUP CO., LTD.:

We have audited the accompanying consolidated financial statements of MARUI GROUP CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MARUI GROUP CO., LTD. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 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 1 to the consolidated financial statements.

KPMG AZSA LLC

August 31, 2017
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

MARUI GROUP’s Business

As of August 31, 2017
See page 99 for an overview of MARUI GROUP CO., LTD.

MARUI CO., LTD.

Marui store business operation, original sales and private brand operation and development, online shopping and mail-order, outside specialty store business

3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
Tel: 03-3384-0101 (Receptionist)

🌐 www.0101.co.jp.e.ex.hp.transer.com

M & C SYSTEMS CO., LTD.

Software development, computer operation

3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
Tel: 03-5343-0100 (Receptionist)

🌐 www.m-and-c.co.jp (Japanese only)

Epos Small Amount and Short Term Insurance Co., Ltd.

Small-amount short-term insurance policy business

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-4546-0101 (Receptionist)

🌐 www.epos-ssi.co.jp (Japanese only)

Epos Card Co., Ltd.

Credit card business, credit loan business

3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
Tel: 03-4574-0101 (Receptionist)

🌐 www.epocard.co.jp (Japanese only)

MARUI FACILITIES Co., Ltd.

Building management service business, security service business

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-3229-0101 (Receptionist)

🌐 www.marui-facilities.co.jp (Japanese only)

AIM CREATE CO., LTD.

Commercial facility proposal, design and interior decoration, operation and management, operation of Modi stores, advertisement planning and creation

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-5340-0101 (Receptionist)

🌐 www.aim-create.co.jp (Japanese only)

MARUI HOME SERVICE Co., Ltd.

Real estate rental business

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-6361-0101 (Receptionist)

🌐 www.marui-hs.co.jp (Japanese only)

MOVING CO., LTD.

Trucking business, forwarding, and other businesses

5-1, Bijogihigashi 2-chome, Toda-shi, Saitama 335-0032, Japan
Tel: 048-233-1000 (Receptionist)

🌐 www.moving.co.jp (Japanese only)

MRI Co., Ltd.

Collection and management of receivables business, credit check business

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-4574-4700 (Receptionist)

🌐 www.mri-s.co.jp (Japanese only)

MARUI KIT CENTER CO., LTD.

Supply pickup, product inspection, various printing services

Toda Product Center, Second Building, 5-1, Bijogihigashi 2-chome, Toda-shi, Saitama 335-0032, Japan
Tel: 048-421-7351 (Receptionist)

OI MARUI GROUP



	Shigeru Hase	Kayo Shimohashi	Tomoe Jinbo	Asami Okumura	Masato Higashigaito	Yuko Hata	Takahiko Sayama	Yuri Higuchi	Akira Iizuka	Takeshi Morohashi	Takaaki Kawajiri
Positions Assumed through Profession Changes	<ul style="list-style-type: none">■ Menswear, Kinshicho Marui, MARUI CO., LTD.■ Card Application Center, Kobe Marui, Epos Card Co., Ltd.■ Receivable Collection Division, MRI Co., Ltd.	<ul style="list-style-type: none">■ Contract Insurance, Funabashi Marui, MARUI CO., LTD.■ Card Application Center, Shinjuku Marui Main Building, Epos Card Co., Ltd.■ Security Services Division, MARUI FACILITIES CO., Ltd.	<ul style="list-style-type: none">■ Card Application Center, Ueno Marui, MARUI CO., LTD.■ Accounting Section, Financial Department, MARUI GROUP CO., LTD.■ Planning Division, Epos Small Amount and Short Term Insurance Co., Ltd.	<ul style="list-style-type: none">■ Fields, Kokubunji Marui, MARUI CO., LTD.■ Women's Shoes, Yurakucho Marui, MARUI CO., LTD.■ Sales Department, MARUI HOME SERVICE Co., Ltd.	<ul style="list-style-type: none">■ Womenswear, Oimachi Marui, MARUI CO., LTD.■ Finance Promotion Department, Epos Card Co., Ltd.■ Sales Planning Division, MARUI CO., LTD.	<ul style="list-style-type: none">■ Sales Department, AIM CREATE CO., LTD.■ Design Department, AIM CREATE CO., LTD.	<ul style="list-style-type: none">■ Women's Purses, Kashiwa Marui, MARUI CO., LTD.■ General Men's Item Shop, Kitasenju Marui, MARUI CO., LTD.■ Customer Systems, M & C SYSTEMS CO., LTD. Systems Department, Epos Card Co., Ltd.	<ul style="list-style-type: none">■ Women's Fashion Merchandise, Yurakucho Marui, MARUI CO., LTD.■ Accounting Section, Financial Department and Research Department, MARUI GROUP CO., LTD.	<ul style="list-style-type: none">■ Card Application Center, Omiya Marui, Epos Card Co., Ltd.■ Logistics, MOVING CO., LTD.■ Office Service, MARUI KIT CENTER CO., LTD.	<ul style="list-style-type: none">■ Sales Services, Shinjuku Marui Main Building, MARUI CO., LTD.■ Buyer, Purses Section, MARUI CO., LTD.■ Collaboration Card Business Department, Epos Card Co., Ltd.	<ul style="list-style-type: none">■ Fields, Ikebukuro Marui, MARUI CO., LTD.■ General Men's Item Shop, Omiya Marui, MARUI CO., LTD.■ Misato Fulfillment Center, MOVING CO., LTD.

Marui Stores

	Name	Sales floor area (m ²)	Transactions (billions of yen)	Opened	Address	Telephone
Tokyo	Shinjuku Marui	30,590	26.1	September 10, 1948	3-30-13 Shinjuku, Shinjuku-ku 160-0022	03-3354-0101
	Ikebukuro Marui	12,170	5.8	January 20, 1952	3-28-13 Nishi-Ikebukuro, Toshima-ku 171-0021	03-3989-0101
	Shibuya Marui	4,240	4.4	October 1, 1958	1-22-6 Jinnan, Shibuya-ku 150-0041	03-3464-0101
	Kinshicho Marui	22,990	11.3	September 2, 1983	3-9-10 Kotobashi, Sumida-ku 130-0022	03-3635-0101
	Ueno Marui	16,390	13.1	August 24, 1985	6-15-1 Ueno, Taïto-ku 110-8502	03-3833-0101
	Kitasenju Marui	35,300	34.2	February 27, 2004	3-92 Senju, Adachi-ku 120-8501	03-5244-0101
	Yurakucho Marui	18,500	22.3	October 12, 2007	2-7-1 Yurakucho, Chiyoda-ku 100-0006	03-3212-0101
	Nakano Marui	4,950	5.3	February 17, 1931	3-34-28 Nakano, Nakano-ku 164-0001	03-3382-0101
	Kichijoji Marui	11,950	5.5	October 30, 1960	1-7-1 Kichijojiminami-cho, Musashino-shi 180-8552	0422-48-0101
	Machida Marui	7,550	6.1	September 20, 1980	6-1-6 Haramachida, Machida-shi 194-0013	042-728-0101
	Kokubunji Marui	14,300	12.5	March 1, 1989	3-20-3 Minami-cho, Kokubunji-shi 185-8562	042-323-0101
Kanagawa	Marui City Yokohama	16,770	10.0	September 20, 1996	2-19-12 Takashima, Nishi-ku, Yokohama-shi 220-0011	045-451-0101
	Kawasaki Marui	12,310	3.9	March 11, 1988	1-11 Nisshin-cho, Kawasaki-ku, Kawasaki-shi 210-0024	044-245-0101
	Marui Family Mizonokuchi	32,260	21.1	September 12, 1997	1-4-1 Mizonokuchi, Takatsu-ku, Kawasaki-shi 213-0001	044-814-0101
	Marui Family Ebina	19,500	9.3	April 19, 2002	1-6-1 Chuo, Ebina-shi 243-0483	046-232-0101
Saitama	Omiya Marui	13,970	7.1	September 28, 1982	2-3 Sakuragi-cho, Omiya-ku, Saitama-shi 330-9501	048-642-0101
	Soka Marui	16,530	4.1	February 21, 1992	2-9-1 Takasago, Soka-shi 340-0015	048-922-0101
	Marui Family Shiki	18,900	11.6	February 25, 2000	5-26-1 Hon-cho, Shiki-shi 353-0004	048-487-0101
Chiba	Kashiwa Marui	8,220	3.3	April 24, 1964	1-1-11 Kashiwa, Kashiwa-shi 277-0005	04-7163-0101
Ibaraki	Mito Marui	13,300	2.5	July 25, 1970	1-2-4 Miyamachi, Mito-shi 310-0015	029-225-0101
Shizuoka	Shizuoka Marui	7,920	2.5	September 21, 1969	6-10 Miyukicho, Aoi-ku, Shizuoka-shi 420-0857	054-252-0101
Osaka	Namba Marui	17,000	10.8	September 22, 2006	3-8-9 Namba, Chuo-ku, Osaka-shi 542-0076	06-6634-0101
Hyogo	Kobe Marui	6,940	4.5	October 3, 2003	1-7-2 Sannomiya-cho, Chuo-ku, Kobe-shi 650-0021	078-334-0101
Kyoto	Kyoto Marui	8,760	4.2	April 27, 2011	68 Shin-cho, Shijodori-Kawaramachi-Higashiiru, Shimogyo-ku, Kyoto-shi 600-8567	075-257-0101
Fukuoka	Hakata Marui	15,000	8.5	April 21, 2016	9-1 Chuogai, Hakataeki, Hakata-ku, Fukuoka-shi 812-0012	092-415-0101

Modi Stores

	Name	Sales floor area (m ²)	Transactions (billions of yen)	Opened	Address	Telephone
Tokyo	Shibuya Modi	9,840	6.7	November 19, 2015	1-21-3 Jinnan, Shibuya-ku 150-0041	03-4336-0101
	Machida Modi	13,720	8.5	September 28, 2006	6-2-6 Haramachida, Machida-shi 194-0013	042-812-2700
Kanagawa	Totsuka Modi	16,580	8.7	March 15, 2007	10 Totsuka-cho, Totsuka-ku, Yokohama-shi 244-0003	045-862-0135
Saitama	Kawagoe Modi	7,850	1.9	March 24, 2007	4-2 Wakita-cho, Kawagoe-shi 350-1122	049-227-5950
Chiba	Kashiwa Modi	10,590	1.7	October 27, 2016	1-2-26 Kashiwa, Kashiwa-shi 277-0005	04-7195-0101
Shizuoka	Shizuoka Modi	5,540	0.3	November 19, 2016	6-10 Miyukicho, Aoi-ku, Shizuoka-shi 420-0857	054-252-0101

Specialty Stores (outside of Marui and Modi stores)

	Name	Address	Telephone
Miyagi	Marui Shoes SENDAI PARCO 2 Store	4th Floor, SENDAI PARCO 2, 3-7-5 Chuo, Aoba-ku, Sendai-shi 980-8450	022-212-8350
	MARUI MODEL IZUMI PARK TOWN Tapio Store	1st Floor, IZUMI PARK TOWN Tapio, 6-5-1 Teraoka, Izumi-ku, Sendai-shi 981-3204	022-342-5950
Tokyo	Marui Shoes LaLaPort Tachikawa Tachihi Store	1st Floor, LaLaPort Tachikawa Tachihi, 935-1 Izumi-cho, Tachikawa-shi 190-0015	042-540-6235
Kanagawa	Marui Shoes LaLaport Shonan Hiratsuka	1st Floor, LaLaport Shonan Hiratsuka, 10-1 Amanuma, Hiratsuka-shi 254-8510	0463-25-5101
Chiba	Marui Shoes & Bags / Watches LaLaPort TOKYO-BAY Store	2nd Floor, South Building, LaLaPort TOKYO-BAY, 2-1-1 Hama-cho, Funabashi-shi 273-8530	047-421-7264
Aichi	Rakuchin Kirei Shoes Fit Studio AEONMALL KISOGAWA (Permanent try-on store)	1st Floor, AEONMALL KISOGAWA, 25-1 Aza-minamiyatsugaïke, Kuroda, Kisogawa-cho, Ichinomiya-shi 493-0001	0586-84-2131
Oita	Marui Shoes AMU PLAZA OITA Store	2nd Floor, AMU PLAZA OITA, 1-14 Kanamemachi, Oita-shi 870-8550	097-573-3220

EPOS Card Application Centers (outside of Marui and Modi stores)

	Name	Address	Telephone
Hokkaido	Chitose Outlet Mall Rera Rera EPOS Card Application Center	Rera EPOS Card Application Center, 1-2-1 Kashiwadaï Minami, Chitose-shi 066-8765	0123-27-3511
	Feeeal Asahikawa EPOS Card Application Center	Feeeal Asahikawa EPOS Card Application Center, 1st Underground Floor, Feeeal Asahikawa, 8-108 1 Jodori, Asahikawa-shi 070-0031	0166-29-6711
Aomori	ELM EPOS Card Application Center	ELM EPOS Card Application Center, 2nd Floor ELM, 517-1 Fujimaki, Karakasayanagi, Goshogawara-shi 037-0004	0173-38-4311
Chiba	MONA Shinurayasu MONA Card Application Center	MONA Card Application Center, MONA Shinurayasu, 2nd Floor, 1-5-1 Irfune, Urayasu-shi 279-0012	047-390-5411
	MALLAGE KASHIWA EPOS Card Application Center	MALLAGE KASHIWA EPOS Card Application Center, 2nd Floor, MALLAGE KASHIWA, 2-3 Oyamadai, Kashiwa-shi 277-0837	04-7137-1411
	unimo Chiharadai EPOS Card Application Center	unimo Chiharadai EPOS Card Application Center, 2nd Floor, unimo Chiharadai, 3-4 Chiharadai Nishi, Ichihara-shi 290-0194	0436-40-5411
Gifu	MALera GIFU EPOS Card Application Center	MALera GIFU EPOS Card Application Center, 2nd Floor, MALera GIFU, 1100 Mitsuhashi, Motosu-shi 501-0497	058-320-5811
Aichi	Hoshigaoka Terrace EPOS Card Application Center	Hoshigaoka Terrace EPOS Card Application Center, East 1st Floor, Hoshigaoka Terrace, 16-50 Motomachi, Hoshigaoka, Chikusa-ku, Nagoya-shi 464-0802	052-788-7311
Hyogo	ASPIA AKASHI EPOS Card Application Center	ASPIA AKASHI EPOS Card Application Center, 1st Underground Floor, ASPIA AKASHI, 6-1 Higashi-Nakanomachi, Akashi-shi 673-0886	078-915-0611
Nagasaki	HUIS TEN BOSCH EPOS Card Application Center	HUIS TEN BOSCH EPOS Card Application Center, 2nd Floor, Passage, HUIS TEN BOSCH, 8-2 HUIS TEN BOSCH-cho, Sasebo-shi 859-3292	0956-27-0971
	Sasebo 5bangai EPOS Card Application Center	Sasebo 5bangai EPOS Card Application Center, A-106, 1st Floor, Promenade East Zone, Sasebo 5bangai, 2-1 Shinko-cho, Sasebo-shi 857-0855	0956-37-3711
Oita	AMU PLAZA OITA JQ CARD EPOS Card Application Desk	JQ CARD EPOS Card Application Desk, 302, 3rd Floor, AMU PLAZA OITA, 1-14 Kanamemachi, Oita-shi 870-0831	097-513-2411
Miyazaki	BonBelta Tachibana Tachibana EPOS Card Application Center	Tachibana EPOS Card Application Center, 1st Floor, West Wing, BonBelta Tachibana, 3-10-32 Tachibanadorinishi, Miyazaki-shi 880-8586	0985-35-4811
Kagoshima	AMU PLAZA KAGOSHIMA JQ CARD EPOS Card Application Desk	JQ CARD EPOS Card Application Desk, 2nd Floor, AMU PLAZA KAGOSHIMA, 1-1 Chuo-cho, Kagoshima-shi 890-0053	099-812-6411



Group of new university students supported in the fiscal year ending March 31, 2018

The AOI SCHOLARSHIP FOUNDATION was established by MARUI GROUP founder Chuji Aoi with the aim of contributing to the development of people that can shape the future of Japan and benefit society. Over the more than 40 years since its establishment, this foundation has helped fund the education of high school and university students while facilitating networking between students receiving scholarships and past graduates.

Established: January 1973 (became an incorporated public interest foundation in 2012)
Director: Tadao Aoi (Honorary Chairman of MARUI GROUP)
Total amount of scholarships provided: ¥1,746 million
Total number of students supported: 1,549

(As of April 2017)

Office: 3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan (located at MARUI GROUP head office)
Telephone: 03-5343-0351

Ratings, Awards, and Recognition

MARUI GROUP established the IR Department in October 2015 and then the ESG Promotion Department in October 2016 to enhance communication with institutional investors and ESG rating institutions, earning much praise from external organizations. We have also identified the promotion of diversity and healthcare management as key measures under the medium-term management plan with the aim of improving corporate value.



MARUI GROUP was chosen for inclusion in the FTSE4Good Index Series, comprising companies selected by FTSE Russell for meeting evaluation standards based on ESG criteria.



MARUI GROUP was included in the FTSE Blossom Japan Index. This index is meant to reflect the performance of Japanese companies that meet various ESG-related requirements, and industry is therefore not considered when selecting companies for inclusion.



MARUI GROUP was included in the MSCI Japan ESG Select Leaders Index*. This ESG index comprises Japanese companies with relatively high MSCI ESG Ratings in each industry selected from among the top 500 companies in terms of market capitalization after excluding those companies with the lowest MSCI ESG Rating of CCC.



MARUI GROUP has been included in the MSCI Japan Empowering Women Index*, an ESG index for Japanese stocks consisting of companies that exhibit gender diversity excellence in each industry, based on the Global Industry Classification Standard, selected from among the top 500 companies in terms of market capitalization.

Rating and Investment Information, Inc.

MARUI GROUP has been granted a rating of A- for its overall debt repayment capacity with regard to financial liabilities.

● ESG indexes of Japanese stocks utilized by the Government Pension Investment Fund

* THE INCLUSION OF MARUI GROUP CO., LTD. IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF MARUI GROUP CO., LTD. BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.



MARUI GROUP has been selected for inclusion in the Dow Jones Sustainability Asia Pacific Index, the Asia Pacific division of the Dow Jones Sustainability Index series, a major global socially responsible investment index series.



MARUI GROUP was selected for inclusion in the Morningstar Socially Responsible Investment Index. This index compiles the stock price of listed companies in Japan that display excellence in terms of social contributions based on ESG concerns and human resource-related matters.



MARUI GROUP was awarded the 16th Porter Prize out of recognition for how we ensure the convenience of credit card issuance, how our cards are largely held by customers under the age of 40, and the large ratio of revolving payment usage.

MARUI GROUP Ranked High Among Retail Sector Companies in the 2017 All-Japan Executive Team Rankings Released by U.S. Financial Industry Magazine Institutional Investor

Honored Companies	Combined No. 3
Best IR Companies	Combined No. 1, Buy Side No. 1, Sell Side No. 2
Best CEO	Buy Side No. 3
Best Analyst Days	Combined No. 2

The All-Japan Executive Team Rankings is a ranking of major listed Japanese companies compiled by U.S. financial industry magazine *Institutional Investor*, based on votes from institutional investors and securities analysts from around the world. In 2017, votes were received from 1,007 institutional investors and securities analysts from 368 institutions.

More detailed information on these and other awards and recognition can be found on the Company's corporate website.
www.0101maruigroup.co.jp/en/ci/award.html



MARUI GROUP was listed among the Companies Exhibiting Excellence in Promoting Women's Empowerment in the SMBC Nadeshiko Loans and Private Placement Bonds selection out of reflection of the Company's establishment of women's empowerment indexes for measuring the empowerment of female employees.



MARUI GROUP was included in the Excellent Enterprise of Health and Productivity Management—White 500 selection. This inclusion acknowledged our proactive healthcare management approach that goes beyond simply addressing lifestyle diseases and mental health issues in an attempt to energize employees.



Out of recognition for its ongoing initiatives, MARUI GROUP received a silver rating in the PRIDE INDEX. This index is compiled by work with Pride, an organization that aims to help realize comfortable working environments for members of the LGBT community.



MARUI GROUP was presented with the Best IR Award in the 2016 IR Award program due to the praise earned through the Company's improvement of disclosure materials based on investor input, the publication of co-creation management reports, and other highly distinctive initiatives.



MARUI GROUP received the highest rank in the Development Bank of Japan Inc.'s proprietary DBJ Employees' Health Management Rated Loan Program. We were rated highly for setting section level targets for indicators related to overtime and other measures for entrenching healthcare management on a Groupwide basis.



MARUI GROUP was ranked 1st for the first time in the retail category of the 2016 Awards for Excellence in Corporate Disclosure presented by the Securities Analysts Association of Japan.



MARUI GROUP was awarded an A- climate change score due to the high evaluation of its management of CO₂ emissions volumes and its establishment of the Environment CSR Promotion Committee.

MARUI GROUP Websites

MARUI GROUP CO., LTD.



Corporate, IR, sustainability, and recruit information
www.0101maruigroup.co.jp/en/

Email Newsletter (Japanese only)

MARUI GROUP distributes an email newsletter containing information on the latest topics and financial results as well as details on events and surveys.
www.0101maruigroup.co.jp/ir/infomail/reg.html



Retailing Business



Marui store and product information
www.0101.co.jp.e.ex.hp.transer.com



MARUI Internet shopping "marui web channel" (Japanese only)
vo.0101.co.jp

FinTech Business



Epos Card Co., Ltd. (Japanese only)
www.eposcard.co.jp

From the Chief Editor

Thank you for reading *Co-Creation Management Report 2017* to its end. I suspect many were a bit surprised at the statement on the cover.

Three years have passed since we published our first co-creation management report in 2015. We view these three years as one cycle, and both our co-creation management reports and our co-creation sustainability reports were compiled based on this cycle. In the first year of this cycle, we made our co-creation management declaration. The theme of the reports in the second year was co-creation management from a corporate value perspective. This report explains our co-creation management business model. We hope that, by reading the reports from all of these years, you will gain a deeper understanding of MARUI GROUP's concept of co-creation management. Past reports are available on the Company's corporate website. We invite you to read these reports if you have not already done so.

This report looks to future initiatives, covering MARUI GROUP's business model, risks to be seen going forward, and other aspects related to this theme, which shareholders, investors, and other stakeholders have expressed significant interest in during conversation conducted to date. We have endeavored to make the contents of this report as easy to understand as possible through the use of diagrams, graphs, and data. In addition, the discussions with stakeholders that proved immensely popular in the previous year's report have been increased in this year's report in order to examine the Company's quest to create value from various angles. However, we understand that this may still be insufficient to providing a full understanding of MARUI GROUP's unique business model and initiatives for the future. We view our reports as a tool for communication with our stakeholders, and thus aim to answer any questions you may have through these reports.

Our co-creation management reports are meant to provide a platform for expanding the scope of co-creation activities through communication with all of the Group's stakeholders. We would therefore like to ask that readers of this report feel free to offer your frank opinions and any requests you may have as such input will be key to evolving these reports.

I look forward to your ongoing support of MARUI GROUP.

Takahiro Matsumoto
Chief Editor of *Co-Creation Management Report 2017*
General Manager, Public Relations Office, General Affairs Department,
MARUI GROUP CO., LTD.

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