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 Three Focus KPIs for the Fiscal Year Ending March 31, 2021

Achieve EPS of more than ¥130, ROE of more than 10%, and ROIC of more than 4%

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

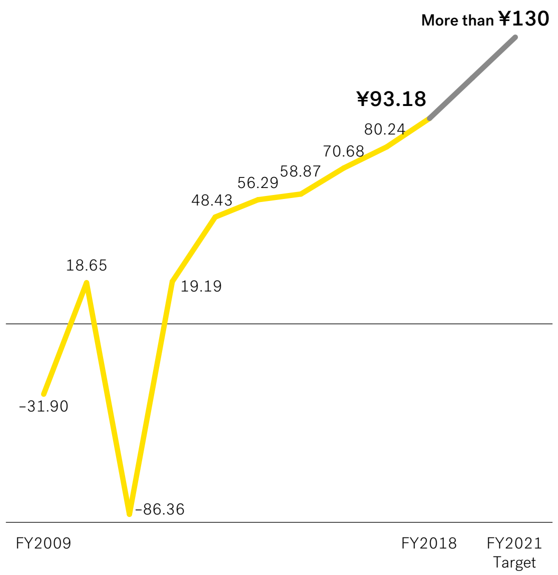
Retailing	Stores	Improve capital productivity by completing transition to a business structure focused on shopping centers and fixed-term rental contracts and deploying next-generation lifestyle-oriented shopping centers
	Omni-channel retailing	Develop business focused on Internet sales while expanding 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 Three Focus KPIs

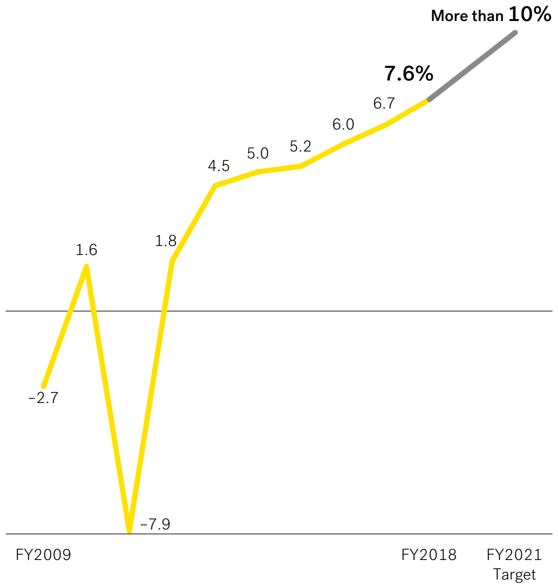
In line with the belief that all of its business assets are borrowed from society, MARUI GROUP identified three key performance indicators (KPIs) for gauging Groupwide performance beginning with the fiscal year ended March 31, 2017. These KPIs include earnings per share (EPS) and return on equity (ROE), 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.

In the fiscal year ended March 31, 2018, EPS rose by a substantial 16.1% year on year, to ¥93.18, due to income growth and the benefits of capital measures. In addition, ROE increased 0.9 percentage point, to 7.6%, and ROIC was up 0.1 percentage point, to 3.2%. In this manner, we achieved our targets for all three indicators. For the fiscal year ending March 31, 2019, we are forecasting record-breaking EPS of ¥109.9, which will represent an increase of 17.9% year on year.

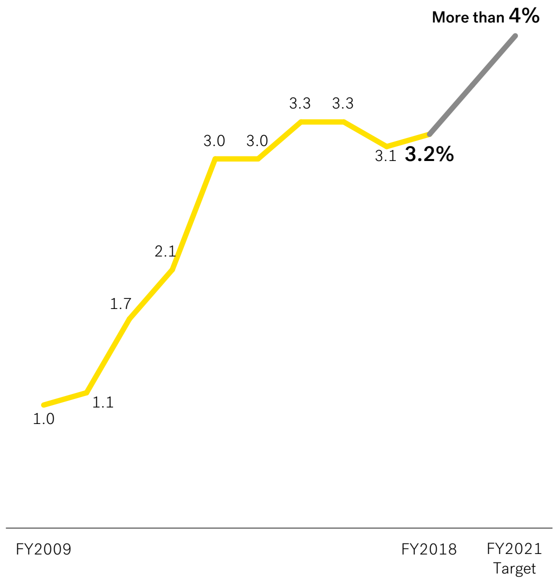
Earnings per Share (EPS)



Return on Equity (ROE)



Return on Invested Capital (ROIC)



Medium-Term Management Plan

Opportunities and Threats to be Faced over the Next Decade

In May 2017, MARUI GROUP defined the following eight long-term trends that will warrant attention: (1) the transition to e-commerce, (2) the shift from goods to experiences, (3) the emergence of a sharing economy, (4) the declining birthrate and aging population, (5) the increase in demand from inbound travelers, (6) the rise of cashless payment methods, (7) the change of focus from saving to investment, and (8) the end of an era of low interest rates.

Opportunities Found in the Transition to E-Commerce

Threats to retailing businesses include the transition to e-commerce, the emergence of a sharing economy, and the declining birthrate and aging population.

MARUI GROUP's answer to these threats is the transition to shopping centers and fixed-term rental contracts and omni-channel retailing. Through the transition to shopping centers and fixed-term rental contracts, we will expand the portion of our stores devoted to restaurants and other tenants that are resilient to the impacts of e-commerce while also increasing the number of tenants that offer services or experiences that cannot be replaced by e-commerce. At the same time, we will introduce tenants that utilize omni-channel retailing approaches as a part of a strategy of growing in conjunction with e-commerce. We are also developing new businesses matched to the impending era of sharing economies. Initiatives to address population decline include the provision of products and services that can be enjoyed by customers of all ages, physical characteristics, and genders. We thereby aim to expand our customer base and increase customer numbers.

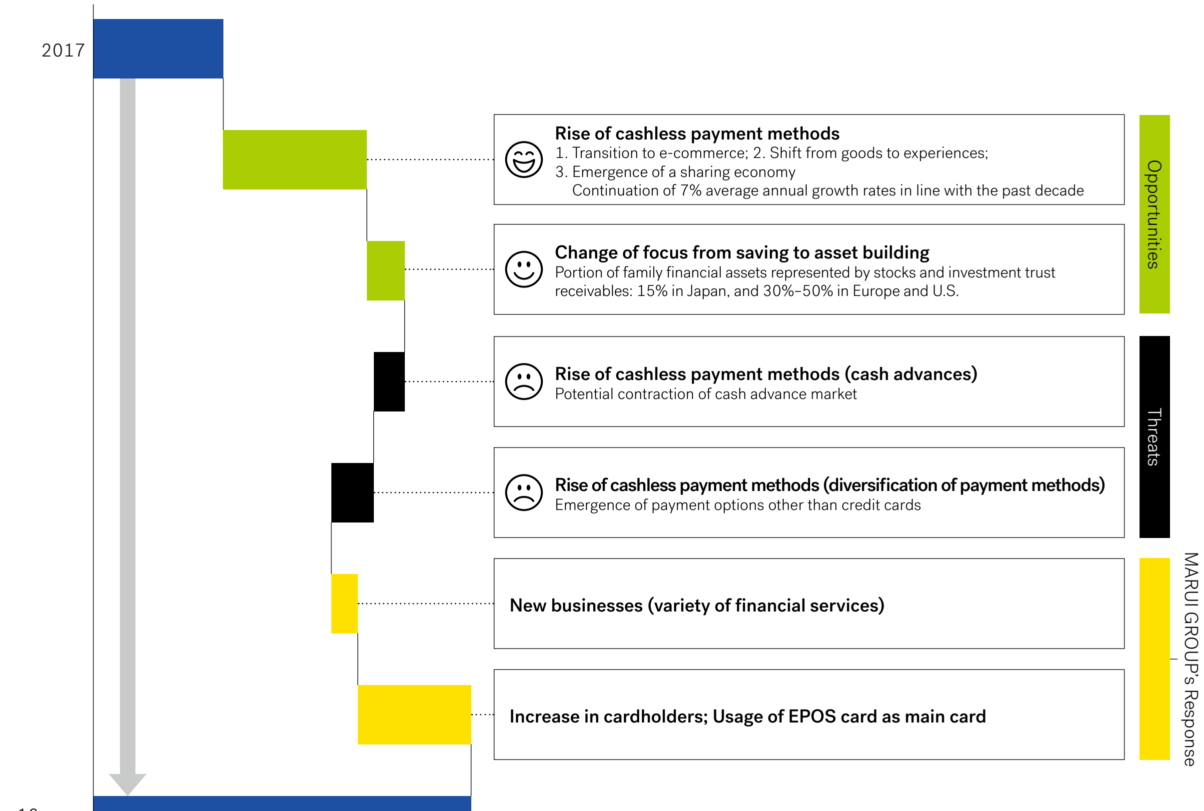
Response to the Rise of Cashless Payment Methods

The greatest opportunity for the FinTech segment is the rise of cashless payment methods. Going forward, the credit card market is expected to continue posting annual growth of around 7% on average as a result of e-commerce and consumption trends. In regard to the change of focus from saving to asset building, we poised ourselves to take advantage of this opportunity by redefining our credit card services business as a FinTech business. Nevertheless, we cannot deny that the rise of cashless payment methods threatens to lead to the contraction of the cash advance market and to erode the share of payments conducted using credit cards through the diversification of payment methods and consequent emergence of payment options other than credit cards.

However, the transition to a multipurpose credit card—the EPOS card—which took place in 2006, has given us a business model that can take advantage of the rise of cashless payment methods. We also have an answer for the diversification of payment methods: linking other payment methods to credit cards, as seen in our new QR code payment service. Furthermore, MARUI GROUP has entered into the securities business with the aim of harnessing the change of focus from saving to asset building in order to promote financial inclusion.

Opportunities and Threats to be Faced by the Retailing Segment over the Next Decade

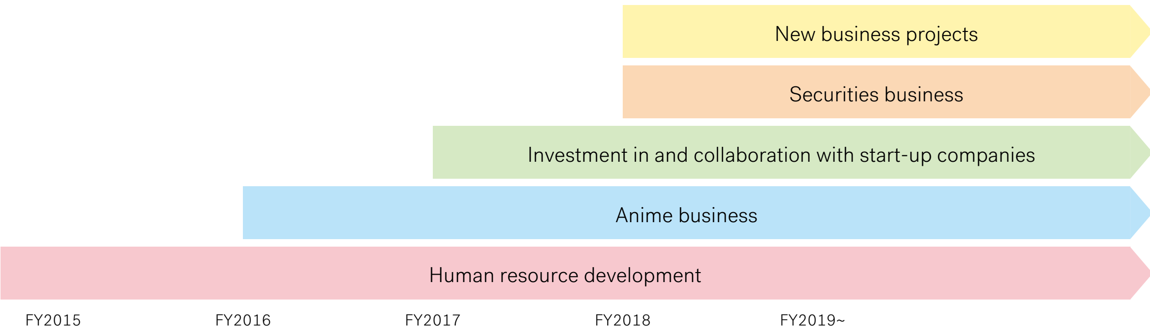
Opportunities and Threats to be Faced by the FinTech Segment over the Next Decade



Note: Information on measures related to "(8) the end of an era of low interest rates" can be found on page 87.

Progress in Growth Investments

Growth investments have been positioned as a priority measure in the five-year medium-term management plan set to conclude with the fiscal year ending March 31, 2021. MARUI GROUP has therefore earmarked ¥30.0 billion for growth investments over the period of the plan in order to fund future improvements in corporate value. These investments will be directed at developing new businesses that utilize our shopping center and fixed-term rental know-how and investing in start-up companies to acquire new technologies. Over the period from April 2016 to August 2018, we conducted ¥7.0 billion worth of these investments when scheduled future investments are included.

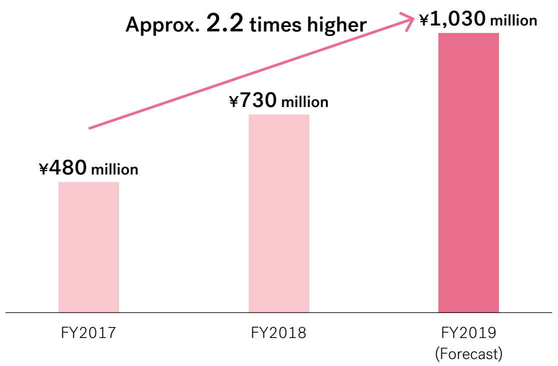


Investments in Human Resource Development

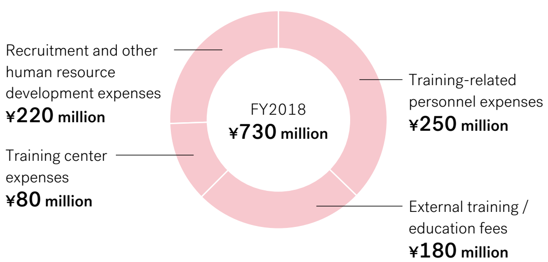
MARUI GROUP recognizes the growth of employees that are committed to helping others as the source of all the value it creates. Accordingly, we strive to foster a corporate culture that is respectful of diverse values and in which all employees can feel energized and continue growing. In the fiscal year ending March 31, 2019, we plan to invest ¥1,030 million in developing human resources that will support MARUI GROUP in the future. This amount represents a 41% year-on-year increase.

Since April 2017, we have been actively developing frameworks to support employee growth that are open to voluntary participation in order to cultivate employees that can think and act autonomously. Examples of such frameworks include the future leader development program, the seconding of employees to start-up companies, dispatches to business schools, project team activities, workshops, and training sessions.

Human Resource Investments



Breakdown of Human Resource Investments



Investments in New Businesses

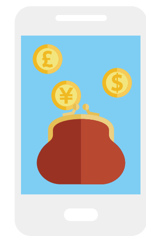
When looking for the businesses that will drive the future growth of MARUI GROUP and contribute to increases in its corporate value, we will not limit ourselves to our existing operations in the Retailing and FinTech segments. We thus plan to develop businesses that integrate stores, credit cards, and the Internet—a scheme that represents a strength of MARUI GROUP—to address social issues.

Accordingly, future investments in new businesses will be focused on commercializing initiatives for addressing social issues through MARUI GROUP's unique business model. At the same time, we will proactively direct investments toward start-up companies that will join us in creating such businesses. Our past investments in the anime business, among others, have begun generating a certain degree of results. In addition, we started up our securities business in August 2018 and have also commenced six new business projects, which are based on the themes of sharing, share houses, financial inclusion, the development of new food-related business models, personalization (sizes), and lifestyle applications and wallets. Through these projects, we aim to develop new businesses with a sense of speed.

New Business Project Initiatives

Sharing
We aim to foster a culture of sharing goods and skills that will take us into the future in response to the social change represented by a shift from ownership to usage. One form of these initiatives is stores that do not sell but rather utilize the strengths of physical venues to provide various customers with experiences such as sharing clothing and watches.

Share Houses
Housing is essential to our lives, but it is also subject to social issues arising from the concentration of populations in urban centers and soaring land prices. We are therefore examining possible means of building communities and aiding community members through share houses, which offer convenient and affordable housing options.



Lifestyle Applications and Wallets
MARUI GROUP is researching and introducing the lifestyle applications that have become an indispensable part of customers' daily lives, such as those allowing for QR code payments to be made via smartphone. In addition, we are collaborating with members of the communities surrounding Marui stores to invigorate these areas through such applications and our unique services.

Message from a New Business Representative

Masahisa Aoki
Executive Officer
General Manager,
New Business Development Department,
In charge of Anime Business,
MARUI GROUP CO., LTD.

Evolution in Step with the Times

Japan is notable among developed countries for the challenges it faces, including its aging population and declining birthrate. MARUI GROUP seeks to help build a flourishing and inclusive society that offers happiness to all in this country. This quest will require that we move beyond existing businesses to leverage the management resources and expertise of MARUI GROUP in areas such as stores, credit cards, and the Internet to contribute to the resolution of social issues. The goal of our new business projects is to commercialize initiatives for addressing social issues through our unique business model and improve corporate value. In these projects, we plan to abandon preconceptions to develop unique business models in areas characterized by significant customer needs and concerns. The scale of these business models will be adjusted as necessary to live up to expectations from across society for MARUI to resolve the issues that only it can.

Looking ahead, MARUI GROUP will continue to evolve its business structure in step with the times and changes in customer needs to accelerate its growth.

Medium-Term Management Plan

Future of MARUI GROUP Forged through Co-Creation with Start-up Companies

MARUI GROUP began co-creation with start-up companies with the aim of stimulating new innovation within the Company. The following pages chronicle a discussion between four MARUI GROUP employees that are learning new senses of value on secondment to start-up companies operating in areas such as e-commerce payment proxy services, investment-style medicine, online store establishment support services, and comprehensive lifestyle support services for non-Japanese individuals. In this discussion, these employees talk about the issues faced by MARUI GROUP and its future potential.

Yusuke Nakashima
Seconded to investment-style medicine company, MinaCare Co., Ltd.

Mai Mitsumori
Seconded to e-commerce payment proxy service provider, GMO Payment Gateway, Inc.

Kyohei Taguchi
Seconded to provider of comprehensive lifestyle support services for non-Japanese individuals, Global Trust Networks Co., Ltd.

Takayuki Shibao
Seconded to online store establishment support service provider, BASE, Inc.

Secondment to Start-up Companies as Extension of Profession Change System

Nakashima: The proposal of being seconded to MinaCare came suddenly for me. It occurred when I was in my fourth year at distribution company MOVING after being transferred from retailing company MARUI CO., LTD.
I had felt that the relocation to MOVING had been a significant contributor to my growth. For this reason, this proposal filled me with excitement for the chance to once again test my skills in a new industry and the growth to be achieved therein. At MinaCare, I am responsible for planning new businesses. This position has me wear several hats, performing tasks related to sales to corporate clients, human resources, public relations, and even accounting.
Shibao: My department at BASE is responsible for planning new services, designing business models, and constructing and performing daily operation of systems. I personally enjoy trying out new things and tackling new challenges, and I get great joy out of the constant sense of growth I feel in this position. Uncovering new social needs through the development of new services is particularly exciting. This job also lets me meet people that I would have never encountered at MARUI GROUP, for example, women in their 20s that cannot use computers but make tens of millions of yen a year through their smartphones or the fans that gather at pop-up stores.
Taguchi: I am being seconded to Global Trust Networks (GTN), a company that provides rent guarantee and other services based on its desire to improve the lives of non-Japanese individuals that live in Japan. Around 70% of GTN's employees are non-Japanese, and we can perform debt recovery procedures in 15 languages. GTN's credit examinations standards are completely different from those of Epos Card Co., Ltd., which is another point of interest.
Mitsumori: At GMO Payment Gateway, I conduct sales activities that include preparing proposals for customers that are considering introducing payment systems on their online sales sites. I had spent the entirety of my time at MARUI GROUP on the sales floor or in product development, and I had therefore felt aversion to FinTech and sales. As such, I was filled with uncertainty when news of my secondment suddenly arose. Contrary to my expectations, the job is actually a lot of fun, and I feel like I grow every day.
Nakashima: I definitely feel that I have grown through my secondment. At MARUI GROUP, I didn't really have the opportunity to develop projects by myself, and it just felt natural to split a task with my coworkers. Developing projects requires a wide range of business skills. I have a severe lack of these skills, and I am constantly finding new gaps in my abilities. However, I feel that the greatest benefit of my secondment has been this, the ability to discover such issues by working at a start-up company and to learn and grow as a result.
Taguchi: The ability to grow by engaging in various types of work that I experienced through MARUI GROUP's profession change system is even more pronounced in the experience of secondment. Start-up companies require each of their employees to perform various tasks. Working in such a company made me realize that the concept of diversity was less about specializing in a specific type of work and more about developing one's own style and calling and excelling in this area. I also learned that MARUI GROUP employees can be more successful in start-up companies than I had expected.
Shibao: It is important for people to possess both specialized skills and experience. After coming to BASE, I lost confidence in my ability to compete with people in their 20s in technological fields in terms of either skills or ideas. However, these younger employees lacked experience in engaging face-to-face communication or in developing business, creating room for me to contribute with the insight I have accumulated. My time at BASE has reminded me of the ability to identify skills you lack and grow by interacting with people who are different than you. MARUI GROUP already has a framework for human resource fluidity with its profession change system. If we can incorporate personnel from other organizations and industries that differ from ours, we should be able to create an even better cycle.

MARUI GROUP as Viewed from the Outside

Taguchi: Start-up companies have no leeway when it comes to resources. Accordingly, they have no choice but to employ people that have gained experience elsewhere. Recognizing this made me aware of the extreme care MARUI GROUP pays in developing its human resources.
Mitsumori: The employees at start-up companies tend to be incredibly skilled and capable of generating profits. However, they lack opportunities to thinking about the future of their company. Conversely, MARUI GROUP provides numerous opportunities to think about the future of the Company and its organization from a medium-to-long-term perspective. My experience at a start-up company made me realize how powerful these opportunities are. At the same time, I can't help but wonder if this power is being effectively exercised by individuals.
Shibao: A major strength of start-up companies is their incredible speed. Their corporate cultures often encourage employees to act first and make improvements later, using outside services and other tools as necessary. This way of thinking is very different from that of MARUI GROUP.
Nakashima: I am involved in planning a new business for promoting the importance of preventive medicine. When we had our kickoff meeting in April, I was shocked to hear that we were looking to commence service in the summer.
Taguchi: The difference at start-up companies is clear right from the scheduling phase, with tasks sometimes allocated for only three days with the next step due within a week. I want to transmit this type of speed to MARUI GROUP.
Shibao: The speed and frequency of output at start-up companies is amazing. However, their services can sometimes be a bit unrefined and they are unable to immediately launch large-scale projects.
Nakashima: I don't necessarily think that large-scale companies need to move at the same speed as start-up companies. Both types of companies have their own benefits and roles. Ideally, the relationship between these types of companies should entail mutually sharing strengths and compensating for each other's insufficiencies.
Shibao: One thing that changed my views after my secondment was realizing that, rather than growing sales in the here and now, start-up companies have a responsibility toward the future. Specifically, they need to consider how they want to shape the future through their services. Of course, profits are something considered in the end, but this pursuit of profits is not about the present, but is instead framed in the future they wish to realize.
Taguchi: The timeframe used at start-up companies may be longer than we might expect. Rather than pursuing short-term goals, these companies look at the businesses they will need to develop to accomplish larger goals in the future. If one only focuses on short-term profits, they will not be able to make bigger achievements.
Shibao: For start-up companies, their underlying goal, their main businesses, is to accomplish some sort of mission. They therefore place more focus on resolving some issue than on growing profits. Short-term profits are, of course, important. However, if a company focuses too much on the short term, it will fail to serve its customers in the future and will thus be unable to accomplish its mission.
Taguchi: If a company prioritizes its mission, concepts like industry and business model will fade away. For example, GTN says that its business is not that of a mobile phone service provider or a rent guarantor but rather that of a port for connecting two countries. As there are a lot of people that come to Japan, GTN provides support in Japan. However, its real targets are the 1.2 billion people that live in other countries around the world. As immigrants tend to be neglected in any country, GTN's expertise can be used to develop businesses anywhere in the world with ease. From this standpoint, I recently often find myself thinking about what exactly is MARUI GROUP's main business. I don't think it is retailing or finance. No, I think MARUI GROUP has evolved further than that.

Responsibility-Driven Action by All Employees

Nakashima: At MinaCare, there is a very frank atmosphere in which people refer to everyone, even their supervisors, by their first name, with no mention of rank. This atmosphere makes it easy to voice opinions. This lack of distance with supervisors is something that is very important.
Shibao: BASE deemphasizes hierarchy in a similar manner, and supervisors tend not to micromanage work processes. Moreover, input from supervisors on business plans is taken as an opinion, not as an order. Fundamentally, everyone is expected to make their own decisions and take responsibility for their outcomes.
Mitsumori: Doing everything related to sales, from proposals to estimates and follow-up, at one's own discretion is a hefty task. I recognize that even a small explanation deficiency or other mistake can cause massive losses for customers, and I try to act swiftly.
Taguchi: Start-up companies expect employees to exercise responsibility. After coming to such a company, I have started to think I may have lacked a sense of responsibility when I was at MARUI GROUP. Perhaps I was complacent with being in a big company.
Mitsumori: My more experienced colleagues at GMO Payment Gateway make presentations based on the standard of whether or not they can wager their year's salary on the proposal. I found myself wondering if I had ever bet so much on a single proposal and if there were a way to inspire this level of commitment to one's work among all employees at MARUI GROUP.
Nakashima: In the past, I had never really had an idea of what I wanted to accomplish, leading me to simply follow the instructions of those more experienced than me. If I were able to create a service that I truly wanted to show the world, wanted to have people buy, I think it would be really exciting. This type of work would be more enjoyable, and I want to make teams with this type of mentality.
Shibao: I want to transmit the culture of taking action by one's own volition to MARUI GROUP and help it swiftly spread and become entrenched in our corporate culture. The ability to experience such a culture has perhaps been the greatest prize of my secondment.
Taguchi: There is nothing that a start-up company can do that MARUI GROUP cannot. This is something I feel very strong about. If everyone at MARUI GROUP thinks more about what they can accomplish, exercising both their talents and a sense of responsibility, we will become stronger as people and as a company.
Nakashima: Fostering that sentiment is the responsibility of those of us who were seconded. I look forward to using what I learned from this experience to guide MARUI GROUP in a better direction.

Career History of Four Seconded Employees

Yusuke Nakashima

Joined MARUI GROUP in 2011
Marui Family Mizonokuchi, MARUI CO., LTD.
Store Support Department, MARUI CO., LTD.
Group Logistics Department, MOVING CO., LTD.

Mai Mitsumori

Joined MARUI GROUP in 2014
Ikebukuro Marui, MARUI CO., LTD.
Omni-Channel Retailing Department, MARUI CO., LTD.

Kyohei Taguchi

Joined MARUI GROUP in 2006
Kawasaki Marui, MARUI CO., LTD.
Planning Department, AIM CREATE CO., LTD.
System Planning Department, M & C SYSTEMS CO., LTD.
Credit Management Department, Epos Card Co., Ltd.

Takayuki Shibao

Joined MARUI GROUP in 2005
Advertisement Planning Department, AIM CREATE CO., LTD.
Demand Survey Department, MARUI CO., LTD.
Omni-Channel Retailing Department, MARUI CO., LTD.

Dialogue 05
Future of MARUI GROUP Forged through Co-Creation with Start-up Companies

Message from the President of MARUI CO., LTD.

We are committed to discovering unique offerings to be provided because of not selling to create services that are of value to customers.

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

The transition to shopping centers and fixed-term rental contracts has supported improvements to income thus far, and this transition is scheduled for completion in the fiscal year ending March 31, 2019. As for the e-commerce businesses that will be key to future growth, our three consecutive years of higher revenues seem unsatisfactory given the growth potential of the market.

It can be expected that the trend toward e-commerce, the shift from consumption of goods to consumption of experiences, the emergence of sharing economies, and other changes will accelerate going forward. With this in mind, we are testing various ideas for creating the stores of the future, which will comprise food vendors and service providers that cannot be replaced by e-commerce as well as experience providers, omni-channel retailers, and sharing facilitators that are synergistic with e-commerce.

In addition, we are moving forward with omni-channel retailing and personalization initiatives, which will be core elements of our future e-commerce strategies. We also recognize the need to revise our concept of stores. What can be done through the Internet can be left to this venue. In our stores, we will focus on what cannot be done through the Internet and what provides value to customers. For example, we have started education programs that allow employees to gain the necessary knowledge and skills for taking a counseling approach toward customer service with regard to women's shoes in light of a significant amount of concern customers have regarding their feet. We are also developing try-on stores, which do not have inventories and conduct sales via e-commerce frameworks. These stores reduce the need for back-office procedures, thereby enabling staff to focus more on customer service and facilitating this counseling approach. Looking ahead, we plan to leave sales to the Internet so that we can use stores to provide such counseling services as well as experiences and otherwise to customer-oriented customer service that is not preoccupied with sales. Another area where customers have concern is product sizes. We therefore want to make it possible for customers to order shoes of the perfect size over the Internet based on the shoes they own or measurements of their feet.

Our new approach toward retailing will be closer to service provision. Accordingly, we will be using lifetime value (LTV) to gauge our operations going forward, and our initiatives will be mindful of this. This evaluation method, we anticipate, will enable us to focus on what is actually beneficial to the customer, as opposed to short-term sales figures, which in turn will also allow us to provide more helpful services.

Furthermore, I think that catering to customers' needs with personalized products offered through stores and the Internet is part of our role in realizing an inclusive society. By divorcing the concept of retailing from the idea of selling, we are committed to discovering unique offerings to be provided because of not selling to create services that are of value to customers.

Progress in the Retailing Segment and Future Strategies

Progress Rate of 87% in Transition to Shopping Centers and Fixed-Term Rental Contracts

In the fiscal year ended March 31, 2018, the Retailing segment achieved its target for operating income with a figure of ¥8.8 billion, up ¥1.1 billion year on year. This increase was attributable to the transition to shopping centers and fixed-term rental contracts, higher earnings from e-commerce, and a decline in inactive floor space. ROIC, a KPI, rose 0.3 percentage point, to 2.8%.

In the fiscal year ended March 31, 2018, the progress rate of the transition to shopping centers and fixed-term rental contracts was 87% and income improvements from the transition amounted to ¥3.2 billion (Figure 1). By dividing up large, loss-generating consignment sales floors while replacing tenants on these floors, we were able to achieve income improvements that exceeded our target.

In conjunction with this transition, the ratio of our sales floors accounted for by high-demand food and services has doubled to 29% over the past four years while the ratio of apparel has shrunk from 53% to 31%. In addition, MARUI GROUP has been positioning food vendors on entry floors resulting in higher purchase numbers and transaction volumes.

The transition to shopping centers and fixed-term rental contracts is expected to be completed in the fiscal year ending March 31, 2019. However, we intend to convert an additional 9,917m^2 worth of floor space to fixed-term rental contracts beginning in the fiscal year ending March 31, 2020, in response to the conversion of storage space to sales floors and the optimization of specialty store floor space.

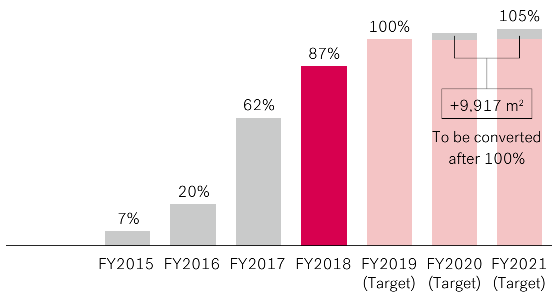
Total e-commerce sales amounted to ¥23.0 billion in the fiscal year ended March 31, 2018, an increase of 8% year on year (Figure 2). Factors behind this increase included our ability to expand our lineup of products not in Company warehouses by sharing inventory information with our business partners and the collaboration with KDDI CORPORATION in relation to its Wowma! Internet sales site that commenced in February 2017.

Tenants That Are Synergistic with E-Commerce

Going forward, MARUI GROUP intends to introduce tenants that cannot be replaced by e-commerce, such as food vendors and service providers, as well as tenants that are synergistic with e-commerce, such as experience providers, sharing facilitators, and omni-channel retailers (Figure 3).

An example of experience providers would be Apple Store Shinjuku. Experience providers seek to deliver value suited to the consumption of experiences, the desire to see, hear, and do. Another experience provider is lululemon, which holds yoga events in Shinjuku Marui

Figure 1: Progress and Targets for Transition to Shopping Centers and Fixed-Term Rental Contracts



YoY income improvements	—	¥0.9 billion	¥2.0 billion	**¥3.2 billion**

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.

Figure 2: E-Commerce Sales

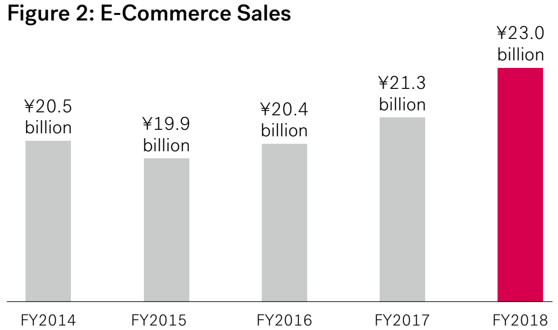


Figure 3: Stores of the Future (Stores Offering Distinctive Services That Cannot Be Replaced by E-Commerce)

		Rooftop parks		
	Hotels		Offices	
Commercial zone	Upper floors	Tenants that cannot be replaced by e-commerce	Service providers	Entertainment, beauty, health, learning
	Mid-level floors	Tenants that are synergistic with e-commerce	Experience providers	Customization, workshops
			Sharing facilitators	Sharing, rental, reuse
			Omni-channel retailers	Counseling, showrooms
	Entry floors	Tenants that cannot be replaced by e-commerce	Food vendors, etc.	Cafés, restaurants, food-related items, take-out

Main Building. Sharing facilitators, meanwhile, are tenants that provide schemes facilitating sharing, exchanges, and redistribution of goods and places among various people. Sharing facilitators include KARITOKE, which operates luxury brand-name watch rental stores jointly with MARUI GROUP in Yurakucho Marui and Namba Marui, and enicia, which offers co-working spaces in Shizuoka Marui. Omni-channel retailers are tenants that use e-commerce as their primary sales channel while also utilizing physical stores to provide functions not available through e-commerce. For example, FABRIC TOKYO, located in Shinjuku Marui Main Building, measures customers buying order-made suits in stores and allows them to use these measurements to purchase additional suits online.

Initiatives for Facilitating the Growth of E-Commerce Operations

The total number of items shipped from our warehouses has increased by 40% over the past three years, making reforms to our logistics systems a pressing task. In the fiscal year ended March 31, 2018, we introduced the AutoStore robotic warehouse system, which has tripled the number of items we can store in our warehouses while cutting the workload related to shipping by 40%. In the future, we will examine the possibility of expanding the floor space of our distribution centers and introducing automated picking and packing equipment that can function 24 hours a day. We also made our in-store pickup services for items bought online available at all stores in February 2018, helping us limit the impacts of the increases in delivery costs instituted by couriers.

Furthermore, a dedicated user interface and user experience division was established during 2017. MARUI GROUP is planning the full-fledged launch of an application optimized for smartphones in the fiscal year ending March 31, 2019, and intends to implement improvements to this application through co-creation with customers going forward.

MARUI GROUP has also been collaborating with Virtusize to address difficulties in choosing the appropriate size when purchasing items online. Through this collaboration, we aim to develop a scheme that compares the sizes of clothing the customers have purchased in the past and of the clothes they are considering purchasing online to choose a size that matches their subjective sense of comfort. This approach differs from standard approaches of choosing customer sizes based on objective body measurements. This scheme will be deployed at MARUI GROUP stores going forward.

System enabling storage and management of large quantities of products

Robots that automatically pick necessary products

Issues for Specialty Stores and Response Measures

In conjunction with the transition to shopping centers and fixed-term rental contracts, MARUI GROUP has been reducing the floor space of its shopping centers to bring this floor space to an optimal level. Future decisions on whether to continue, discontinue, or reform specialty stores will be made based on earnings by product category and contributions to new cardholder recruitment in order to reconstruct our sales floors. Discontinued stores will be converted to fixed-term rental sales floors to improve earnings. Reformed stores will undergo a change in business model, such as to a rental or a try-on store.

One type of business model change to be undertaken will be the development of rental operations, which are garnering a great deal of attention amid the trend toward usage over ownership. In the fiscal year ending March 31, 2019, MARUI GROUP will take its first rental operation foray in the area of women's dresses, which customer surveys indicated as an area where customer interest is high. Our goal is to grow these operations to generate sales of around ¥5.0 billion with an operating income margin of between 30% and 40% in five years. Also, we will target ROIC of approximately 70% on average over the five-year period.

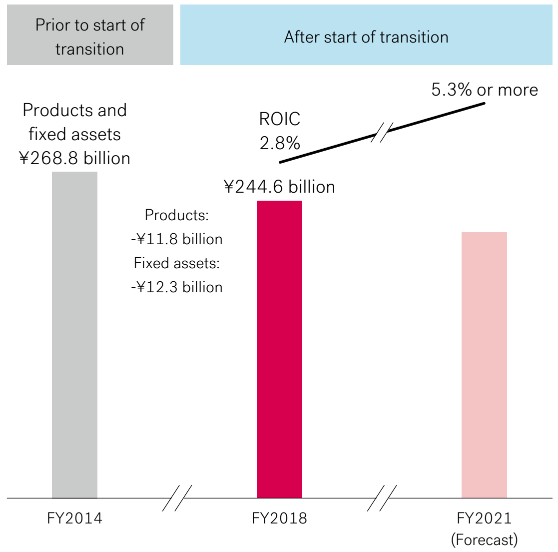
In the past, MARUI GROUP has expanded the range of sizes of its private brand women's shoes to 16, covering nearly 100% of the foot sizes of adult Japanese women. These efforts are being extended to another area of apparel: personalized suits. By quintupling our lineup of sizes and allowing for custom-made orders, we have evolved our personalization options to provide all customers, including members of the LGBT community, with the perfect match. Moreover, we register data on the measurements of customers at stores to facilitate subsequent purchases through the Internet. We anticipate that these efforts will help us forge long-term relationships with all customers and thereby increase LTV.

ROIC Forecast

MARUI GROUP will target ROIC of 5.3% or more in the fiscal year ending March 31, 2021, as initially expected, through improvements in both income and invested capital efficiency (Figure 4). In the past, income improvements have been driven by the transition to shopping centers and fixed-term rental contracts. Going forward, income improvements will be pursued by growing e-commerce operations, reducing costs through more efficient personnel utilization, and raising the value of the transition to shopping centers and fixed-term rental contracts. E-commerce sales in the fiscal year ending March 31, 2021, are forecast to reach ¥33.0 billion, an increase of more than 40% over the fiscal year ended March 31, 2018. Over the period leading up to this year, we plan to achieve reductions in expenses through improved efficiency realized by effectively allocating human resources to the FinTech business and other growth fields.

A benefit of the model produced through this transition is the ability to generate income with fewer on-balance sheet assets. For example, these operations do not require procurement of products through consignment agreements and entail fewer fixed assets due to reduced store renovation expenses. These benefits have equated to a decrease in invested capital of around ¥24.1 billion over the past four years. The Company will target improvements in ROIC going forward by advancing this transition.

Figure 4: ROIC Forecast



Message from the President of Epos Card Co., Ltd.

We are committed to growing further through expansions to our base of premium cardholders and new collaboration businesses.

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

In the fiscal year ended March 31, 2018, the FinTech segment achieved impressive performance on the back of growth in card shopping transactions through EPOS cards, leading the segment to post higher operating income for the sixth consecutive year and to achieve its target for ROIC. A particularly notable accomplishment was the continued strong growth of transactions by holders of premium cards, namely our Platinum and Gold cards. These transactions exceeded ¥1 trillion for the first time in the year under review, once again driving overall growth.

Previously, the number of new cards issued at Marui and Modi stores had been chronically low as a result of the transition to shopping centers and fixed-term rental contracts. By stepping up coordination between stores and cards in our recruitment measures, we have realized steady recovery in the number of card applications. At the same time, the number of external facilities with which we collaborate reached 22 on August 31, 2018. Our aggressive development of collaboration cards with anime and other content creators has translated to smooth progress toward achieving our goal of issuing 800,000 new cards a year. Going forward, we will accelerate recruitment measures associated with the Internet and services to increase application numbers. In the fiscal year ending March 31, 2019, we commenced collaboration with GMO Payment Gateway, Japan's largest e-commerce payment proxy company, and ABLE. INC., a major rental housing brokerage and management company. Meanwhile, we are working to address card cancellations, a major factor behind the sluggish growth of cardholders, by encouraging cardholders to upgrade to Gold cards to increase renewal rates. We thus aim to quickly achieve new application numbers of more than 1 million.

MARUI GROUP is making steady progress toward realizing its vision for financial inclusion. In August 2018, we launched our securities business to expand our lineup of financial services to address the previously neglected needs of EPOS cardholders pertaining to asset building. We are also preparing for the rapid changes projected in the payment service market, which will include the advent of QR code payments, a payment method expected to spread as cashless payments become more prominent.

Furthermore, we are investing in our system infrastructure to automate credit card application and debt collection procedures, which are expected to increase together with transaction volumes, in order to improve productivity. Profit growth in our credit card services operations has led to higher operating receivables. We are working to combat this trend by boosting service revenues that do not require additional assets, such as revenues from rent guarantees, to heighten profitability and capital efficiency.

Progress in the FinTech Segment and Future Strategies

Higher Card Shopping Transactions and Service Revenues

In the fiscal year ended March 31, 2018, operating income in the FinTech segment increased for the sixth consecutive year, rising ¥3.2 billion year on year, to ¥30.3 billion. As for ROIC, we achieved our target with a figure of 3.8%. Revenue also grew for the sixth consecutive year, exceeding ¥100.0 billion.

Card shopping transactions were up 15% year on year, to ¥1,600.9 billion. This growth rate was higher than the industry average growth rate (Figure 1). Overall growth in card shopping transactions was driven by transactions made using premium cards, such as our Platinum and Gold cards, which exceeded ¥1,000.0 billion for the first time in the fiscal year ended March 31, 2018. Transactions by premium cardholders have grown by an average rate of 27% over the past five years, and the number of these cardholders has climbed to 1,840,000.

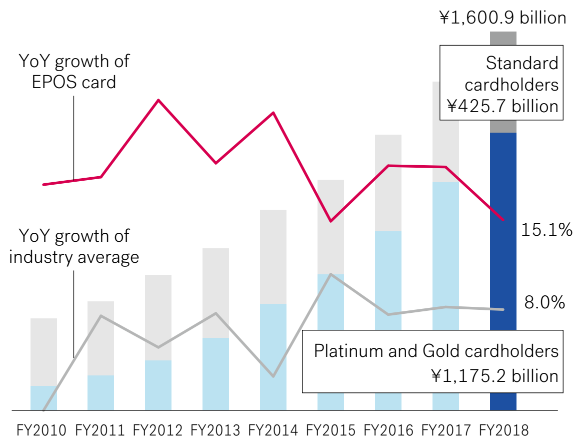
Revolving and installment payment transactions only grew by 9% year on year in the fiscal year ended March 31, 2018, a low rate in comparison to the growth of card shopping transactions. This lackluster growth was a result of the dissipation of the benefits of measures instituted in the fiscal year ended March 31, 2017. We will not feel this rebound in the fiscal year ending March 31, 2019, and we therefore project a 17% increase in revolving and installment payment transactions. MARUI GROUP aims to achieve rapid growth in installment payments, which are the target of strong demand from customers, by accelerating our initiatives for promoting this type of payment, increasing the number of affiliates at which this method can be used, and introducing a system that enables cardholders to switch to multiple installment payments even if their initial contract only allowed for one-time installment payments.

As a result of collaboration with the Anime Business Department established in April 2016, anime-inspired cards represent 10% of all new card issuances.

Moreover, as of August 31, 2018, we were collaborating with 22 commercial facilities. Our scheme of positioning employees versed in retailing at partner facilities has received much praise, helping spread EPOS cards throughout Japan, as indicated by the 1 million cardholders currently living in areas without a Marui or Modi store.

Service revenues rose by a significant 20% year on year primarily due to rent guarantee services. Rent guarantees represent an area in which we can capitalize on MARUI GROUP's expertise and strengths. We have achieved massive growth of 32% in these revenues on average over the past five years due to trends stimulated by the impending revision of the Civil Code. In the fiscal

Figure 1: Card Shopping Transactions



GODZILLA EPOS CARD
TM&©TOHO CO., LTD.

Gintama EPOS CARD
©HIDEAKI SORACHI/SHUEISHA, TV TOKYO, DENTSU, BNP, ANIPLEX

New Prince of Tennis EPOS CARD
©Takeshi Konomi / SHUEISHA, NAS, New Prince of Tennis Project

year ending March 31, 2021, we will target service revenue of ¥10.0 billion, twice that of the year under review.

Provision for bad debt increased 28% in the fiscal year ended March 31, 2018, following a rise in operating receivables. Nonetheless, we maintained the low ratio of bad debt write-offs of 1.6%.

Lower Cancellations and Higher LTV through Growth in Gold Cardholders

We have failed to meet our new card application targets for two consecutive years. This failure came in spite of the annual influx of more than 800,000 new applicants we had anticipated. Growth in cardholder numbers has been stagnating due to higher cancellations.

To address this situation, we are encouraging cardholders to upgrade to Gold cards. Holders of Platinum and Gold cards have exceptionally high renewal rates of upwards of 90%. For this reason, we believe that we can limit card cancellations by encouraging cardholders to upgrade to Gold cards. In addition, Gold cards tend to boast high profitability, meaning that a rise in the number of Gold cardholders will contribute to increased LTV for the entire FinTech segment.

As one measure of encouraging these upgrades, we launched the EPOS Family Gold card in June 2018. In addition, we are reinventing our marketing approach by merging data, IT, and artificial intelligence. Through this initiative, we will verify the process that customers follow from new card application to Gold card upgrade to tailor communications to individual cardholders in order to strategically encourage them to upgrade to Gold cards.

We are targeting the swift achievement of 3 million premium cardholders through these initiatives (Figure 2).

Promotion of New Card Applications through Internet- and Experience-Oriented Fields

New cardholder recruitment has previously been focused on stores. In the future, however, we aim to step up collaboration with companies in Internet- and experience-oriented fields (Figure 3). Examples of these fields include e-commerce, recurring payments, and rent guarantee services, which represent highly profitable fields that encourage ongoing use and promise high rates of Gold card upgrades. While maintaining the net annual influx of 500,000 from goods- and physical store-oriented venues, we are looking to double the number of new cards issued through Internet- and experience-oriented fields.

One initiative for accomplishing this goal is MARUI GROUP's collaboration with GMO Payment Gateway, Japan's largest e-commerce payment proxy company. Through this collaboration, we will develop the industry's first scheme allowing for purchase, credit payment, and use of application benefits to be conducted immediately after card application by offering real-time inspections 24 hours a day. This scheme is expected to greatly increase convenience for customers. We also expect value for online affiliates, such as higher customer numbers, increases in repeat users, and acquisitions of new customers through referrals of EPOS cardholders. The full-fledged operation of this scheme is scheduled to commence during the third quarter of the fiscal year ending March 31, 2019. In the fifth year after the launch

Figure 2: EPOS Cardholder Forecast

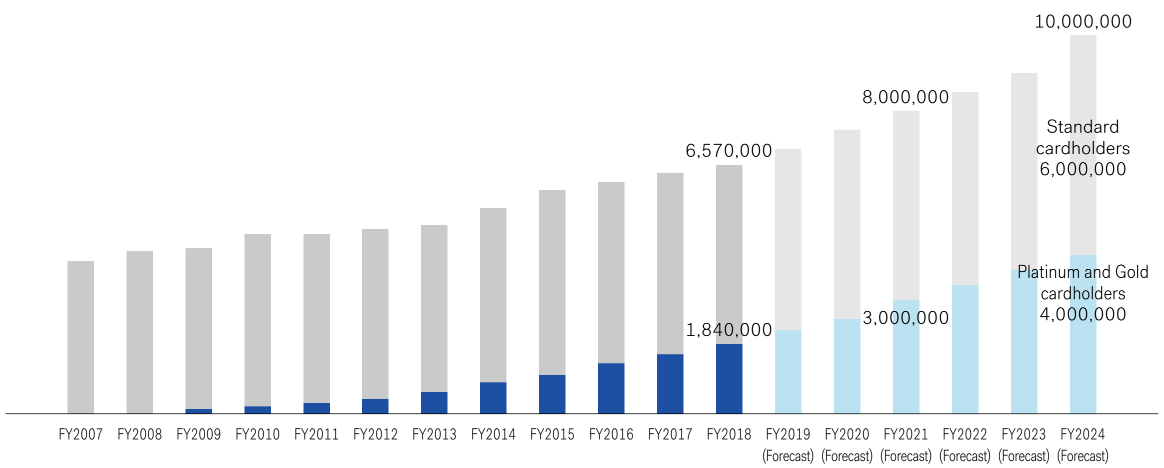
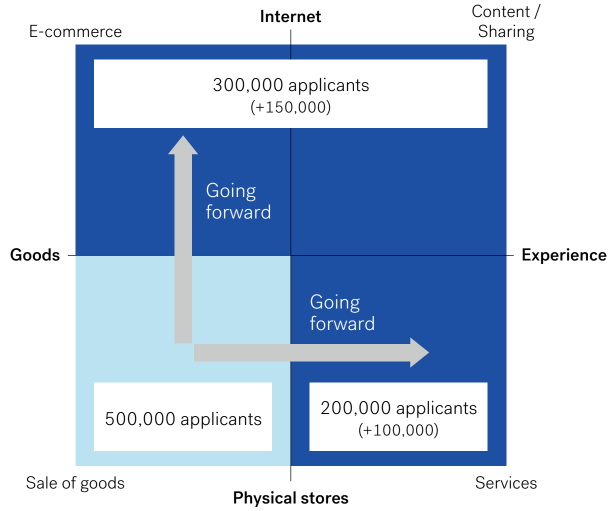


Figure 3: Directives for Future Collaboration



of this scheme, we hope to have extended it to more than 200 application venues and over 100,000 customers.

In experience-oriented fields, together with ABLE, a major rental housing brokerage and management company with 422 directly operated stores and 375 franchise branches located throughout Japan, MARUI GROUP launched a collaborative rent guarantee services plan at certain locations in April 2018. We aim to achieve approximately 80,000 rent guarantee users and around 40,000 new card applicants through this project in the fiscal year ending March 31, 2021. Through these collaborative initiatives, we will look to swiftly increase the number of total cardholders to 8 million.

EPOS Pay QR Code Payment Service

MARUI GROUP has commenced a verification test of EPOS Pay, its QR code payment service in targeting restaurants, venues at which credit cards often cannot be used, in certain areas. Based on the results of this test, we plan to introduce this service at our stores and the facilities of partners, after which we will approach potential affiliates located around Marui stores and in other areas of cardholders' lives. We thereby aim to increase the share of payments using EPOS cards in the payment market by encouraging customers to make small-sum purchases usually made with cash through QR code payments.

Future Outlook

In the fiscal year ending March 31, 2019, we are forecasting ROIC of 3.9% and operating income of ¥33.5 billion, which will represent an increase of ¥3.2 billion, or 11%, year on year (Figure 4). Total transactions are expected to rise 16%, to more than ¥2,280.0 billion, while revenue grows 14%, to ¥124.3 billion.

In the fiscal year ending March 31, 2021, we are forecasting operating income of ¥40.0 billion or more and total transactions of ¥3,000.0 billion or more. In addition, we are working toward our initial target of over 4.1% for ROIC by liquidating the higher operating receivables that resulted from growth in EPOS card transactions (Figure 5).

Figure 4: Medium-Term Targets for the FinTech Segment

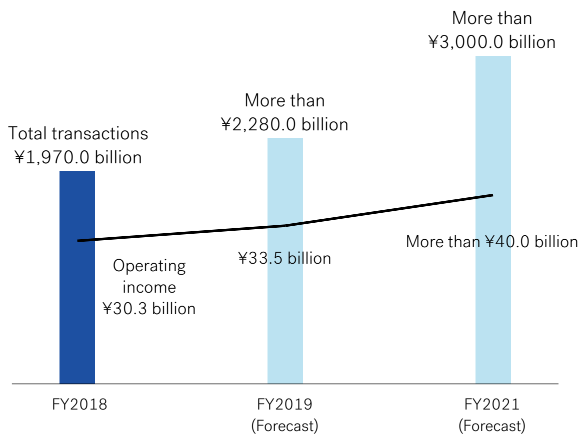


Figure 5: Operating Receivables and ROIC Forecasts for the FinTech Segment