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# CO-CREATION

Co-Creation Management Report 2018

MARUI GROUP CO., LTD.

# CONTENTS

Co-Creation Management Report 2018

## SECTION 01

### MARUI GROUP's Vision for Co-Creation Sustainability Management

- 01 MARUI GROUP's Co-Creation Philosophy
- 02 Co-Creation of Creditability
- 06 Message from the President
- 16 Dialogue 01: "Good Companies" Achieving Both Economic and Social Benefits to be Deemed Necessary to Society

## SECTION 02

### Co-Creation Sustainability Management Value Creation Model

- 22 Co-Creation Sustainability Management Business Model
  - 22 Pioneer Spirit of Creating Opportunities
  - 24 Business Model Integrating Stores, Credit Cards, and the Internet
  - 26 Unique Pure Holding Company System Contributing to Integrated Thinking
  - 28 Framework of Business Model Integrating Stores, Credit Cards, and the Internet
  - 30 Identification of Four Core Themes for Inclusion
  - 32 Creation of an Inclusive and Flourishing Society
- 34 Dialogue 02: Financial Inclusion as Viewed from the Perspective of Microfinance
- 38 MARUI GROUP's Vision for Financial Inclusion
  - 38 Promotion of Financial Inclusion for the Benefit of Everyone
  - 40 Japan's First Securities Business Driven by Credit Cards
  - 44 Dialogue 03: Contributions to the Happiness of All Customers through Cumulative Investments
  - 48 MARUI GROUP Employees Supporting the Securities Business
- 50 MARUI GROUP's Unique Integrated Management Approach
  - 50 Profession Change System for Fostering Empathy and Innovation
  - 52 Cultivation of an Organization That Creates Innovation through Diversity
  - 54 Work Style Reforms Creating a Venue for Contributions of All Employees
  - 56 Revision of Evaluation Systems and Desired Characteristics in Employees
  - 58 Dialogue 04: Unique Integrated Group Management Enabling Co-Creation Sustainability Management
  - 62 Strong Support for Inclusion

## SECTION 03

### Co-Creation Sustainability Management

- 66 Medium-Term Management Plan
    - 66 Basic Policy of the Medium-Term Management Plan
    - 67 MARUI GROUP's Three Focus KPIs
    - 68 Opportunities and Threats to be Faced over the Next Decade
    - 70 Progress in Growth Investments
    - 72 Dialogue 05: Future of MARUI GROUP Forged through Co-Creation with Start-up Companies
    - 76 Retailing Segment
    - 80 FinTech Segment
  - 84 Message from the CFO
    - 85 Target Balance Sheet
    - 88 Shareholder Returns and Policies
  - 90 Co-Creation Corporate Governance
    - 90 Corporate Governance for Co-Creating Corporate Value
    - 93 Messages from External Directors
    - 102 Directors, Audit & Supervisory Board Members, and Executive Officers
- 
- 108 Overview of MARUI GROUP
  - 110 MARUI GROUP Store Network
  - 112 Financial and Non-Financial Summary
  - 114 Consolidated Balance Sheets
  - 115 Consolidated Statements of Income / Consolidated Statements of Comprehensive Income
  - 116 Consolidated Statements of Changes in Net Assets
  - 117 Consolidated Statements of Cash Flows
  - 118 Notes to Consolidated Financial Statements
  - 141 Independent Auditor's Report
  - 142 Ratings, Awards, and Recognition
- 
- 144 Participation in the Forum for Integrated Corporate Disclosure and ESG Dialogue
  - 145 From the Chief Editor

**Editorial Policy:** Co-Creation Management Report 2018 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. In the preparation of this report, we referenced the International Integrated Reporting Framework released by the International Integrated Reporting Council in December 2013 and the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation: ESG Integration, Non-Financial Information Disclosure, and Intangible Assets into Investment released by the Ministry of Economy, Trade and Industry in May 2017.

**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/ir/lib/i-report.html

Annual integrated report focused on management strategies



#### Co-Creation Sustainability Report

www.0101maruigroup.co.jp/en/sustainability/lib/s-report.html

Annual sustainability report focused on connections with communities and society



# MARUI GROUP's CO-CREATION PHILOSOPHY

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 sustainability 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. We are focused on the concept of “inclusion” as the key to responding to customer needs and social issues, which change with the times, and forging a better future. Through co-creation activities advanced with all stakeholders, MARUI GROUP will endeavor to help build a flourishing and inclusive society that offers happiness to all.

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## **Mission**

Contribute to co-creating a flourishing and inclusive society  
that offers happiness to all

## **Corporate Philosophy**

Continue evolving to better aid our customers  
Equate the development of our people with  
the development of our company

## **Founding Spirit**

Creditability should be built together with customers  
Pioneer spirit of creating opportunities

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# 信用の 共創

CO-CREATION OF CREDITABILITY

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## MARUI's Core Value

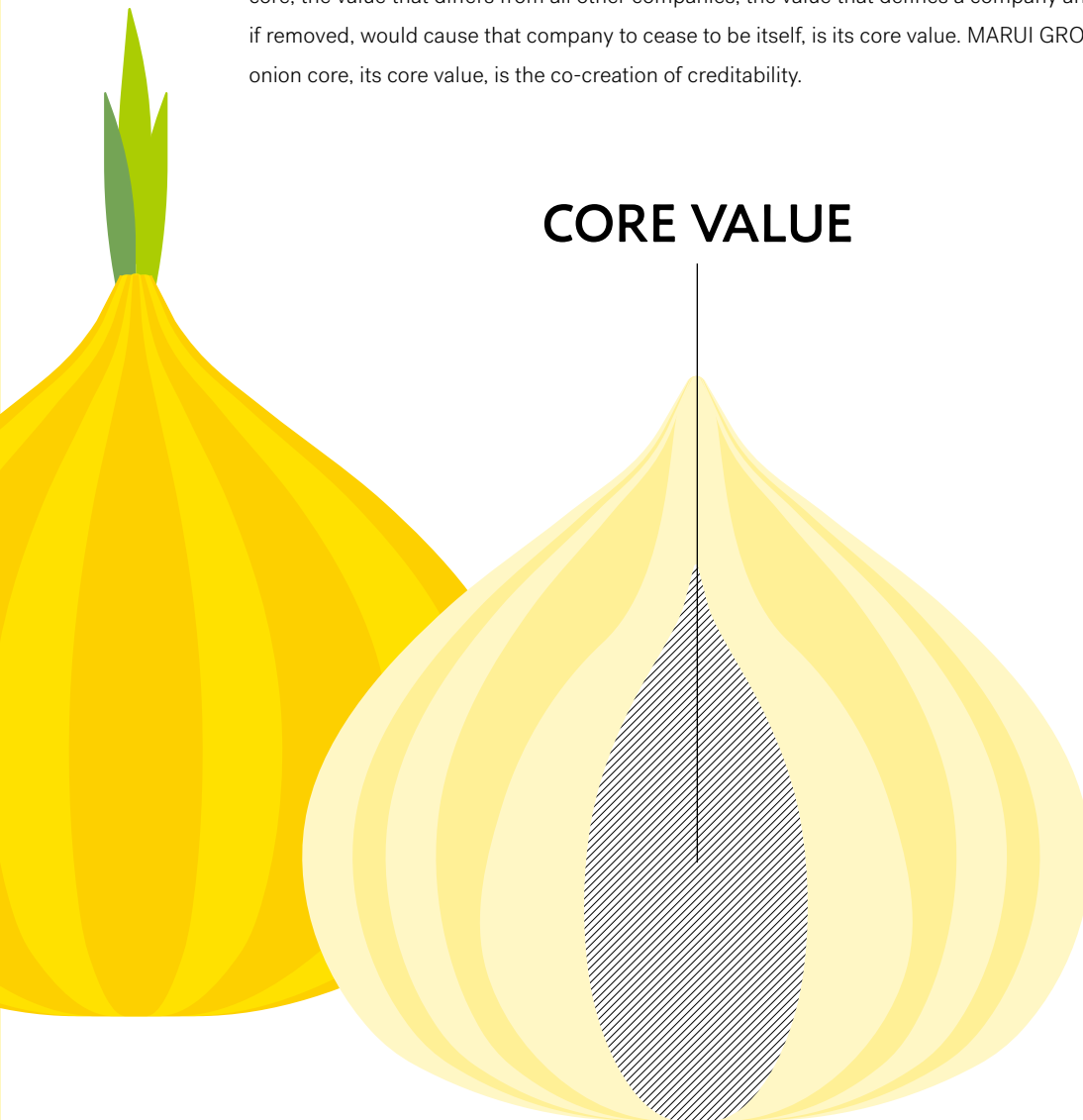
The co-creation of creditability is a concept based on the belief of MARUI GROUP's founder that creditability should be built together with customers, rather than assigned to them.



# MARUI GROUP's "Onion Core"

The core value of MARUI GROUP is like the core of an onion. Onions consist of several layers that must be peeled back before reaching their core. Companies are the same, and there are aspects of a company that may be easily visible from the outside while the inner layers may be more difficult to see.

For MARUI GROUP, the outer layers of the onion are the Marui and Modi stores located in major cities across Japan and the 6.6 million EPOS cardholders. These are aspects of the Company that anyone can see, but they do not represent the distinctive value of MARUI GROUP. In fact, these aspects both represent value that can be found in numerous other companies. After all layers of the onion have been peeled away, all that is left will be the core. This onion core, the value that differs from all other companies, the value that defines a company and that, if removed, would cause that company to cease to be itself, is its core value. MARUI GROUP's onion core, its core value, is the co-creation of creditability.



# TRUST



## Co-Creation of Creditability

The concept of the co-creation of creditability is one of the principles rooted in the belief of the Company's founder that creditability should be built together with customers. At the time of its founding, MARUI GROUP's business involved selling furniture through monthly installment payments. Installment payments were a system designed to allow a wider range of customers to purchase furniture. The Company would loan money for the purchase to customers, which they would repay in monthly installments. Compared to business models based on cash payments, which often resulted in relationships ending after a single interaction, installment payments were effective in fostering long-term relationships with customers as they proceeded to repay their debts in 10, 12, or 24 installments after purchases.

So long as customers made payments on time, they would continue to build creditability the more they borrowed and the longer the period over which they borrowed. It was this type of relationship with customers that gave rise to the principle of building creditability together with customers. This principle has guided us in working together with customers to build creditability, rather than assigning a credit rating based on their income, profession, or assets, resulting in birth of the concept of the co-creation of creditability.

# Co-Creation of Happiness

With the co-creation of creditability as its core value, MARUI GROUP proceeded to engage in co-creation with its customers through its products, stores, credit cards, and other offerings. In recent years, we have been expanding the scope of our co-creation activities to encompass all stakeholders.

This expanded scope led us to focus on the concept of inclusion. This concept entails incorporating and including individuals that had previously been excluded. By reconceptualizing its management based on the concept of inclusion, MARUI GROUP took its first step forward in the practice of co-creation sustainability management through which the Company aims to help build a flourishing and inclusive society that offers happiness to all.



# Realization of New Value to Shape the Future through Co-Creation Sustainability Management

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Hiroshi Aoi

President and Representative Director  
Representative Executive Officer

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## Review of the Fiscal Year Ended March 31, 2018

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### Record-Breaking Income and Dividends

In the fiscal year ended March 31, 2018, we posted earnings per share of ¥93.2, an increase of 16% year on year, and return on equity of 7.6%, up 0.9 percentage point, thereby accomplishing our targets for both of these items. In addition, we set new records for operating income, which rose for the ninth consecutive year, to ¥35.2 billion, up 13%, and for dividends, which were increased for the sixth consecutive year, to ¥38, up ¥5. Furthermore, MARUI GROUP's stock price stood at ¥2,168 on March 31, 2018, an increase of 43% from March 31, 2017, exceeding the 13% growth seen in the Nikkei 225.

This impressive performance brought with it a high evaluation of our corporate value. What I mean by this is that at the end of the previous year, our stock price was 6% lower than at the beginning of the year, despite the fact that our performance in this year was every bit as impressive as in the fiscal year under review. Moreover, there was a significant gap between the change in our stock price and the 13% increase seen in the Nikkei 225. The large improvement in our perceived corporate value in the fiscal year ended March 31, 2018, illustrates the high evaluation that I am referring to. I would next like to review this year and analyze the factors behind this improvement.

### Effectiveness of Unprecedented Transition to Shopping Centers and Fixed-Term Rental Contracts

I would first like to talk about the increased income in the Retailing segment that stemmed from the transition to shopping centers and fixed-term rental contracts. This transition entails transforming all of our department stores into stores that employ a real estate business

model. The aim of this transition is to allow us to better accommodate the long-term trend in consumer needs that is the shift from consumption of goods to consumption of experiences. Through this transition, our goal has been to cater to such customer needs by developing stores that deal in food, services, and experiences in addition to goods and to improve the previously stagnant income of the Retailing segment.

In the fiscal year ended March 31, 2017, the Retailing segment suffered a decline in income. This decline was a side effect of the rapid transition to shopping centers and fixed-term rental contracts, which resulted in a temporary increase in the area of inactive, or non-revenue generating, floor space following sales floor replacements and renovations. The transition of all stores to shopping centers and fixed-term rental contracts was an unprecedented undertaking. This downturn in performance no doubt confirmed the concerns held by shareholders and investors worried about the success of this strategy. We diligently explained that this was only temporary and that income was sure to improve as the benefits of the transition emerged. However, as this transition was, once again, unprecedented, shareholders and investors stated that they would have to wait and see the results.

In the fiscal year ended March 31, 2018, the progress of the transition and the decline in inactive floor space resulted in an upturn in income in the Retailing segment, as had been expected. Shareholders and investors were therefore finally able to understand the effectiveness of our strategy. In addition, other companies undertook similar transitions, which helped investors better understand MARUI GROUP's strategy.



President Aoi in Q-COURT British-style garden on the roof of Shinjuku Marui Main Building (certified as an "Urban Oasis")

## Second Consecutive Year of ROIC Exceeding WACC

The second factor behind the higher evaluation of the Company was our ability to improve corporate value by increasing surplus income. Due in part to the higher income of the Retailing segment, return on invested capital (ROIC) in the fiscal year ended March 31, 2018, increased 0.1 percentage point year on year, to 3.2%, exceeding weighted average cost of capital (WACC) for the second consecutive year. Based on discussions with shareholders and other investors, we defined the balance sheet that we will work toward over the next five years and set targets for the optimal capital structure.

By implementing financial and capital measures based on this plan, we generated surplus income in the fiscal year ended March 31, 2017, by reducing WACC. We then created additional surplus income in the fiscal year ended March 31, 2018, by improving ROIC. In this manner, we have at last become able to start developing a corporate constitution that will enable ongoing increases in corporate value. This ability is a product of continuous discussion with shareholders and other investors.

## Goal of Becoming a Forerunner in ESG Initiatives

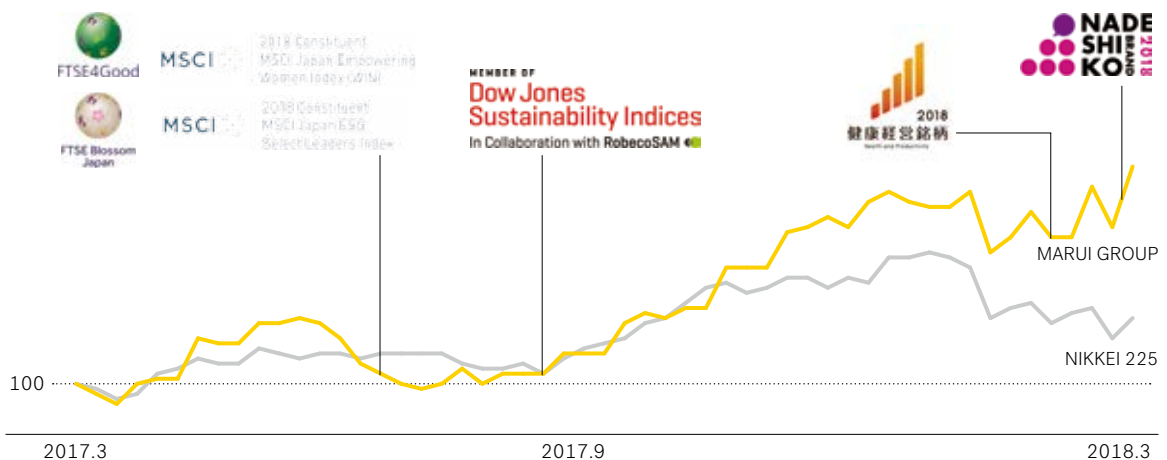
The third factor is the high evaluation of our environmental, social, and governance (ESG) initiatives. In 2008, a step ahead of the rest of the corporate sector, we began implementing what have now come to be referred to as “work style reforms” in Japan. Initiatives to empower our female employees were kicked off in 2013. Then, in the

fiscal year ended March 31, 2017, we defined the ESG theme most important for us to address as “inclusion.” By linking the concept of inclusion to the United Nations Sustainable Development Goals, we identified four core themes and commenced full-fledged initiatives based on these themes.

Our efforts to become a forerunner in ESG initiatives have won high praise from outside of the Company. In the fiscal year ended March 31, 2018, we were selected for inclusion in the three ESG indexes that are utilized by the Government Pension Investment Fund of Japan and in Dow Jones Sustainability Index, which is administered by a global rating institution. MARUI GROUP was also included in the FY2018 Nadeshiko Brand and the FY2018 Health & Productivity Stock Selection (Figure 1). Probably as a reaction to our inclusion in these selections, an investor stated that “MARUI GROUP is neither a retailer nor a financial company; it is an ESG company,” at a financial results briefing. This praise not only brings us joy but also indicates the path we should follow in the future.

As I have explained, the fiscal year ended March 31, 2018, was a year in which our initiatives related to strategies, finances, and pre-financial information—information that has not yet impacted financial information but is still as important as financial information—were linked to each other and advanced in an integrated manner, earning high evaluations for our corporate value. I am most appreciative for the support we received from stakeholders throughout this process.

Figure 1: MARUI GROUP's Stock Price (March 2017 indexed to 100)



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## Vision for Stores of the Future a Decade from Now

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### Ultimate Goal of Transition to Shopping Centers and Fixed-Term Rental Contracts

I would next like to explain our plans for future value creation. I will begin this explanation by talking about our initiatives for after the transition to shopping centers and fixed-term rental contracts, which we have been advancing based on a five-year plan and are scheduled for completion in the fiscal year ending March 31, 2019. As we have proceeded to improve income in the Retailing segment through this transition, we have simultaneously shrunk the amount of floor space dedicated to apparel while increasing the space allocated to food vendors and service providers. This move is meant as a response to the long-term shift in consumption from goods to experiences. For example, we have been applying the idea of positioning food vendors on all entry floors at various stores. This was a successful initiative at Hakata Marui, a store that overturned previous department store conventions, and its application to other stores has resulted in increases in overall customer numbers and transaction volumes at all stores.

However, the income improvements and the revitalization of stores through product category rebalancing achieved via the transition to shopping centers and fixed-term rental contracts are merely by-products of the process of the transition and not the ultimate goal of the transition itself. The ultimate goal of the transition is to reinvent the very concept of stores to realize a new vision for the stores of the future a decade from now. By shifting from our prior department store model to the current real estate model, we will position ourselves to begin the creation of the stores of the future.

### Threats Faced by Conventional Stores

The stores of the future that MARUI GROUP aims to create could be explained as “stores that do not sell.” The conventional concept of a store is an establishment that sells some type of product or service. However, such conventional stores will face major threats over the medium-to-long term because of two reasons.

The first threat comes in the form of the spread of e-commerce while the second threat could be seen to be the commoditization of products and services. As e-commerce becomes more mainstream going forward, it can only be expected that the sale of products and services will come to be primarily conducted through e-commerce venues. In the United States, the spread of shopping through Amazon has led to shopping mall closures and bankruptcies of specialty shop chains of an unprecedented scale. At the same time, the global commoditization of products and services is driving down prices, resulting in fierce price competition for both brick-and-mortar and e-commerce venues. The trend has placed enormous pressure on all retailers with the exception of those limited few of a scale that enables them to exercise leverage in setting prices.

Faced with these threats, conventional stores will likely have to either choose to close or to resign themselves to chronically low profit margins due to never-ending price competition.

### Option of Stores That Do Not Sell

MARUI GROUP, however, believes that there is a third option: the stores of the future—stores that do not sell. The stores of the future we envision offer the value of experiences and community as opposed to the sale of products and services. Up until now, we have devoted ourselves to customer service and sales at our stores. This led us to wonder if our customer service efforts to date had purely been for the purpose of sales and what would happen if sales were conducted through an e-commerce venue and we devoted ourselves to customer service.

We found our answer in 2017 when we investigated numerous stores in the United States. This answer was to create a store that brought joy to both customers and staff. The stores in which we saw this answer were those operated by companies that had initially grown as e-commerce businesses and that used their physical stores as points of contact with customers. Customers did not need to buy products in those stores. They were thus able to feel



more freedom and enjoyment in their shopping experience. Similarly, members of the store staff did not need to sell products but instead were able to help customers try out various products and answer their questions in a friendlier manner. This approach also brought joy to customers; it was an enjoyable place for everyone there.

Seeing this store made me realize the joy that could be provided by stores that do not sell. This realization gave a clear form to our vision, which had previously been no more than an abstract concept. The stores of the future that would accurately respond to the megatrend that is the shift from consumption of goods to consumption of experiences are not stores that simply increase the amount of space devoted to food vendors and service providers. No, the stores of the future are those that coordinate with e-commerce to offer experiences and a sense of community. Creating these stores will require a complete change in direction, a transformation from stores that sell goods and services to stores that do not sell.

### Sales as a Result of Not Selling

We thus embarked on our journey toward the future. The U.S. stores I speak of employed an omni-channel retailing approach, and we therefore began introducing tenants that adopted similar approaches. We also developed and launched the try-on store scheme for our private brand women's shoes. Another step in this journey entailed welcoming Apple Store Shinjuku into Shinjuku Marui Main Building in spring 2018. Apple Store

Shinjuku is an experience-based store, the exact type of store we had longed for. Next to this store, you will find lululemon, which deals in athletic wear among other offerings. A representative of lululemon stated that their policy is that employees can do anything but sell, making lululemon truly a store that does not sell. Instead of selling, lululemon holds in-store yoga workshops and other events for fostering a sense of community among customers. Of course, Apple Store Shinjuku and lululemon both offer products and boast world-leading per-area sales efficiency. However, their main focus is providing experiences and community. Sales are *simply a result* of those efforts, not the goal of their activities. This is the primary difference between these stores and conventional stores.

Furthermore, SHIBUYA BASE was opened in Shibuya Marui in June 2018 through collaboration with start-up company BASE, Inc. This store offers a physical venue that can be used by e-commerce business operators developing their own brands to engage with fans of their brands and meet new customers. Many business operators have high expectations for this new type of store.

By furthering the development of and introducing such tenants, as well as shops of the same vein operated by MARUI GROUP, we will create the stores of the future. The transition to shopping centers and fixed-term rental contracts laid the groundwork needed to develop such stores. After the transition is complete, our journey of creating value for the future will begin.



Apple Store Shinjuku serving as a representative example of experience-based stores (Shinjuku Marui Main Building)



Athletic wear brand store lululemon (Shinjuku Marui Main Building)



SHIBUYA BASE physical venue for e-commerce sites developed through collaboration with BASE, Inc. (Shibuya Marui)



## Power to Change Threats into Opportunities

### QR Code Payments Igniting Spread of Cashless Payments

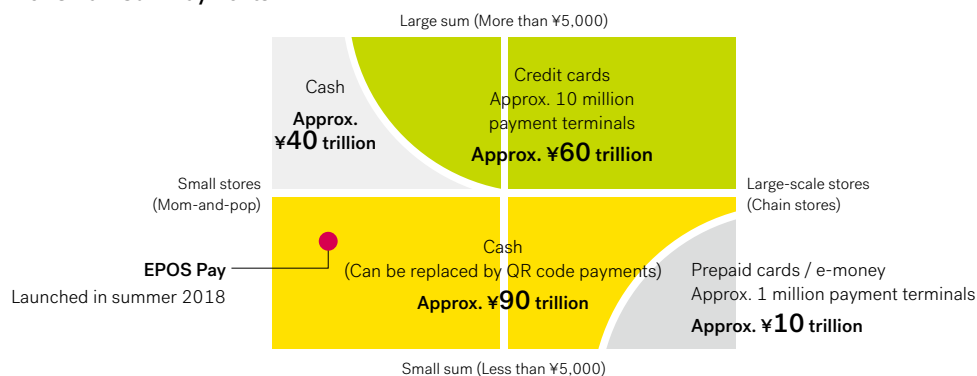
The trend toward cashless payments is one example of a medium-to-long-term change in the operating environment impacting the FinTech business. Over the years, we have continued to contribute to the spread of cashless payments with our credit cards. Looking ahead, we expect that QR code payments, which have exploded in the Chinese market, will also ignite the spread of cashless payments in the Japanese market. The spread of QR code payments does indeed represent a threat that may replace credit cards. However, I believe that the impacts of this threat will be limited. In fact, I suspect that the spread of QR code payments may actually have a positive impact on credit cards.

To get a better understanding of the threats and opportunities presented by QR code payments, let me provide an overview of our outlook for the future spread of cashless payments (Figure 2). Excluding bank transactions and housing loans, the payment market in Japan has a scale of around ¥200 trillion. Of this amount, credit card payments account for approximately ¥60 trillion and are primarily used for large-sum payments of more than ¥5,000 at chain stores and large-scale stores. Meanwhile, prepaid cards and e-money payments represent ¥10 trillion of this amount, mainly through small-sum payments

of less than ¥5,000 conducted at transportation venues, convenience stores, and other such stores. In this manner, each payment method has carved out its own corner of the market comprising the uses for which it is most convenient. We therefore expect that the new payment of QR code payments will find a market of around ¥90 trillion centered on small to medium-sized businesses and small-sum payments of less than ¥5,000.

We therefore project that, as the overall spread of cashless payments advances, a clear division between the use of these three payment methods will be maintained. It is said that a similar division between payment methods is already being seen in China. One reason behind this division is that, while QR code payments have the potential to function as a new payment method, they can also become a new means of making payments through existing methods. For example, it is possible to make credit card payments through one's smartphone by using QR codes if one links the credit card information registered with their smartphone to a QR code payment system. Payments through this method do not involve a physical credit card and may appear to be QR code payments, but they are indeed credit card payments. Apparently, many Chinese people select payment via credit card, even when using QR codes, if they are making large-sum payments.

**Figure 2: Trend toward Use of Credit Cards for Large-Sum Payments and QR Code Payments and E-Money for Small-Sum Payments**



Sources: MARUI GROUP CO., LTD. (Based on *National Accounts of Japan*, Cabinet Office; materials from Japan Consumer Credit Association; *General Survey of Payment Methods*, Bank of Japan; *General Survey of Electronic Payment Methods 2017-2018*, CardWave Co., Ltd.; and other materials; excludes bank transactions and housing loans)

A similar trend can be seen with Apple Pay and other services already in use in Japan. Apple Pay allows users to register their IC e-money card and credit card with their iPhone. I suspect that the majority of users make payments via Apple Pay with their IC e-money card at transportation venues and with their credit card when making larger-sum payments. Initially, it may seem as though the spread of QR code payments and other payments via smartphone has the potential to limit opportunities for credit card payments. However, as illustrated by the examples I just explained, it is likely that usage of credit cards to make payments will actually increase.

### Introduction of EPOS Pay QR Code Payment Service

MARUI GROUP fully intends to capture the opportunity that QR code payments present. To this end, we launched EPOS Pay, a QR code payment service that is tied to our EPOS cards, in summer 2018. We are forming affiliate agreements with business owners around Marui stores to promote usage of EPOS cards for small-sum payments in stores where our cards previously could not be used. At the same time, we will utilize the data collected as through this service to conduct marketing activities that offer benefits for both customers and affiliates. We thereby aim to create regional economic spheres centered on customers. Our goal is to differentiate ourselves from competitors by developing a platform that enables QR code payments to be made anywhere in Japan.

### Collaboration for Growing E-Commerce and Sharing Economies

Two medium-to-long-term trends we anticipate will buoy the growth of credit cards going forward are the



Smartphone application that allows for payments to be made by reading QR codes at stores

proliferation of e-commerce and the development of sharing economies. E-commerce has been a consistent proponent behind the growth of credit cards. In fact, the greatest contributor behind the growth of EPOS cards in recent years has been the use of these cards through e-commerce venues. With an eye to further promoting the use of EPOS cards for e-commerce payments, we allied with GMO Payment Gateway, Inc., in May 2018.

Another driving force behind the growth of our credit cards is recurring transactions, which include payments for electricity, gas, water, and other utilities as well as for smartphone bills. Going forward, we will be collaborating with ABLE, INC. with the aim of gaining access to recurring transactions in a domain where credit cards previously could not be used: rent payments. Together with ABLE, we will encourage customers to pay their rent with their credit card.

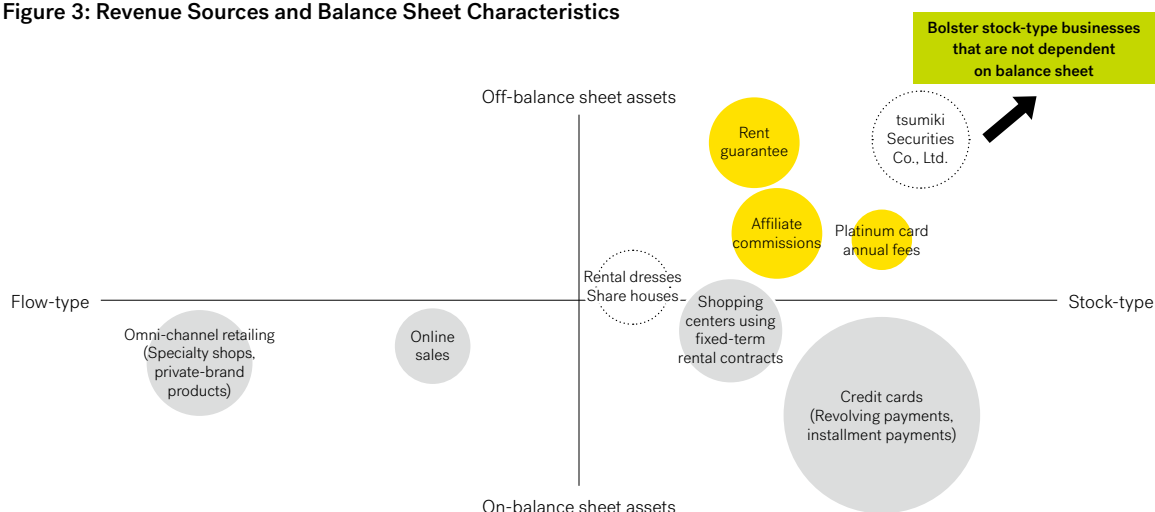
Another form of recurring transaction is subscription payments. Such payments are expected to become more common in conjunction with the development of sharing economies and are therefore anticipated to contribute to further increases in recurring transactions. MARUI GROUP is collaborating with sharing facilitators offering brand-name bags, luxury watches, clothing, and other items to encourage the use of credit cards for the recurring transactions their services entail. We therefore anticipate that the development of sharing economies will drive growth in card shopping transactions.

### Businesses That Are Not Dependent on the Balance Sheet

It can be expected that credit card businesses will witness steady growth going forward if they are able to take advantage of the megatrends represented by the spread of cashless payments, the proliferation of e-commerce, and the development of sharing economies. However, this growth will not be without challenges. Specifically, I refer to the risks of bloated balance sheets that stem from the expansion of credit card businesses and the interest rate hike risks that accompany higher liabilities.

To address the risks of bloated balance sheets, MARUI GROUP will enact a phased increase in the amount of liquidation of receivables from the prior 12% to around 25%. Through this progress, we will seek to improve funding reliability and achieve an optimal capital structure by diversifying procurement methods. By realizing this level of liquidation, we should be able to keep

**Figure 3: Revenue Sources and Balance Sheet Characteristics**



total assets below ¥1 trillion in the fiscal year ending March 31, 2021. This amount of assets should enable us to maintain an equity ratio of 30% or more in this year, even if receivables in our credit card services business are higher than expected. At the same time, we will work to improve capital efficiency by developing rent guarantee and securities operations and other businesses that are not dependent on our balance sheet (Figure 3).

Our response to interest rate hike risks has included

upping the ratio of funding sources with fixed interest rates; achieving a balanced mix of short-, medium-, and long-term borrowings; and seeking to keep payments level across fiscal years. As a result, the portion of borrowings that will be impacted by future interest rate hikes will be limited, and we will be able to spread the impact across a longer period of time. We therefore expect to be able to minimize the impacts of such interest rate hikes on income.

## Resolution of Social Issues through Co-Creation Sustainability Management

### Strength of Business Model Integrating Stores, Credit Cards, and the Internet

Lastly, I would like to explain how we are creating value through new businesses. The end of the transition to shopping centers and fixed-term rental contracts is now in sight and our credit card services business has been put on the growth track. Accordingly, we are now poised to devote our efforts to developing new businesses beginning from the fiscal year ending March 31, 2019. We aim to develop new businesses that will drive the future growth of MARUI GROUP and contribute to improved corporate value. In developing these businesses, we will not limit ourselves to the boundaries of

retailing and FinTech, and we will seek to devise businesses that leverage the strength of our business model integrating stores, credit cards, and the Internet.

To date, MARUI GROUP has proceeded to develop and cultivate new businesses that go beyond the boundaries of retailing and FinTech. The anime business is one example. Over the two years since its launch, the anime business has grown to boast annual transactions of ¥5.0 billion, or ¥3.0 billion on a lifetime value (LTV) basis. Looking ahead, we will maintain our focus on the development of businesses that leverage the strength of our business model integrating stores, credit cards, and the Internet to resolve social issues. We hope that these

businesses will allow us to make progress in the practice of co-creation sustainability management, which represents the next stage of MARUI GROUP's evolution.

### Invigoration of the Securities Business

The first step in this evolution will be the promotion of financial inclusion. MARUI GROUP's business began with installment payment sales. After issuing Japan's first credit card in 1960, we have continued to provide credit to people of all ages, regardless of their income. This commitment to equal-opportunity credit is ingrained in the very DNA of MARUI GROUP. We are therefore compelled to provide financial services other than credit for everyone. We call this "financial inclusion" and have defined it as part of our mission.

Our first forays into financial inclusion began with our entry into the securities business in the fiscal year ending March 31, 2019. Asset building has previously been an area of services only available to a very limited group of wealthy individuals. We aim to make these services available to younger generations and to everyone else. In the background of our decision to pursue this goal is the concern younger generations harbor for the future. A survey released in June 2017 indicated that nearly 60% of people belonging to younger generations have concerns for the future in relation to money, inspiring them to save and conserve money. Meanwhile, many of these people find themselves unable to move forward with asset building due to a lack of knowledge or apprehension regarding investment. At the same time, the ratio of private financial assets accounted for by cash and deposits in Japan is higher than in any other developed country. In fact, the amount of cash and deposits in Japan is ¥900 trillion. This situation has resulted in slow growth in financial assets in comparison to other countries, prompting the Financial Services Agency to encourage people to shift their assets from savings to asset building. The goal of our securities business is to transform this concern for the future into hope and thereby help resolve this social issue. As we are new to this market, we will utilize flexible thinking and other advantages of being a newcomer to invigorate our securities business with a unique business model.

Specifically, our securities business will specialize in sales of investment trusts applicable under Tsumitate NISA in order to help younger generations build assets steadily over extended periods of time. We have carefully

selected the trust managers we will partner with, choosing only those that share our ambitions, so that we can recommend investment trusts with complete confidence. This business represents Japan's first scheme for making cumulative investments via credit cards, EPOS cards specifically. Our securities business will receive backup through support and financial education provided at our stores as we implement new branding and marketing initiatives utilizing the receptiveness that is characteristic of retail. We thereby aim to grow this business to serve one million users and handle a balance of ¥1 trillion in assets within 10 years.

### New Businesses That Resolve Social Issues Shaping MARUI GROUP's Future

Beginning with the securities business, MARUI GROUP will undertake the simultaneous development of various new businesses related to sharing economies, new food business models, and technology-powered personalization, among other areas. The majority of these businesses will represent efforts to commercialize initiatives for addressing social issues utilizing MARUI GROUP's unique business model. We plan on accelerating co-creation with start-up companies in developing such businesses. These new businesses will shape the future of MARUI GROUP and help us create new value alongside existing businesses.

I look forward to your ongoing support and understanding.

August 2018



**Hiroshi Aoi**

President and Representative Director  
Representative Executive Officer

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

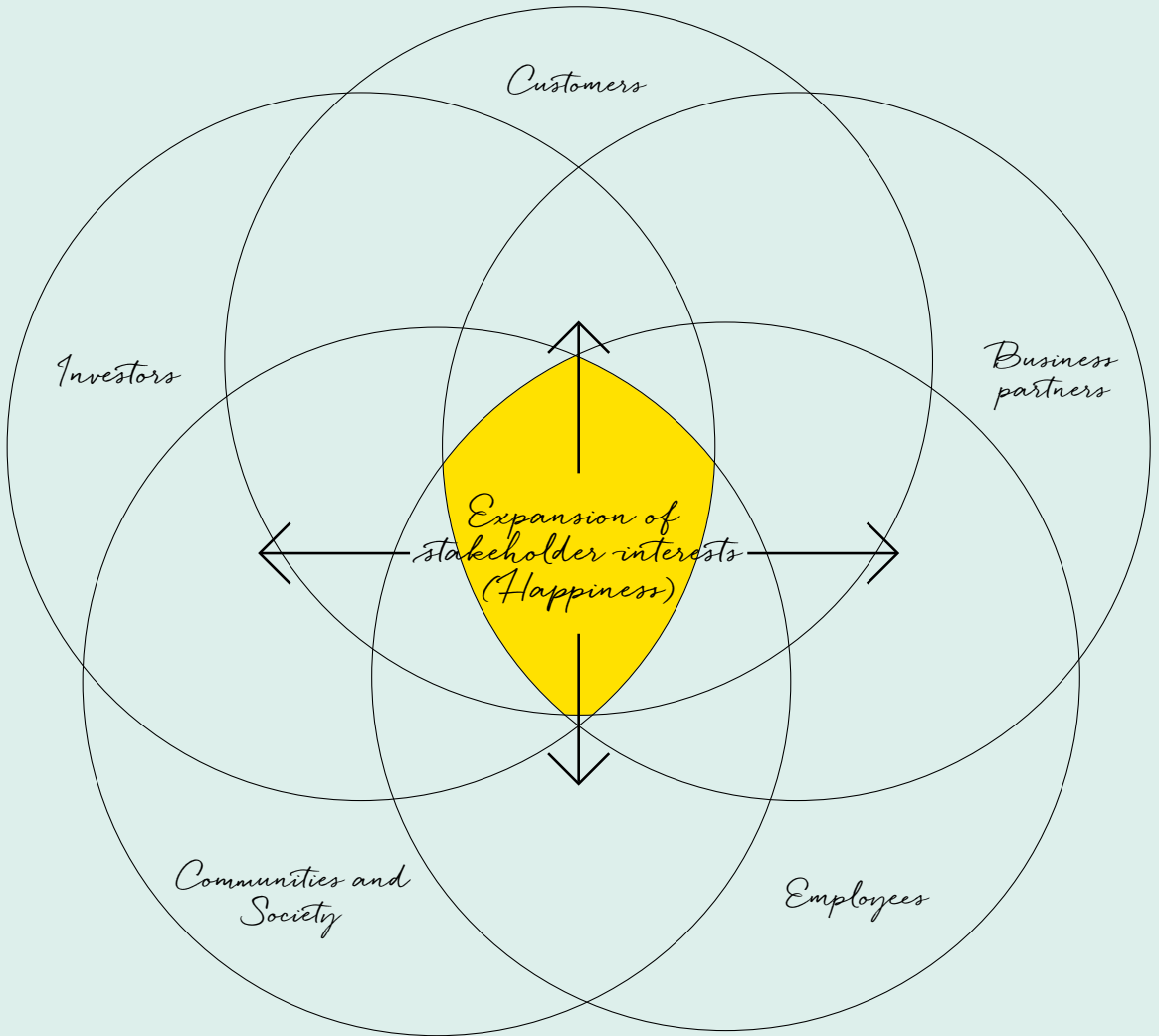
Fiscal Year Ended March 31, 2015:  
Co-Creation Management Declaration  
🌐 [www.0101maruigroup.co.jp/en/ir/message/ceo\\_2015.html](http://www.0101maruigroup.co.jp/en/ir/message/ceo_2015.html)

Fiscal Year Ended March 31, 2016:  
Co-Creation Management from a Corporate Value Perspective  
🌐 [www.0101maruigroup.co.jp/en/ir/message/ceo\\_2016.html](http://www.0101maruigroup.co.jp/en/ir/message/ceo_2016.html)

Fiscal Year Ended March 31, 2017:  
Co-Creation Management Business Model  
🌐 [www.0101maruigroup.co.jp/en/ir/message/ceo\\_2017.html](http://www.0101maruigroup.co.jp/en/ir/message/ceo_2017.html)



## MARUI GROUP's Vision for the Co-Creation of Corporate Value



*Corporate value*

=

*Intersection of all stakeholder interests*

*Expansion of this intersection*

=

*Improvement of corporate value*

# “Good Companies” Achieving Both Economic and Social Benefits to be Deemed Necessary to Society

The concept of sustainability management, which entails working to achieve both economic and social benefits, is gaining attention, and there are those long-term investors that have begun offering their full support to “good companies” that are deemed necessary to society going forward. We arranged a discussion between Kazuhiro Arai, founder of KAMAKURA INVESTMENT MANAGEMENT CO., LTD., and President Aoi of MARUI GROUP CO., LTD., on the new potential that can be created through a focus on happiness, helpfulness, and inclusion.

### Kazuhiro Arai

Director  
General Manager, Asset Management Division  
KAMAKURA INVESTMENT MANAGEMENT CO., LTD.  
(at time of discussion)



### Hiroshi Aoi

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



## Asset Building and Society Building through a New Type of Finance

**Aoi:** Prior to starting up KAMAKURA INVESTMENT MANAGEMENT, Mr. Arai, I understand that you were at the forefront of the financial field. Today, you are still in finance, but on the opposite side of the field. What prompted you to undertake this drastic change?

**Arai:** I realized that there was a limit to the extent to which I could manage assets based on numbers. I previously worked at Barclays Global Investors Ltd. (currently BlackRock Japan Co., Ltd.), which was then the world leader in quantitative investment, which is based on numbers. There, I treated investment as a science. I would statistically analyze the performance forecasts of analysts from across the globe and use the results of these analyses to conduct stock trades in which trillions of yen would change hands. However, I developed a serious, stress-related illness in 2007, which led to my decision to leave this company. It was then that I encountered *Nihon de Ichiban Taisetsu ni Shitai Kaisha* (“The Company That Should Be Most Valued in Japan”), a book written by Koji Sakamoto. This book transformed how I viewed the world. Up until then, I only saw companies as things to be traded based on numbers, but this book made me realize that companies are driven by people. Looking to take an approach toward investment that was the polar opposite of my previous approach, I started up KAMAKURA INVESTMENT MANAGEMENT.

**Aoi:** So, you could say that you saw both poles of the investment world. However, one cannot help but think that investment trusts would not function at the opposite pole. How do you balance this new approach with the need for functioning trusts?

**Arai:** KAMAKURA INVESTMENT MANAGEMENT provides an environment in which we can guarantee the returns of 4% to 5% that represent the minimal necessary amount for customers’ asset building. The only other conditions we care about are the social benefits of companies; we seek to invest in good companies that contribute to society. We cannot resolve social issues without funding companies that are not concerned with profits. Even if we do not realize profits in the short term, if we invest in a mixture of companies that have grown to the point of generating income and companies that are not yet at this stage, we should be able to guarantee returns for our customers. This type of investment based on social benefits is what I wanted to do. I had hoped to be the type of financier that companies need, and I therefore committed myself to standing by companies in both the good times and the bad times.

## Entrenchment of Sustainability in Corporate Culture as the Most Basic Growth Strategy

**Aoi:** How many companies do you invest in?

**Arai:** We invest in 63 companies. We invest in companies that remain true to their vision or to their desire to







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**Kazuhiro Arai**

Director

General Manager, Asset Management Division

KAMAKURA INVESTMENT MANAGEMENT CO., LTD. (at time of discussion)

After working at domestic trust banks and foreign asset management companies, a serious illness prompted Mr. Kazuhiro Arai to establish KAMAKURA INVESTMENT MANAGEMENT together with four of his colleagues in 2008. Yui 2101, an investment trust overseen by Mr. Arai, has continued to adhere to its unique style of evaluating companies based on their benefits to society and disclosing all investees. On July 31, 2018, this trust boasted more than 19,000 private investors and net assets of over ¥37.2 billion. Mr. Arai has written books on topics such as how to achieve success through principled investment, the knowledge of work and money held by happy people, and sustainable capitalism.



**I wanted to make a community that is not preoccupied with money. I see the most fundamental purpose of financing as bringing joy to all parties involved.**

**Kazuhiro Arai**



be a good company. We have withdrawn investment from a total of seven companies in the past. The reasons for these withdrawals have included acquisitions, delisting, and other formal issues. Other reasons have involved changes in policies following the appointment of new managers that made it impossible for us to continue pursuing the social good together with these companies.

**Aoi:** It is common for Japanese companies to change their leader once every four years. Changes in leadership bring changes in management policies, and the new policies can sometimes be 100% different from the prior policies. I believe it would be better for companies to keep the same leader for at least a decade. If not, it will be impossible to truly root the idea of being a good company or of sustainability within a company.

**Arai:** I agree completely. This is one of the reasons that many of the companies we choose for investment are still led by their founder or are family businesses.

**Aoi:** The majority of companies that keep the same leader over the long term are of this nature. I see this as a serious issue. When thinking about the future, it seems apparent that other companies will also need to install long-term leadership if we are to realize a sustainable society. I recently had the opportunity to speak with an individual from Marks & Spencer Group plc of the United Kingdom. This individual stated that sustainability is the most basic growth strategy and that view did not need to change no matter who managed the company. This commitment to sustainability has entrenched this concept in the corporate culture of Marks & Spencer throughout its 124-year history.

**Arai:** It takes a decade or two for a manager to shape the corporate culture of their company. I think that the restraint

function of corporate governance should actually be designed to ensure that managers and employees are remaining true to the purpose of their company and that the appropriate corporate culture is being fostered. The belief that it is better to replace managers after short terms in office may be common, but this belief is mistaken.

### **Managers' Resolution to Shape Society through Their Business as Important Aspect of ESG**

**Aoi:** I think that the evaluation of companies based on ESG factors is a positive trend.

**Arai:** The concept of ESG itself is a positive development. However, if we only focus on raising scores using ESG evaluations, then there is a risk that all companies will end up becoming the same. Individuality and resolution are of utmost importance to companies. People cannot be inspired by a lack of resolve. Sometimes, my customers lodge complaints citing the unclear nature of a company's business. When I receive such a complaint, I go speak with the management of the investee, looking to see the resolve of managers. I want to see the commitment of management to shape society in a certain way through their business. If I do not see such resolution, I will not feel compelled to invest in a company.

**Aoi:** MARUI GROUP preaches the overarching values of co-creation and inclusion. Nonetheless, when I asked several new recruits why they wanted to join the Company, I was still surprised when all of their answers involved our commitment to inclusion. A strong message will attract a strong response. This realization has reaffirmed my commitment going forward.

**Arai:** The future of a company is decided by its





employees, and the opinions of employees are a company's most important intangible asset. The happiness of employees and the atmosphere of a company are factors that we are not yet able to quantify. Nonetheless, KAMAKURA INVESTMENT MANAGEMENT is currently researching means of tracking these metrics. We hope that such research will help us ensure that these assets are evaluated.

### Fundamental Purpose of Financing as Bringing Joy

**Aoi:** What type of customers does KAMAKURA INVESTMENT MANAGEMENT serve?

**Arai:** All of our approximately 19,000 customers have a high degree of social awareness and most are in their 30s or 40s. Around 60% of these customers conduct cumulative investments. We have committed ourselves to standing by the companies we invest in, even during when performance is bad. This resolve was tested by the Great East Japan Earthquake. After the earthquake, many funds saw an outflow of capital as investors predicted catastrophic damage to the Japanese stock market. However, not one of our customers canceled their accounts.

**Aoi:** If one predicts a downturn in the Japanese stock market, they will likely immediately sell their holdings. I find issue with this common practice.

**Arai:** The reason we focus on investment trusts is because I wanted to make a community that is not preoccupied with money. I see the most fundamental purpose of financing as bringing joy to all parties involved. To fulfill this purpose, it is crucial to create a financing scheme that goes beyond a simple business model.

### Corporate Growth by Continuously Helping Customers and Society

**Arai:** I have made use of Marui in the past. The Marui of today is much different than before.

**Aoi:** I became president of MARUI GROUP in 2005. At this time, I looked back at our past to try and ascertain how the Company had managed to continue growing over the 70 years since its founding. What came to mind was customers saying that they had "made use of Marui," a sentiment I had been hearing since I was a child. They did not say "I went to Marui" or "I shopped at Marui," but rather they said "I made use of Marui." I then came to realize that the core value driving our growth over the past 70 years was the aspect of Marui that made customers hold this sentiment. Customers' "I made use of" translates to "we helped" from the perspective of the Company. This realization made me recognize that our struggling performance back then was a consequence of Marui's diminished ability to be of help to customers. Faced with this wall, I was reminded of our corporate philosophy, which inspired me to commence management reforms. It is for this reason that what you, Mr. Arai, do and say resonates so much with me.

**Arai:** My expectations for MARUI GROUP in the future are very simple. Rather than clinging to the MARUI GROUP of the past, I want you to develop a MARUI GROUP of today. The concept of inclusion that you mentioned will likely be key to accomplishing this objective. The younger generations are empowered. Accordingly, if you can attract individuals from these generations, you will be able to attract anyone. I hope to see you grow MARUI GROUP into a place where people gather, a base for social activity.



Customers' "I made use of" translates to "we helped" from the perspective of the Company.

Hiroshi Aoi



SECTION 02

# Co-Creation Sustainability Management Value Creation Model

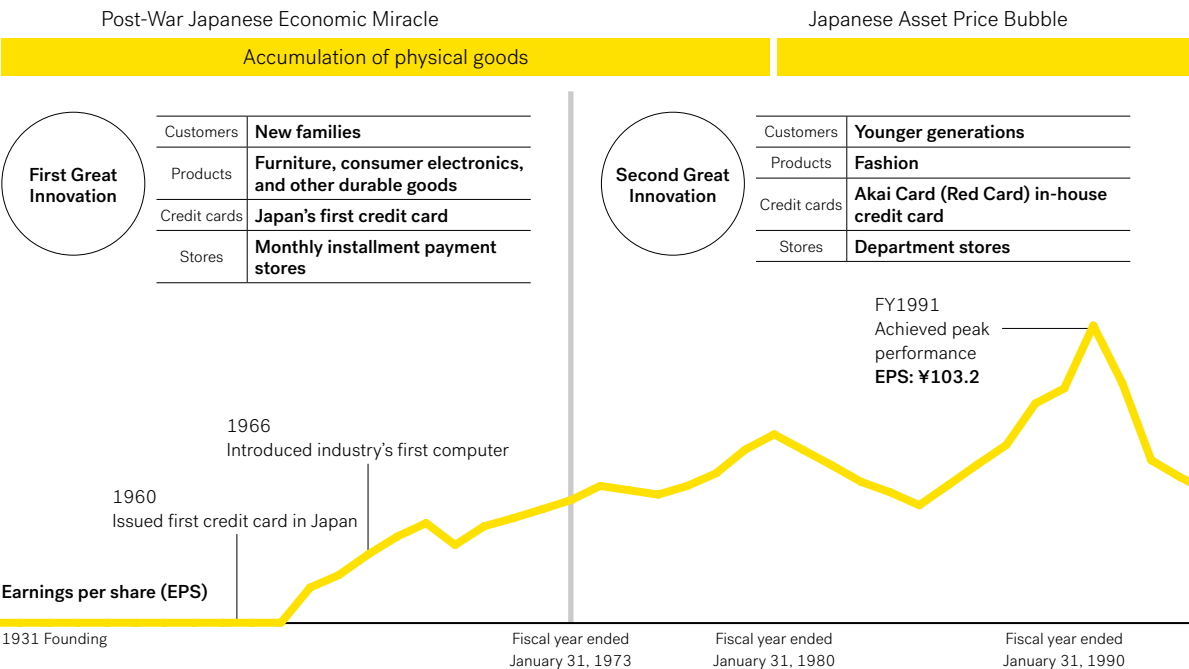
CONTENTS

22	Co-Creation Sustainability Management Business Model
22	Pioneer Spirit of Creating Opportunities
24	Business Model Integrating Stores, Credit Cards, and the Internet
26	Unique Pure Holding Company System Contributing to Integrated Thinking
28	Framework of Business Model Integrating Stores, Credit Cards, and the Internet
30	Identification of Four Core Themes for Inclusion
32	Creation of an Inclusive and Flourishing Society
34	Dialogue 02: Financial Inclusion as Viewed from the Perspective of Microfinance
38	MARUI GROUP's Vision for Financial Inclusion
38	Promotion of Financial Inclusion for the Benefit of Everyone
40	Japan's First Securities Business Driven by Credit Cards
44	Dialogue 03: Contributions to the Happiness of All Customers through Cumulative Investments
48	MARUI GROUP Employees Supporting the Securities Business
50	MARUI GROUP's Unique Integrated Management Approach
50	Profession Change System for Fostering Empathy and Innovation
52	Cultivation of an Organization That Creates Innovation through Diversity
54	Work Style Reforms Creating a Venue for Contributions of All Employees
56	Revision of Evaluation Systems and Desired Characteristics in Employees
58	Dialogue 04: Unique Integrated Group Management Enabling Co-Creation Sustainability Management
62	Strong Support for Inclusion



Pioneer Spirit of Creating Opportunities

Over the 87 years since MARUI GROUP’s founding, we have continued to adhere to our commitment to a pioneer spirit of creating opportunities, a principle advocated by our founder. This spirit has driven us to continuously innovate and evolve our business model, which began with installment sales and integrates stores, credit cards, and the Internet, in conjunction with changes in the times and in customer needs. A look back at the past suggests that MARUI GROUP’s business has always focused on the concept of inclusion that we are advocating today.



MARUI GROUP of Installment Payments

Founder: Chuji Aoi

Period as president: 1931–1972 (41 years)

MARUI GROUP’s business initially involved selling furniture through monthly installment payments. Furniture in those days was exceptionally expensive, meaning that some people lacked the on-hand funds necessary to purchase furniture. We sought to include these individuals and address this issue through sales on installment payments, a scheme that merged retail and finance. The Company continued to contribute to affluence in each coming era by developing department stores that offered installment payment plans, issuing Japan’s first credit card, and eventually introducing the industry’s first computer.

MARUI GROUP of Fashion

Second leader: Tadao Aoi

Period as president: 1972–2005 (33 years)

In the 1980s, the need for credit sales of durable goods declined, leading other stores using the monthly installment payment system to abandon retailing to focus on finance. MARUI GROUP, meanwhile, turned its attention to the growing field of fashion. This transition enabled us to include the younger generations that had previously been a neglected demographic. We thereby were able to stimulate new credit demand, revolutionizing credit sales without abandoning retail. As a result of this strategy, we achieved our peak performance in 1991.





### MARUI GROUP's Founding Spirit

Words of Founder Chuji Aoi

### “Creditability should be built together with customers”

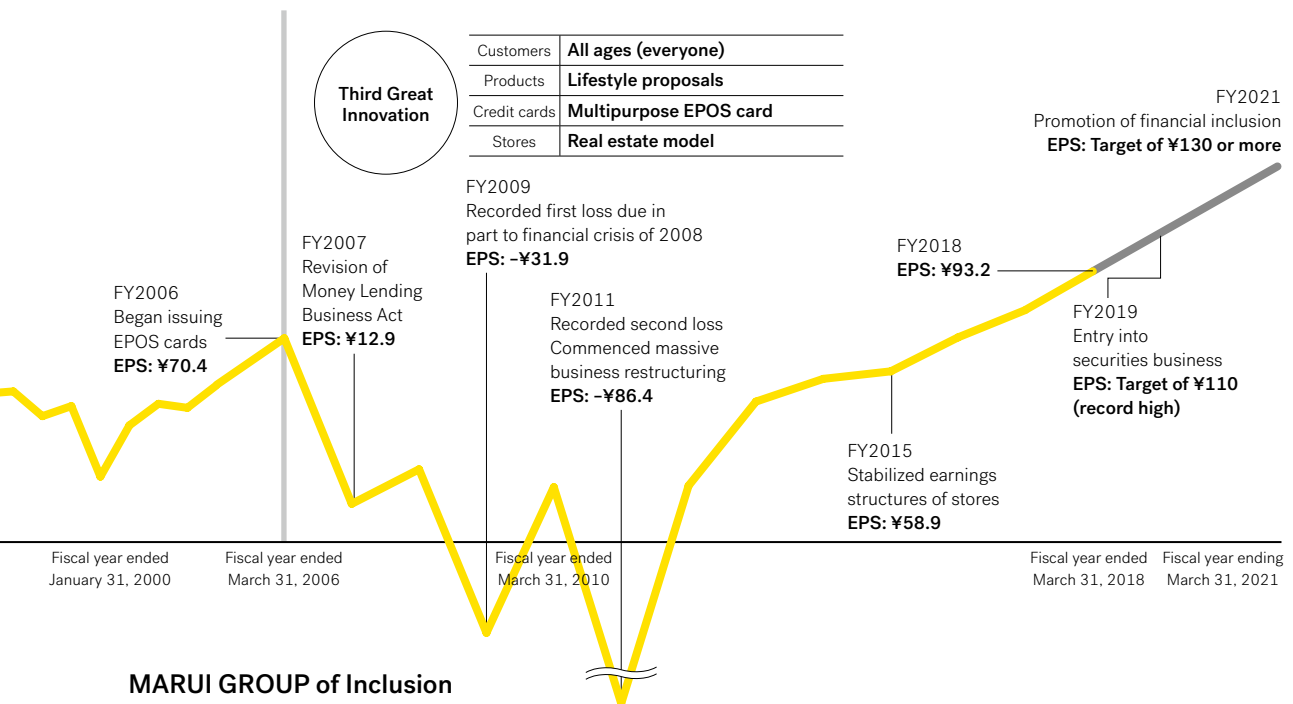
Unique business model merging retailing and finance

### “Pioneer spirit of creating opportunities”

Adeptness at evolving and creating innovation in response to the needs of the times

Age of Declining Birthrates and Aging Populations

Pursuit of more-fulfilling lifestyles and market maturity



## MARUI GROUP of Inclusion

Third leader: Hiroshi Aoi

Period as president: from 2005

Due to the impacts of the revision of the Money Lending Business Act and the 2008 financial crisis, MARUI GROUP was forced to record losses on two occasions. This development spurred MARUI GROUP to pursue innovations in three areas. In customer base innovation, we drastically realigned our focus from catering primarily to younger generations to developing a business that wins the favor of customers of all ages, genders, and physical characteristics. Credit card innovation led to the launch of the multipurpose EPOS card in 2006, an evolution of our prior in-house cards that brought further change as our earnings began to come less

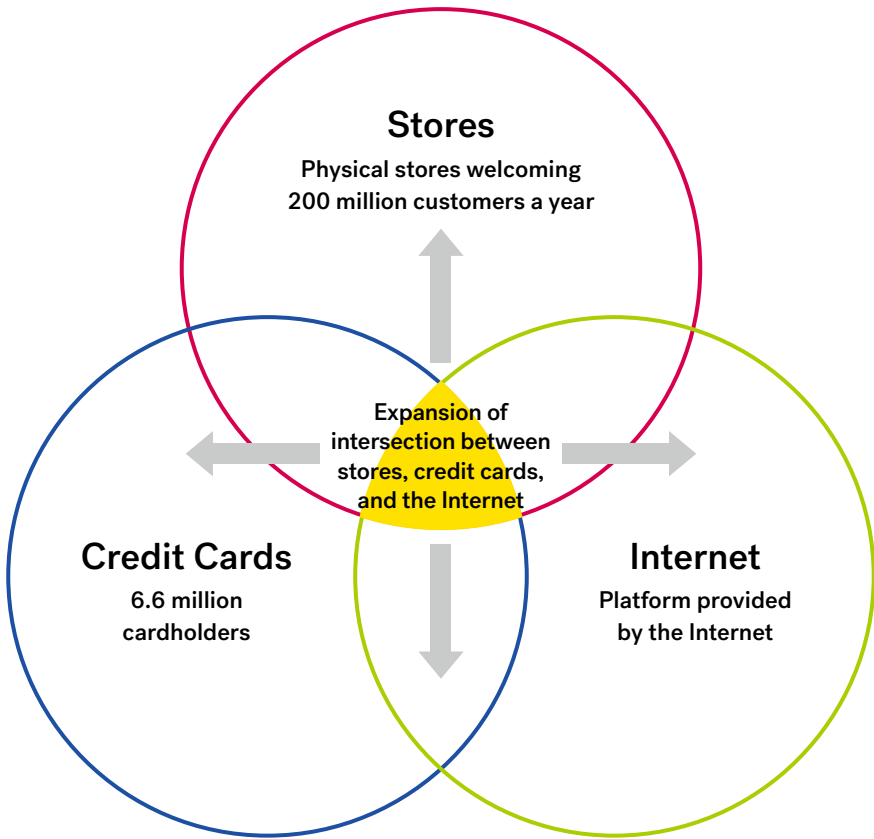
from cash advances and more from card shopping transactions. As for retailing innovation, we started transitioning our stores from the consignment buying system, which entails procuring and selling products, toward real estate-model shopping centers to enable them to provide both goods and experiences. This business structure transformation stabilized the earnings of stores. 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.



# Business Model Integrating Stores, Credit Cards, and the Internet

Through the business reforms that began in 2006, we have been undertaking a massive transformation in MARUI GROUP's stores and credit cards while leveraging the platform provided by the Internet to create a business model integrating stores, credit cards, and the Internet. Rather than developing operations in each of these areas on an individual basis, MARUI GROUP aims to expand the intersection between these businesses to create joy for customers through a concerted effort.

## Expansion of Business Model Integrating Stores, Credit Cards, and the Internet through Integrated Group Management



Total Group Transactions

¥2,189.4 billion

In the fiscal year ended March 31, 2018, total Group transactions rose 13% year on year, exceeding ¥2 trillion for the first time. Of this amount, approximately 70% was attributable to card shopping transactions in the FinTech segment.

Group Employees

5,548

The average number of consecutive years of service for employees is 20; 44% of the Group's employees are women; and 43% of employees have experienced intra-Group profession changes.

## Stores

### Stores of the Future Not Focused on Selling

MARUI GROUP is currently in the process of transitioning away from stores using the consignment buying system, which entails procuring and selling products, toward real estate-model shopping centers and fixed-term rental contracts. This transition is scheduled for completion in the fiscal year ending March 31, 2019. As a result, our earnings structure will shift from generating income from net consignment revenues to receiving rent revenues. This transition has laid the groundwork for our efforts to create the stores of the future. Capitalizing on the customer bases and customer service expertise cultivated through the operation of conventional stores, these new stores will not focus on selling products or services. Rather, they will offer value in the forms of experiences and a sense of community.

Physical stores	Total of 26 Marui and Modi stores in major cities and other locations across Japan Epos Card Co., Ltd., employees stationed at stores to provide customer service (stationed at 22 facilities not operated by MARUI GROUP) Specialty stores (located at 7 facilities not operated by MARUI GROUP)
Omni-channel	Try-on stores in which customers can try on products in stores and purchase via the Internet

## Credit Cards

### Credit Cards Encouraging Long-Term Use by Everyone

Group company Epos Card Co., Ltd., has accumulated big data through its years of engaging in the co-creation of creditability with its 6.6 million cardholders, who are largely composed of people from younger generations. Committed to our mission of promoting financial inclusion, we will endeavor to utilize such assets to develop credit cards that encourage long-term use by everyone, regardless of age or income. Moreover, we aim to go beyond the limits of our previous cards, which primarily provided payment, lending, and other settlement-related services, to supply cards that offer asset building and a wide range of other services.

Characteristics and scale	Around 6.6 million cardholders largely comprising people from younger generations Card shopping transactions totaling ¥1,600.9 billion, up 15% year on year, in the fiscal year ended March 31, 2018 Transactions at external facilities and Internet shopping sites accounting for 93% of total card shopping transactions
Expanded scope	First cards to be issued for foreign exchange students in Japan Cardholder growth achieved through anime business Evolution from cards focused on settlement services to cards offering various financial services

## Internet

### Platform Tailored to Individual Customers Realized through Enhanced IT

Through its operations merging stores and credit cards, MARUI GROUP has developed IT and information systems as well as a distribution platform. We have also been taking steps to enhance our IT and other foundations through means such as the establishment of the Digital Transformation Promotion Department in 2018. Through these enhancements, we will merge our stores and credit cards in a manner that accommodates the current age of the Internet and smartphones to create a platform tailored to individual customers that can be applied to our e-commerce, securities, and other new businesses.

E-commerce	Proprietary "marui web channel" Internet shopping site and partnership with external Internet shopping sites
Intra-Group coordination	IT systems supporting integration of retailing and finance System staff with retailing and finance experience Big data accumulated through co-creation of creditability
Enhancement of platform	EPOS card user interface built specifically for smartphones Intra-Group distribution systems supporting Internet sales

# Unique Pure Holding Company System Contributing to Integrated Thinking

We adopted a pure holding company system in 2007. This move clarified the roles of Group operating companies and of MARUI GROUP CO., LTD., and made it possible to develop a business model integrating stores, credit cards, and the Internet. Later incorporating the perspective of inclusion into management gave rise to a cycle in which the expansion of the intersection between stores, credit cards, and the Internet contributed to the growth of the intersection between the interests of stakeholders, driving further increases in the intersection between stores, credit cards, and the Internet, forming a structure like a Moebius strip.

## Outward Propulsion and Unifying Force of Management

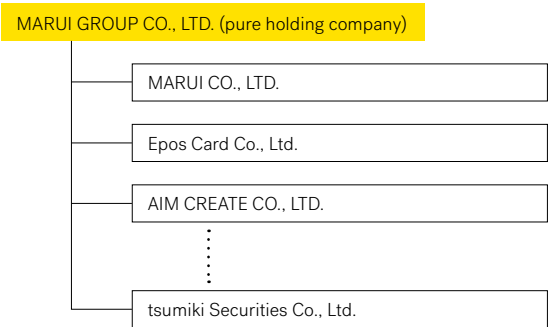
MARUI GROUP differs from a standard pure holding company in that all Group employees are hired through the Company and that, even if an employee is appointed to an operating company, they will still have access to the same shared human resource systems available at the Company. This framework makes it possible for employees to undergo profession changes between Group companies and for us to arrange Groupwide project teams in which employees transcend the boundaries of their operating companies to discuss management issues. These features of our framework are what make our business model of integrating stores, credit cards, and the Internet possible.

Our goal in adopting the pure holding company system was to simultaneously heighten the outward propulsion and unifying force of our integrated Group management. As operating companies grow, exercising their

individual specialties and expertise in the process, they exhibit an outward propulsion that drives them away from the rest of the Group. For this reason, if we do not also increase the unifying force of our management, our business model based on Group integration, a core strength of MARUI GROUP, will lose its potency. The task of heightening this unifying force lies with the pure holding company. Having all Group employees be, in essence, employees of the pure holding company effectively creates a unified MARUI GROUP, which in turn allows for the balanced exertion of outward propulsion and unifying force. The unifying force is perhaps most aptly symbolized by the new business of tsumiki Securities Co., Ltd. As seen in this business, this force allows us to combine the expertise, knowledge, and other human and intellectual capital of Group companies to transform these forms of capital into the organizational capital of the Group.

### Organization of the Group after Adoption of the Pure Holding Company System

Batch hiring of all employees, shared human resource systems



Expansion of intersection between stores,  
credit cards, and the Internet



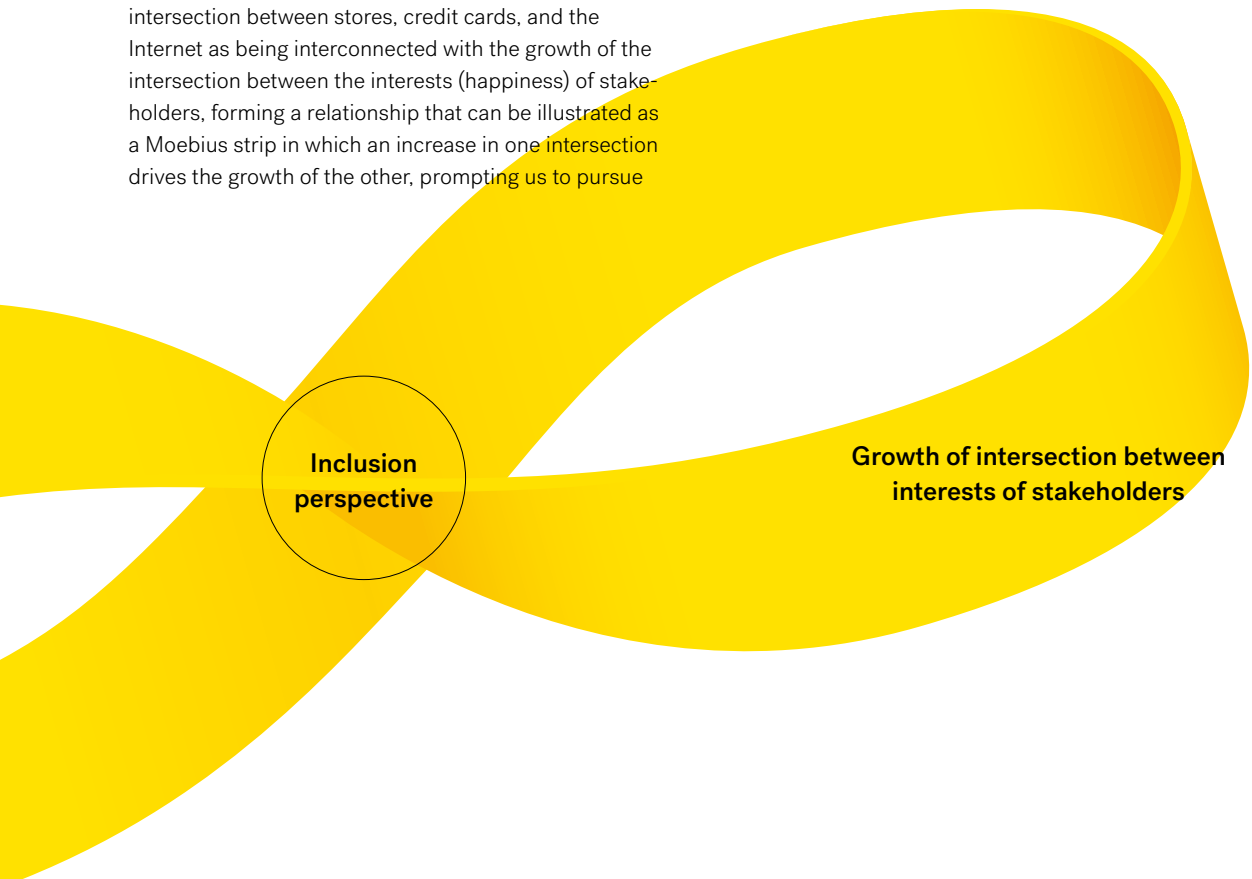
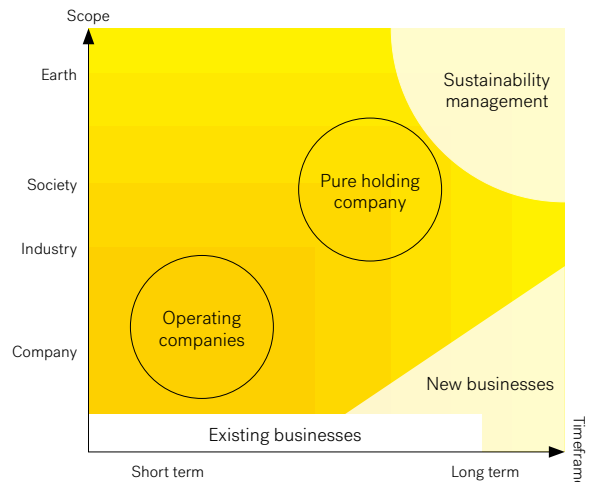
## Integrated Thinking Spawning Both Corporate Value and Social Value

Another major goal of the adoption of the pure holding company system was to incorporate a long-term perspective into management. The longer the timeframe used when thinking about corporate management, the more the scope of thought will broaden, spreading from the Company to include the industry and eventually the whole of society. The presidents of operating companies are required to pursue earnings based on a relatively short-term perspective while the president of the holding company is expected to adopt a long-term perspective for addressing sustainability and social issues. It is incredibly difficult for the same person to fulfill both of these roles. Based on this realization, we adopted the pure holding company system in part to clarify the distinction between these two roles. This system has thus made it possible for management to engage in integrated thinking aimed at realizing Groupwide optimization that transcends the differences and contradictions between individual businesses, thereby enabling the development of a business model integrating stores, credit cards, and the Internet.

Having incorporated the perspective of inclusion into management, MARUI GROUP views the expansion of the intersection between stores, credit cards, and the Internet as being interconnected with the growth of the intersection between the interests (happiness) of stakeholders, forming a relationship that can be illustrated as a Moebius strip in which an increase in one intersection drives the growth of the other, prompting us to pursue

increases in both. This relationship makes it possible for MARUI GROUP to create corporate value over the long term while simultaneously generating value for stakeholders and for all of society.

### Scope of Thinking and Timeframe





## Earnings Structure Targeted in MARUI GROUP's Main Business

### Business Forging Long-Term Relationships with Customers

MARUI GROUP believes that, by drastically altering its prior business approach, it can forge relationships with customers that continue over even longer periods. Rent guarantee and asset building services entail relationships in which recurring transactions are conducted with customers over periods of 3, 5, 10, or even 20 or more years. Accordingly, these services encourage customers to use their EPOS cards as their main credit card and thereby contribute to increases in the number of Gold cardholders. In the future, we anticipate that the co-creation of creditability through the forging of such long-term, trusting relationships with customers will be more important than ever.

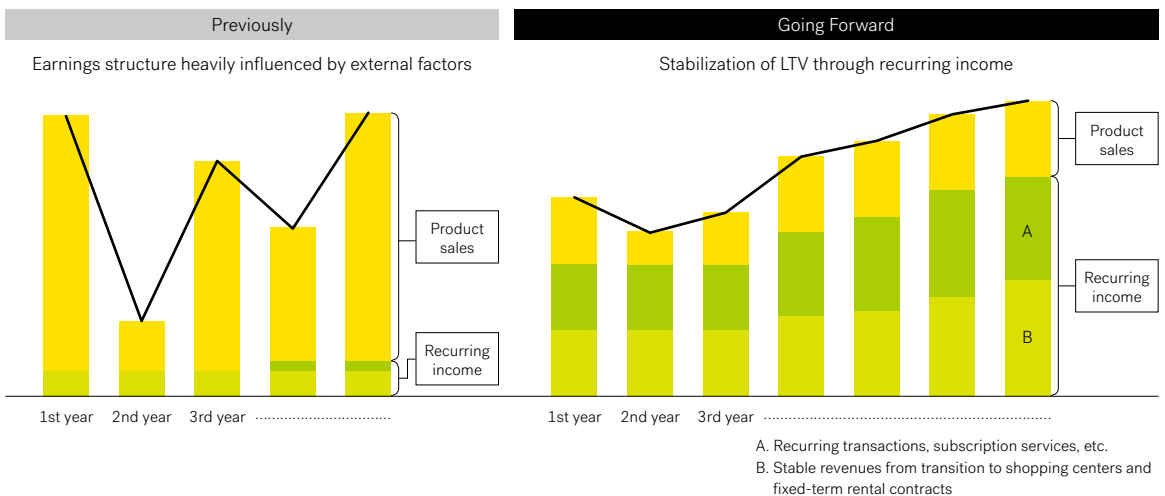
→ P38 Promotion of Financial Inclusion for the Benefit of Everyone

### LTV Generated through Recurring Income

Previously, our earnings structure has focused on product sales. This earnings structure faced a serious issue in terms of the volatility of earnings as performance in retailing can be heavily impacted by external factors, such as weather, foreign exchange rates, and trends in inbound travel in Japan. However, by advancing the transition to shopping centers and fixed-term rental contracts, we are shifting the source of our earnings from product sales to rent revenues. In addition, we anticipate a relative increase in payments for recurring transactions and subscription services through credit cards. These two changes will expand the portion of our earnings that is accounted for by recurring income. This trend is expected to contribute to stable growth in the overall lifetime value (LTV) of the Group as we accumulate earnings.

→ P66 Medium-Term Management Plan

### Projected Path of Improvement of LTV through Accumulation of Recurring Income



### Transformation of Intellectual Capital into Financial Capital

Rental guarantees, cumulative investments, and sharing services are all businesses in which MARUI GROUP will be able to exhibit greater strength the more it amasses intellectual capital and other management resources. By utilizing such intellectual capital in the integration of stores, credit cards, and the Internet, MARUI GROUP aims to transform this capital by operating its business without depending on significant amounts of assets and liabilities and thereby limiting total assets. Through this approach, we will target stable increases in return on invested capital.

→ P85 Target Balance Sheet

# Identification of Four Core Themes for Inclusion

In November 2016, MARUI GROUP defined four core themes for inclusion as it redefined the focus of its business of serving all customers from the perspective of inclusion. By commercializing these themes through our business model integrating stores, credit cards, and the Internet, we aim to expand the intersection between the interests of stakeholders.

## 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.

Inclusive Store Development .....	P77
Inclusive Product Development .....	P79
Financial Inclusion .....	P38



## 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.

Development of an Organization That Utilizes Diversity ...	P52
Healthcare Management .....	P55
Human Resource Investments .....	P70



## Core Theme 3

### Ecological Inclusion

We will develop businesses with low environmental impact, and contribute to the realization of a low-carbon society and a circular economy, and propose ecologically sound lifestyles that are in harmony with nature and the environment.

Environmental Footprint Reduction .....	P101
Product Initiatives	
Responsible Procurement	
Innovative Services	



## Core Theme 4

### Co-Creation Corporate Governance

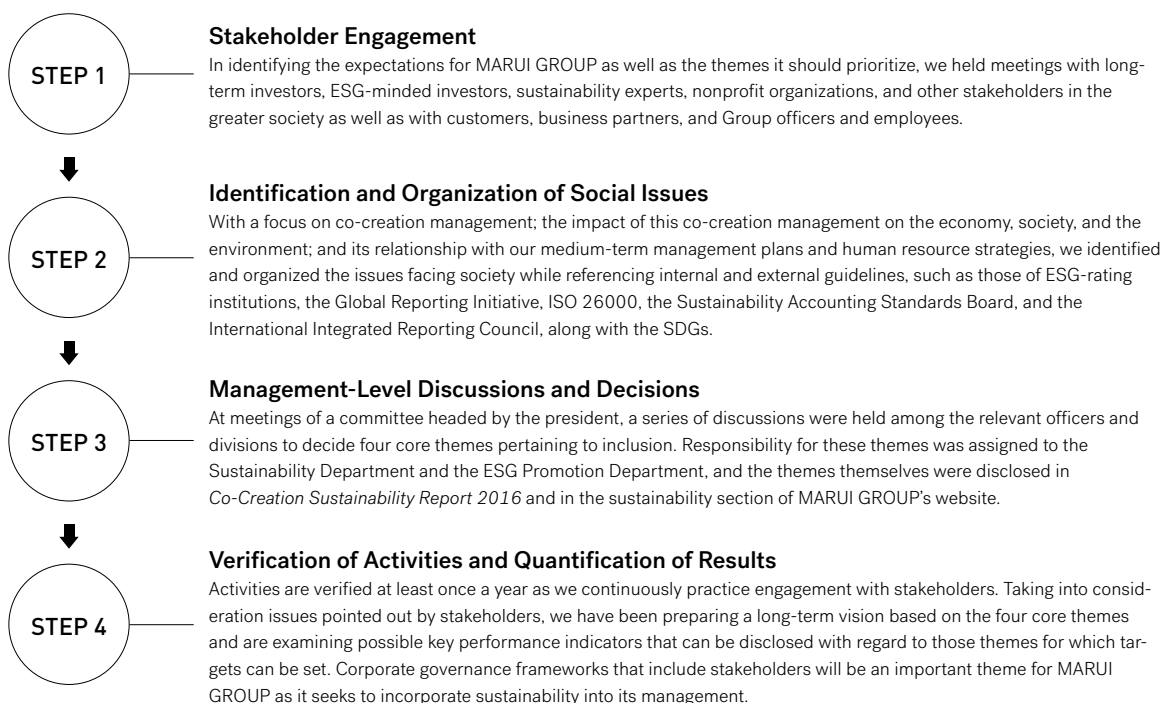
We will develop management frameworks that include stakeholders in order to achieve harmony between the interests and the happiness of all stakeholders.

Co-Creation with Stakeholders	
Sustainability Management .....	P65
Cultivation of Future Leaders .....	P97
Risk Management .....	P100





## Process for Establishing Core Themes



## Major Initiative Matrix



● Customer Diversity and Inclusion   ● Workplace Inclusion   ■ Ecological Inclusion   ◇ Co-Creation Corporate Governance

# Creation of an Inclusive and Flourishing Society

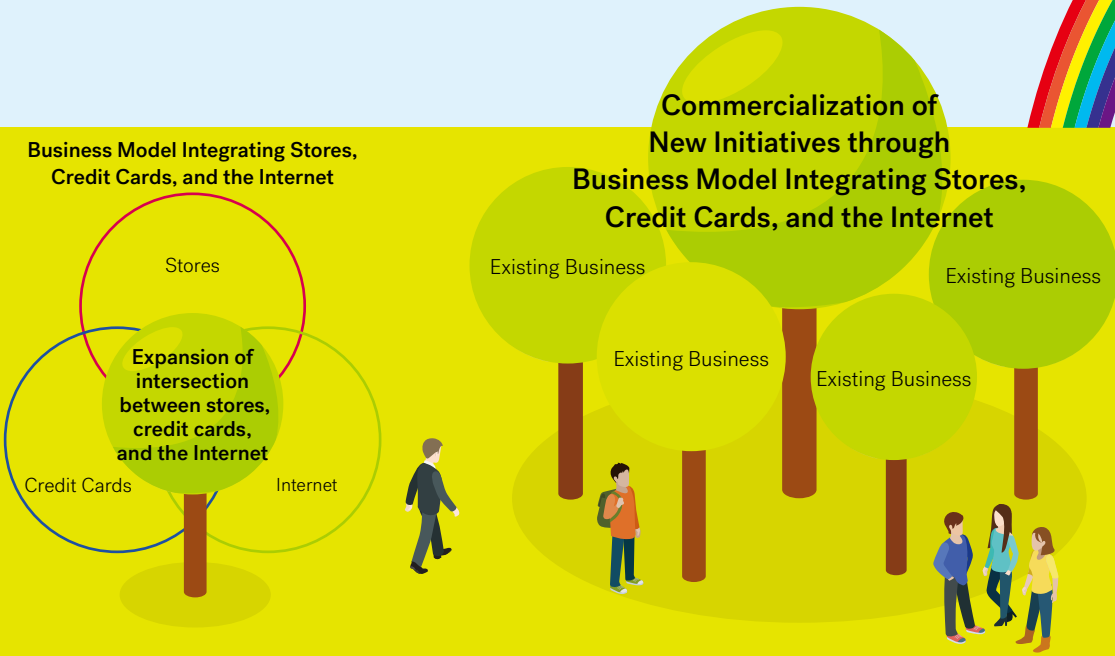
MARUI GROUP practices forward-looking co-creation sustainability management that leverages its core value—the co-creation of creditability. As part of this practice, we have identified social issues for the Company to address from the perspective of inclusion, and we are commercializing initiatives for addressing these issues through our business model of integrating stores, credit cards, and the Internet. We thereby aim to simultaneously improve corporate value and resolve social issues. The new businesses born out of this process will drive the growth of the MARUI GROUP and eventually become the main focus of its operations.

## Inclusion as Both a Philosophy and a Business Strategy

Co-creation is, at its core, the quest to realize an inclusive society. A society cannot be said to be happy if happiness is only provided to certain groups. Rather than focusing on bettering the Company, MARUI GROUP is committed to addressing social and environmental issues through co-creation with its stakeholders. In this manner, we view inclusion as both a philosophy and a business strategy.

### Social and Environmental Issues

- Declining birthrates and aging societies
- Concern for the future among younger generations
- Increasingly more serious global environmental issues
- Digital divide stemming from the spread of the Internet



### Co-Creation of Creditability

Core value of MARUI GROUP based on a belief of the founder

### Perspective of Inclusion

Transformation of existing businesses based on a new way of thinking about business  
First step of financial inclusion (securities business)

A Flourishing and Inclusive Society  
Offering Happiness to All



Main Focus of MARUI GROUP's  
Operations Going Forward

Simultaneously improving  
corporate value and  
resolving social issues



Co-Creation of Happiness

Expansion of the intersection between  
the interests of stakeholders

# Financial Inclusion as Viewed from the Perspective of Microfinance

The idea of microfinance advocated by Grameen Nippon and the concept of financial inclusion promoted by MARUI GROUP are connected on a level that exceeds the boundaries of each organization. The following is a conversation between two individuals that met Grameen Bank founder Professor Muhammad Yunus around the same time and that both have visions for finance that opens itself toward the future. Sharing the same ideals, these two individuals will discuss the potential of financial inclusion.

### Masahiro Kan

President  
Grameen Nippon



### Hiroshi Aoi

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

### Meeting with Grameen Bank Founder Professor Muhammad Yunus

**Aoi:** My first encounter with Grameen Bank founder Muhammad Yunus came at a lecture he delivered in Japan in 2007. This experience prompted me to establish Social Business Platform, a general incorporated foundation, with my friends. We invited Professor Yunus to serve as a special advisor to this foundation. Mr. Kan, I would like to ask how you met Professor Yunus and

what inspired you to create Grameen Nippon.

**Kan:** I first met Professor Yunus in 2008 on a visit to Grameen Bank in Bangladesh. Even today, I still vividly remember the professor's explanation of how micro-finance was without a doubt applicable to Japan. It took a decade, but I was finally able to establish Grameen Nippon in 2018. I had previously been involved in government finance and financial policy at the Ministry of Finance. A major turning point came when my family's liquor store, which my uncle had taken over, was forced

### Masahiro Kan

President, Grameen Nippon

Born in Fukushima Prefecture, Mr. Masahiro Kan was involved in financial policy at the Ministry of Finance and served as an executive director for Japan at the World Bank Group before he became a professor at Meiji Gakuin University in 2017. A meeting with Professor Yunus in 2008 proved to be a turning point in his life. Committed to promoting microfinance in Japan, Mr. Kan created the preparatory institution that would become Grameen Nippon with his colleagues in August 2017. Grameen Nippon was formally established and commenced operations on September 13, 2018.





to close around 2004. Seeing how those around him reacted to the closure, I was shocked at how cold others were to him. I did not want to live in a cold society when I grew older. My first encounter with microfinance and Professor Yunus came when I was mulling over these feelings. After this encounter, I came to view my prior government experience as having been the preparation for microfinance. Each subsequent time I met Professor Yunus, I left feeling even more empowered. The professor is truly the person I respect the most in this world.

**Aoi:** It was around the time of my first encounter with Professor Yunus that I was searching for ways to contribute to society through our main business. Not finding an answer, I remember being moved by the creative idea of Professor Yunus to “put poverty in the museum.” Up until that point, the common approach was to use the earnings of one’s business to fund charities or CSR activities. However, the professor advocated an idea for social businesses in which dividends are not paid because investments are used to fund the actual business.

**Kan:** One of Professor Yunus’ Seven Principles of Social Business is “Investors get back their investment amount only. No dividend is given beyond investment money.” Under this principle, if an investor puts ¥10,000 into a social business, they will only get that ¥10,000 back, even if the business grows this ¥10,000 to ¥12,000 or

¥13,000. A normal public company would return the additional ¥2,000 or ¥3,000 to investors in the form of dividends, but the dividends issued by a social business are zero. Any returns that exceed investments are used to improve and expand the social business.

**Aoi:** Listed companies like MARUI GROUP seek to realize social contribution through their business by paying dividends. Accordingly, Professor Yunus’ ideas were most stimulating. We define corporate value as being represented by the intersection between the happiness of all stakeholders. I arrived at this idea when my way of viewing the world was transformed by Professor Yunus, leading me to see intersections between concepts I previously thought to be completely separate.

### Mutual Trust Bridging Gap Created by Information Asymmetry

**Aoi:** Grameen Bank has arms in both developing countries and developed countries like the United States. What type of customers do you serve in Japan?

**Kan:** The individuals that come to borrow money from Grameen Nippon are people with a desire to work but who are unable to do so because of their own poverty. For example, we cater to single mothers looking to



improve their lives through work, members of the working poor who are proactive toward work, and other individuals that have previously been excluded from financial services. The only condition for receiving financing is for borrowers to form mutual aid groups of five people. Loans are then provided with no need for collateral or guarantors. In this manner, we simultaneously supply the seed money for funding their aspirations and provide an opportunity to work or give support to their job search. Borrowers can start their own business or look for employment. Those that want to become a care worker, financial planner, or some other specialist can receive funds to cover the tuition payments for obtaining the necessary qualifications or education.

**Aoi:** Is the need to form groups of five a standard world-wide rule for Grameen branches?

**Kan:** Yes, the group of five rule is a core aspect of Grameen Bank's approach, and Grameen Nippon also requires prospective borrowers to form mutual aid groups of five people. We provide funds to people that want to work but lack the money without asking for collateral or guarantors. A normal bank would not loan money under such conditions. The true goal of financing should be to supply money to the people who really need it, but the reality of finance is much different. This is because we are unable to resolve information asymmetry issues. The Grameen model aims to address this issue by having borrowers form groups of five and holding weekly

meetings among these groups. In other words, you could say that we will not provide financing if borrowers cannot build trust among themselves. Mutual trust is therefore crucial to our approach to financing.

### Overlapping Ideas from Different Backgrounds

**Aoi:** MARUI GROUP's credit card services business is not only unique in that it arose from a retailing business but also in the credit philosophy that has guided it since its inception. We do not assign customers credit limits based on their income, assets, age, or job. Rather, all customers start off with low credit limits that are gradually increased in conjunction with their usage amounts and payment histories. Although most credit card businesses only achieve return on invested capital of between 1% and 2%, we boast a return of 3.8%. One reason for this difference is that around half of our cardholders are in their thirties or younger. While they may not have a lot of income or assets, they spend a lot due to life events, such as renting housing, getting married, or having children. As a result, their card usage rates are high. Regardless of this younger cardholder base, our ratio of delinquent debt is the lowest in the industry, a fact that is hard to comprehend for European and U.S. investors. Our founder believed that creditability should be built together with customers. This belief gave rise to

**Grameen Bank loans money to people  
with no money without asking for collateral.  
Mutual trust is therefore crucial.**

**Masahiro Kan**



our concept of the co-creation of creditability, which is the wellspring of value, the core value that has supported us throughout our 87-year history.

**Kan:** That concept is the same as the business model of Grameen Bank. At Grameen Nippon, we refer to borrowers as “members.” This is because, rather than the one-sided provision of credit, we seek to foster mutual trust with borrowers, a desire that overlaps with MARUI GROUP’s concept of co-creation.

**Aoi:** When I first heard of Grameen Bank, its philosophy resonated with me. I was struck to know that we were not alone in our thinking. Up until then, I had thought that our approach toward finance was unique, an approach that no one else could understand. What Grameen Bank preached was the same as the financial inclusion we pursued. Our backgrounds may be completely different, but our ideas overlapped. It was fate. Professor Yunus made me realize that, while financial inclusion was an approach to finance that differs from the traditional approach seen around the world, it could be seen as an approach oriented toward the future. If we view the entirety of financial services, not just credit cards, from the perspective of financial inclusion, we will see that the vast majority of financial services are primarily offered only to the wealthy. As such, younger generations and other individuals have been excluded from these services. Recognizing the problems with this situation, we chose to establish a securities company specializing in cumulative

investments. It is clear that the model of Grameen Bank and our business are connected on some deeper level that transcends their form and origin. This connection is visible in our approaches toward co-creating creditability and in our stances toward including everyone.

**Kan:** There are many aspects to the society that Grameen Nippon aims to create, but first and foremost is our vision for a society free from poverty in which everyone is empowered. This goal entails including the socially disadvantaged. Microfinance is truly an endeavor in financial inclusion. I am confident that financial inclusion will prove to be a pioneering initiative representative of future social and global trends. One such trend is the United Nations Sustainable Development Goals, the first of which is to “end poverty in all its forms everywhere.” This goal means to eradicate poverty, not just in developing countries, but also in developed countries like Japan. One defined target for this goal is to “by 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.” The quest of Grameen Nippon coincides completely with this goal. There is an African saying that goes “fast alone, far together.” Grameen Nippon adopted this saying as its motto. If we are united together, even if one of us may falter, our aspirations will travel far. We are committed to moving forward with our comrades.

**Our backgrounds may be completely different, but our ideas overlapped. It was fate.**

**Hiroshi Aoi**



# Promotion of Financial Inclusion for the Benefit of Everyone

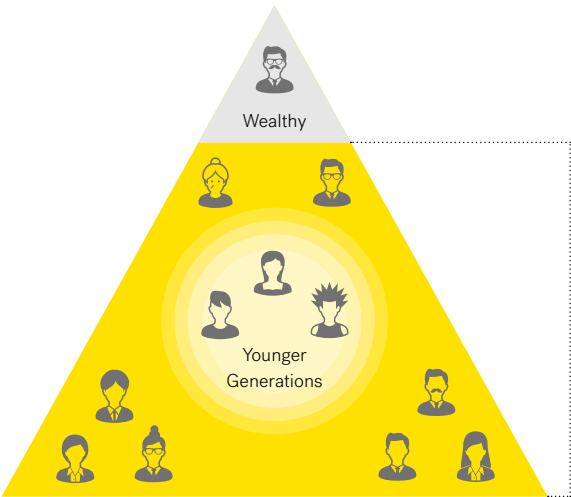
MARUI GROUP's vision for financial inclusion is to resolve the social issues represented by the exclusivity of financial services to the wealthy with its business model of integrating stores, credit cards, and the Internet. We aim to provide financial services that put affluence within reach of younger generations and everyone else.

## Financial Services for People of All Ages and Incomes

Since issuing Japan's first credit card in 1960, MARUI GROUP has proceeded to develop a business of providing credit cards to all applicants, regardless of their age, profession, or income. We expanded the scope of these efforts to include non-Japanese residents and foreign exchange students in Japan in October 2017, when we partnered with Global Trust Networks Co., Ltd., a company that offers comprehensive lifestyle support for non-Japanese individuals. Through this partnership, Epos Card has issued Japan's first credit card exclusively for non-Japanese individuals to support them in their various life situations, whether going to school, working, or maintaining permanent residence, with funding and payment services.

In 2018, we entered into the securities business, which could be seen as central to financial inclusion. Services for building assets through investment are currently limited almost completely to wealthy individuals, being placed out of reach for younger generations and everyone else. The mission of our securities business is thus to resolve this social issue and realize financial inclusion by providing financial services for everyone, regardless of their age, profession, or income.


## Younger Generations and Everyone Else



1960  
Issuance of Japan's first credit card



Akai Card enriching the lifestyles of younger generations



MARUI GROUP

Provision of financial services to younger generations and all other customers

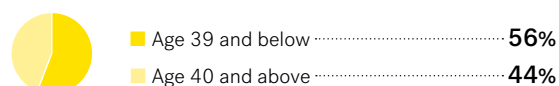
- Issuance of Japan's first credit card exclusively for non-Japanese individuals
- Launch of Japan's first securities business driven by credit cards

### MARUI GROUP's Basic Credit Philosophy

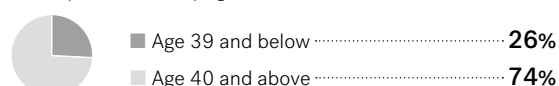
MARUI GROUP's basic credit philosophy—that credit-ability should be built together with customers—dates back to the Company's founding. Our credit framework does not entail assigning credit to customers, but rather involves setting a credit limit that is within their means and gradually increasing this 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 customers will be able to make payments and the cases in which a customer will likely become a credit delinquent. By combining our initial credit data, which has grown to the level of big data, with the credit monitoring data we have accumulated through co-creation with customers, we have been able to maintain the industry's lowest ratio of delinquent debt of 1.60%. Moreover, our rate of refusing to issue credit cards at stores is only 8%, compared to the industry average refusal rate of 24%.

### Cardholder Base Compositions of MARUI GROUP and the Industry

EPOS Cardholders by Age\*1



Industry Cardholders by Age\*2



EPOS Cardholders by Gender\*1



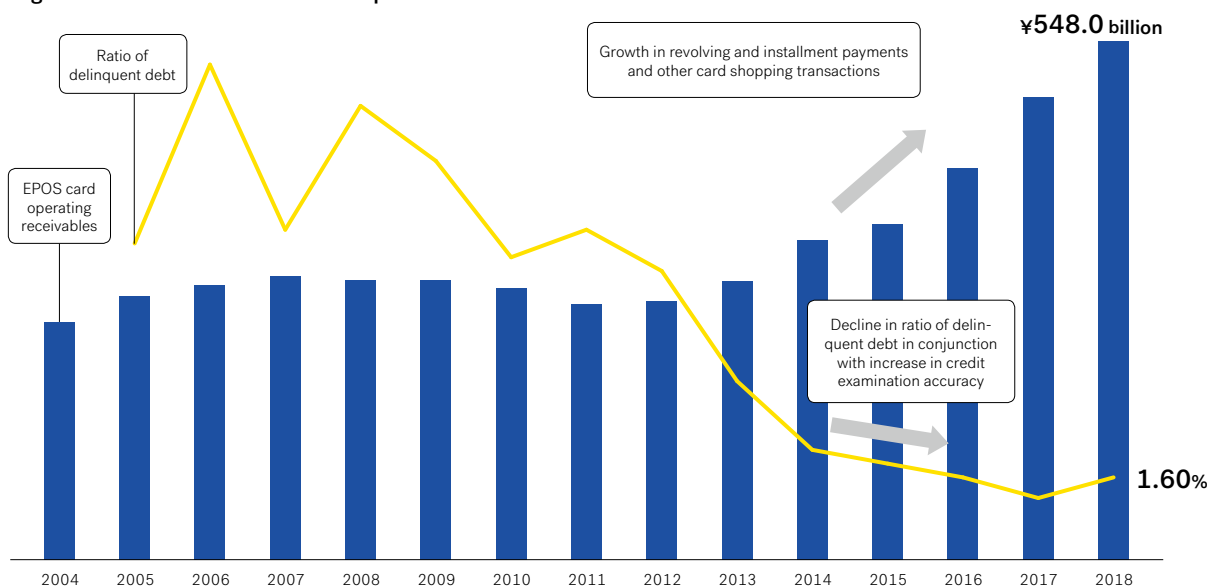
Industry Cardholders by Gender\*2



\*1 Active cardholder base

\*2 Source: *Consumer Credit Statistics from Japan (FY2017)*, Japan Consumer Credit Association

### High Growth and Low Ratio of Delinquent Debt





## Japan's First Securities Business Driven by Credit Cards

In its securities business, which is central to financial inclusion, MARUI GROUP aims to transform the concern younger generations harbor for the future into hope and to contribute to the drive to shift assets from savings to asset building. Our business model of integrating stores, credit cards, and the Internet will play an important role in developing this business. MARUI GROUP entered into this business from the completely different industry of retailing. We therefore aim to create a new wave in the securities business by incorporating ideas based on the customer's perspective.

### Backdrop for Entry into Securities Business

The goal of MARUI GROUP's securities business is to contribute to customer happiness and to a better society through cumulative investments. Our decision to enter into this business was prompted by the concerns for money seen largely among the younger generations. A public opinion survey conducted on people's lifestyles in June 2017 indicated that nearly 60% of people aged 18 to 39 are saving money, not for their life in the present, but for the future. This result indicates an increase in emphasis on preparation for the future among younger generations.

Meanwhile, the ratio of financial assets accounted for by cash and deposits in Japan is high and the rate of growth in private financial assets is low in comparison to other countries. In response to this trend, the Financial Services Agency is encouraging people to shift their assets from savings to asset building. Against this backdrop, MARUI GROUP sought a means of alleviating customers' apprehensions regarding money. After thoroughly examining the types of services that could be used to help customers build assets with peace of mind, we arrived at the decision to establish a securities company specializing in cumulative investment.

### Concerns of Younger Generations and Social Trends

#### Concerns of Workforce Members in Their 20s

No. 1	<b>Money</b>	<b>59%</b>
No. 2	Work	41%
No. 3	Marriage	32%

Source: Dentsu Communication Institute Inc., 2015

#### New Year's Resolutions of People Aged 20 in January 2017

No. 1	<b>Saving for the future</b>	<b>41%</b>
No. 2	Conserving money	34%
No. 3	Healthy habits	30%

Source: Visa Worldwide Japan Co., Ltd.

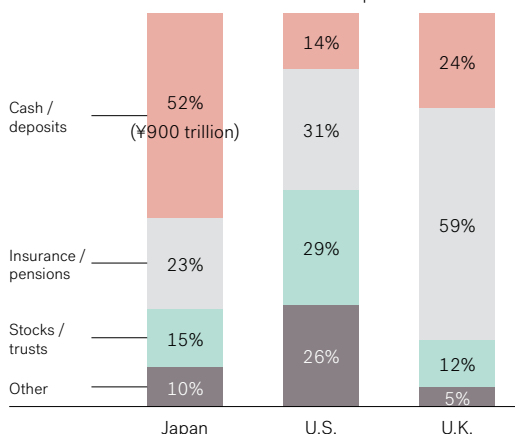
#### Reason for Lack of Interest or Unwillingness to Engage in Asset Management and Lending

No. 1	Perceived difficulty or lack of knowledge	60%
No. 2	Concern for losses	45%
No. 3	Lack of monetary leeway	39%

Source: Asset management survey of EPOS cardholders, 2016

#### Breakdowns of Private Financial Assets by Type

Financial Services Agency promoting asset formation using ¥900 trillion worth of cash and deposits



Sources: Flow of funds data, Bank of Japan, 2016

Progress and Assessment of the Strategic Directions and Priorities 2016-2017, Financial Services Agency, 2016

## Purchases of Tsumitate NISA Applicable Trusts with Credit Cards

Our securities company specializing in cumulative investment, tsumiki Securities Co., Ltd., provides services that allow for cumulative investments to be conducted through regular, fixed-amount credit card payments for purchasing investment trusts applicable under Tsumitate NISA that have cleared government standards. This business represents Japan's first scheme for purchasing investment trusts with credit cards. Monthly investment amounts may be set within the range of ¥3,000 to ¥50,000 per month. Investment payments are deducted from customers' bank accounts together with their monthly payments for shopping, and other purchases. Our goal is to grow this business to serve one million users and handle a balance of ¥1 trillion in assets within 10 years.

The growth of the credit card market is projected to be driven by e-commerce and recurring transactions going forward. Recurring transactions refer to ongoing payments, such as those for gas, electricity, water, and rent. EPOS cardholders that use their cards to make payments for such transactions are five times more likely to upgrade to Gold

cards, which are emblematic of their loyalty as customers. Moreover, when cardholders upgrade to a Gold card, their usage amounts increase greatly. Accordingly, even if the recurring transactions through the Tsumitate NISA scheme do not generate significant profits, this business model will still create substantial returns in terms of credit card revenues and other Groupwide revenues, with low upfront investment nonetheless.

Who	Younger generations and everyone else
What	Purchases of investment trusts applicable under Tsumitate NISA
How	Credit payment via EPOS cards (first scheme of its type)

### About Tsumitate NISA

Tsumitate NISA is a program commenced by the Financial Services Agency in January 2018 with the goal of promoting the shift from saving to investment. Characteristics of this program include the ability to start investments in small sums as annual investments are limited to ¥400,000, as well as the fact that taxes will not be applied to this program for 20 years and that all applicable investment trusts must clear certain standards, making them suited to long-term asset building. This program is thus designed to support younger and first-time investors in conducting long-term, cumulative, and dispersed investments.

## Collaboration between tsumiki Securities and nendo

The design for tsumiki Securities was created by nendo inc., an international design firm led by Chief Designer Oki Sato.

Judging that a major reason behind the concern regarding money and investment was a lack of transparency, nendo developed physical representations for the services of tsumiki Securities that resemble Japan's traditional luck charm. The goal of these representations is to draw a connection between asset building and a better fortune for oneself. By carrying these charms around or placing them in customers' living space, we hope to make customers feel at ease knowing that their future is secure.

The company name of tsumiki Securities, with *tsumiki* being Japanese for building blocks, itself is meant to symbolize its simple and easy-to-understand services, the process of building assets gradually and at one's own pace, and the idea of accumulating not just money, but also a more positive outlook.



### Oki Sato

Mr. Oki Sato is the chief designer and CEO of nendo inc. He was born in Canada in 1977 and received a Master of Arts in architecture from Waseda University in 2002. He established the nendo design firm in the same year. Mr. Sato has been included among the 100 most respected Japanese by *Newsweek* magazine and named designer of the year in numerous global design awards programs. Moreover, he has made appearances on Japanese television programs highlighting the work of professionals and the lifestyles of exemplary individuals with connections to countries outside of Japan. Mr. Sato has also published books on topics including design philosophy, problem solving, techniques for working faster, rejected projects, and how to adopt different perspectives.

**New Services Provided by tsumiki Securities**

Through cumulative investments, tsumiki Securities is a company that contributes to the happiness of all customers.

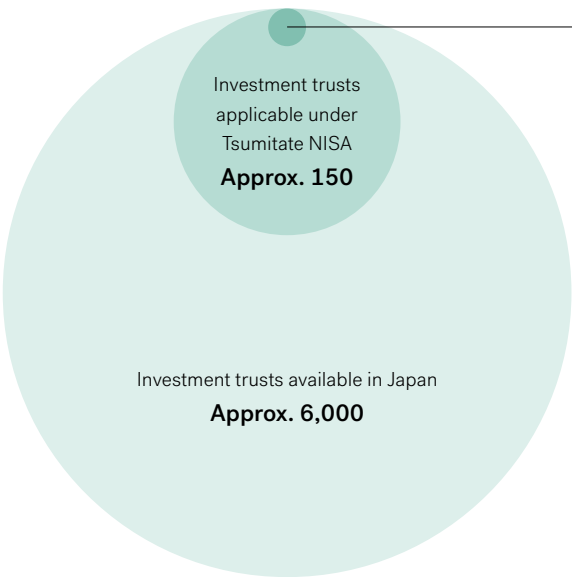
From among the approximately 6,000 investment trusts available in Japan, tsumiki Securities has handpicked four trusts to offer to customers: the Commons 30 Fund of Commons Asset Management, Inc., the SAISON Vanguard Global Balanced Fund and the Saison Shisan Keisei no Tatsujin Fund of Saison Asset Management Co., Ltd., and the Hifumi Plus Fund of Rheos Capital Works Inc. The fund management companies of each of these trusts share our vision and are committed to supporting customers in long-term asset building. These fund managers strive to act as close partners to their customers, communicating to them the importance of asset building and the benefits of long-term cumulative investments. Together with these three fund managers, we aim to encourage customers to shift their assets from savings to asset building during our interactions with them.



**Service Details**

- Monthly payments of ¥3,000–¥50,000
- One-time payments only (no interest payments or additional fees)
- Payments deducted together with shopping and other payments
- Points accumulated through payments

**Investment Trusts Offered by tsumiki Securities**



**Four Handpicked Trusts Offered by tsumiki Securities**

Fund manager	Trust name
Commons Asset Management, Inc.	Commons 30 Fund
Saison Asset Management Co., Ltd.	SAISON Vanguard Global Balanced Fund
	Saison Shisan Keisei no Tatsujin Fund
Rheos Capital Works Inc.	Hifumi Plus Fund



As of June 30, 2018



## Customer Joy Brought About through Cumulative Investments

Through tsumiki Securities, we offer services that enable customers to build assets for the future gradually, at their own pace, and with peace of mind through cumulative investments by purchasing Tsumitate NISA applicable trusts with fixed, monthly payments via their EPOS cards. Services were launched in August 2018 to help customers accumulate money for the future.

### 01 POINT

Application is easy and can be conducted through a smartphone. The simple user interface is easy to understand and use, even for individuals that are new to asset building.



### 02 POINT

Cumulative monthly payments are made via EPOS cards. Points are accumulated as an added bonus based on the amount of investments and number of years of ongoing use.



### 03 POINT

Services are available online and application support can be received at stores. Follow-up seminars and other services merging stores and the Internet are provided after application.



### 04 POINT

Physical representations of these services for asset building, which can be a source of concern, are offered that resemble good luck charms. Pick yours up at a Marui store and keep it with you.



Brand movie for tsumiki Securities  
[www.youtube.com/watch?v=VuQLSEqKY0c](https://www.youtube.com/watch?v=VuQLSEqKY0c) (Japanese only)





## Contributions to the Happiness of All Customers through Cumulative Investments

MARUI GROUP established tsumiki Securities as a securities company specializing in cumulative investment with the aim of addressing the needs of customers harboring concerns for the future pertaining to money or seeking to increase their assets with peace of mind.

The following is a discussion between the CEO and COO of tsumiki Securities, which commenced services in August 2018, in which they express their resolutions for this company going forward.

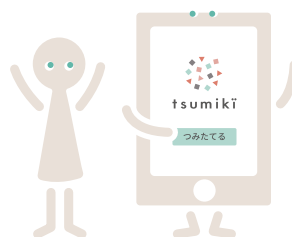
### Asumi Kantake

Representative Director and CEO  
tsumiki Securities Co., Ltd.



### Takeo Nakaki

Representative Director and COO  
tsumiki Securities Co., Ltd.





### Asumi Kantake

Representative Director and CEO  
tsumiki Securities Co., Ltd.

Ms. Asumi Kantake joined MARUI GROUP in 1997. After transferring from a store position to the Accounting Department, she was later involved in the establishment of management and business plans in corporate planning and finance divisions. In 2014, Ms. Kantake was appointed as the deputy store manager of Kokubunji Marui and was also put in charge of engagement with investors as the chief manager of the Investor Relations Department. She became the representative director and CEO of what is now tsumiki Securities in February 2018.

### Takeo Nakaki

Representative Director and COO  
tsumiki Securities Co., Ltd.

Mr. Takeo Nakaki joined The Mitsubishi Trust and Banking Corporation (currently Mitsubishi UFJ Trust and Banking Corporation) in 2001 and transferred to a foreign life insurance company before entering Sawakami Asset Management Inc. in 2004. At Sawakami, Mr. Nakaki rose to the ranks of vice president, a position in which he was responsible for promoting long-term investment across Japan. He became president of Union Asset Management Inc. in 2014 before taking up the position of representative director and COO of what is now tsumiki Securities in June 2018.

## Reason for MARUI GROUP's Entry into the Securities Business

**Kantake:** MARUI GROUP is motivated by its mission of promoting financial inclusion by providing financial services that can be used by everyone, regardless of their age or income. This was the reason behind our entry into the securities business.

**Nakaki:** When I first met President Aoi, he explained how MARUI GROUP had long been developing a credit card services business in which the Company built creditability together with young adults and others who had not yet established their own credit ratings. He also expressed his desire to provide asset building services that transform the concerns that younger generations have for the future into hope. This dedication to the securities business filled me with excitement. I spent 15 years at independent fund management companies, during which I attended seminars across Japan to network with long-term investors and speak with fellow fund managers. Colleagues that had begun gradual, long-term investment exhibited a clear sense of leeway as they had less concern for the future and felt they had access to a greater range of options in their life.

**Kantake:** Roughly half of MARUI GROUP's customers are in their twenties or thirties, and around 70% of them are women. When examining possible service offerings for the future, we solicited feedback from customers. This was when we learned about customers' significant anxiety for the future with regard to money. This anxiety resulted in most of them turning to savings. However, everyone knows that savings do not grow. Looking to help such customers, MARUI GROUP sought to create services that would assist them in growing their wealth with peace of mind. We eventually arrived at the idea of cumulative investment.

**Nakaki:** The conventions of cumulative investment differ from those of the standard form of investment. For example, there is no need to intensely watch the stock market, trying to buy low and sell high. Rather, the convention of cumulative investment is just to continue steady investment, whether prices are high or low. Steadily investing in a trustworthy fund of a reputable management company will no doubt be an effective means of building assets over the long term. Cumulative investment could therefore be seen to be a "buy and forget" approach toward investment.



**I want to make cumulative investment based on confidence in the future a part of our culture. The idea of an economy driven by the money and trust of individuals is exhilarating.**

**Takeo Nakaki**

**Kantake:** The desire to save money usually has something more meaningful behind it, whether that be a special someone, a dream, or some other matter of importance. Cumulative investments are the best way to grow one's precious money with peace of mind.

### Japan's First Scheme for Purchasing Investment Trusts with Credit Cards

**Kantake:** There are a lot of people who assume you need a fair amount of on-hand funds to invest. At tsumiki Securities, we overturn this preconception by allowing cumulative investments to be made starting from as little as ¥3,000 a month via one's EPOS card. This system is a first for Japan. Once a month, funds are deducted from customers' accounts together with their usual payments, such as those for shopping or mobile phone bills, and users accumulate EPOS points based on the amounts and duration of their investments. By letting customers make payments with the EPOS cards they have become accustomed to, we hope to lower the hurdle people perceive when they think of investment.

**Nakaki:** If investments can be made in sums of ¥100 or ¥1,000, while it may be easier to start, it is common for people to stop after only a short time as the purpose of

those investments feels unclear. The most common amount for cumulative investments in trusts is ¥10,000, but this amount can feel a bit too high for those who are new to investment. The amount of ¥3,000 can be produced if one only adjusts their expenditures or gives up something small. This amount also gives investments a clear purpose, making it easier to commit to continue. I therefore see that this amount is just right. Monthly cumulative investments are a purchase, a purchase of a sense of security for the future so that one can live in the moment.

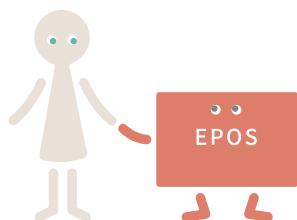
**Kantake:** The financial lexicon can be difficult to understand, and we have had a lot of trouble explaining financial concepts to customers in terms they can understand.

**Nakaki:** Communicating information in an easy-to-understand manner is important. I take care to provide simple explanations, using the Internet and other tools when appropriate. I do not expect customers that will be building assets through tsumiki Securities to study or understand difficult financial terms. Rather, I want to communicate to these people the effectiveness of cumulative investments, how to incorporate these investments into one's life, and the attitude to be taken toward investments. I also want to teach them how to be more prudent in their use of money.

**Kantake:** We also try to provide a venue for asking questions that cannot be easily answered via the Internet by means of our stores. Here, customers can ask about product selection, contract terms, or even how to view our websites. We thereby support customers through a two-pronged approach using both the Internet and physical venues.

**Nakaki:** The representatives of the fund managers we have partnered with all share similar sentiments regarding the importance of face-to-face explanations. No matter how functional and convenient the Internet may become, it cannot replace the passion and dedication that fuel the effectiveness of face-to-face explanations. Of course, we are taking steps to provide support via the Internet that comes closer to what you would get at a physical store.





## Meaningful Social Contributions through Investment

**Kantake:** Our securities business provides services designed to accumulate money for customers' futures. As such, our own reputation is called into question. We have selected four funds to offer, all of which are operated by fund managers that explain the benefits of long-term cumulative investments to customers in the same terms as we do. This narrow selection was chosen in response to customers who stated that, while they wanted to begin asset building, there were too many options for them to choose from with the hope of making this choice easier for them. Furthermore, as these funds have met the government's criteria for being applicable under the Tsumitate NISA program, they can be utilized with peace of mind even by customers that are new to asset building, are overly busy, or are apprehensive toward investment.

**Nakaki:** That is why it is ideal for the fund management companies we partner with to be those that customers can familiarize themselves with. We therefore selected funds that were worthy of our trust through careful evaluations from both quantitative and qualitative perspectives. The criteria for these evaluations included (1) how compelling their philosophy is, (2) whether they are working to continually improve their performance, and (3) if they actively engage with their customers. I believe that our investment trust business is the ultimate sharing business. In the investment trust business, the money received from customers is channeled through sales companies, tsumiki Securities in our case, to trust funds of management companies and then to companies boasting value. The last step of this cycle sees returns being made to customers through the business activities of those companies. The resulting cycle creates a business that is beneficial for customers, the sales company, fund managers, the companies in which investments are made, and society. Moreover, returns are shared in this business, which is sustainable over the long term. There are still very few sales companies and fund managers that have fully embraced this model. As a forerunner in this area, I hope to promote the spread of cumulative investment.



**Our securities business provides services designed to accumulate money for customers' futures. As such, our own reputation is called into question.**

**Asumi Kantake**

## Improvement of Overall Corporate Value by Utilizing Management Resources

**Kantake:** Tsumitate NISA is an offering designed with the customer in mind. This is illustrated by the fact that it has no trust sales commissions and low trust fees. Many companies are choosing not to take advantage of this program because of its low profitability. MARUI GROUP, meanwhile, is proactively utilizing this program because it represents an opportunity to fully utilize its management resources, such as its stores, IT systems, human resources, and affiliates, and because it boasts a customer base consisting of 6.6 million EPOS cardholders.

**Nakaki:** One will be compelled to purchase an offering when the lifestyle that offering proposes resonates with them. Investment trusts can be seen as one such offering. Furthermore, exercising the full potential of MARUI GROUP requires the strength of individual employees. It is when a charismatic employee devotes themselves to serving a single customer and contributing to their happiness that we will be able to provide services that are truly tailored to individual customers. The ability to make proposals that resonate with customers I sensed in MARUI GROUP's employees after joining the Company is something I feel that we can leverage to its fullest.

**Kantake:** Encouraging customers to engage in cumulative investment over the long term will also contribute to long-term use of EPOS cards. MARUI GROUP's securities business is therefore incredibly meaningful to improving the Company's corporate value.

## MARUI GROUP Employees Supporting the Securities Business

**C**reating something completely new is a difficult but enjoyable task. The new securities business is an unprecedented undertaking. I therefore strive to make proposals I can feel confident in based on data-backed hypotheses. Customers' needs regarding money vary from person to person. By proposing events, experiences, and opportunities for communication to help customers gain knowledge and peace of mind regarding money, I hope to alleviate their concerns for the future and help them feel at ease in their daily spending.

### Masahiro Uchida

FinTech Business Development Department,  
Epos Card Co., Ltd.  
Qualifications: Securities sales representative



**A**fter being involved in space production and corporate planning, I found myself at tsumiki Securities helping to start up MARUI GROUP's securities business. This company was born out of the collective strength of individuals with various backgrounds and skills from inside and outside of MARUI GROUP. In addition to these individuals, we also receive a lot of support from those around us. As such, our efforts cannot be defined in terms of our company. They rather take form through the cooperation of everyone involved. Valuing long-term relationships with customers, I hope to contribute to developing a business that builds a community of similar ideals.

### Soichiro Tanaka

Customer Engagement Department,  
tsumiki Securities Co., Ltd.  
Qualifications: Securities sales representative  
Financial planner



**T**he never-before-seen scheme of purchasing investment trusts through credit card payments is something that only MARUI GROUP could create. I aim to play a part in satisfying the customers of tsumiki Securities to help this company attract more customers and turn their concerns for the future into hope. My contributions will be made in the systems division supporting its platform by ensuring the stable operation of its systems as I also make new proposals.

### Hisao Imura

Customer System Development Department,  
M & C SYSTEMS CO., LTD.  
Qualifications: Information Technology Passport Examination  
Personal information manager



**L**earning about the importance of asset building in a society of increasingly long lifespans, I sought to address this issue. Using the customer service skills I acquired through my retail experience, I aspire to become an employee that customers feel comfortable consulting with. I thereby want to make tsumiki Securities into a company that values an un-finance-like atmosphere, in a good way, and that wins the support of younger generations and everyone else.

### Kiyomi Minamiyama

Women's Shoes,  
Yurakucho Marui,  
MARUI CO., LTD.  
Qualifications: Financial planner



**P**eople are increasingly being motivated to support companies that contribute to society. I chose to participate in the securities business with the goal of providing an outlet for this desire to contribute. I also wanted to help with the first step of people becoming aware of the appeal of such supportive investments, which can address concerns regarding money. Rather than financial advice, in this business it is more important to provide personal advice. I therefore aim to create services that cater to the needs of each individual customer and that are accessible anywhere.

### Miku Yamanaka

FinTech Business Development Department,  
Epos Card Co., Ltd.







When participating in a financial planner education program, I learned that many feel concerns regarding money but do not know how to address these concerns. This realization filled me with a desire to share the knowledge I had gained through the program with these individuals. I therefore aim to transmit various information that is of interest to customers to encourage them to make their first investment through tsumiki Securities.

#### Reika Sakuma

FinTech Business Development Department,  
Epos Card Co., Ltd.  
Qualifications: Securities sales representative  
Financial planner

It is common for people to feel aversion toward finance and securities. It is my job to help such people take their first step into these fields. I am currently enjoying the process of asking customers about their needs at discussion forums and finding means of addressing these needs. By creating the services that win the support of lots of customers, I hope to help build a society in which people can feel at peace and optimistic when thinking about money and the future.

#### Mai Demura

Customer Engagement Department,  
tsumiki Securities Co., Ltd.  
Qualifications: Securities sales representative



I aim to link customers to tsumiki Securities and thereby foster understanding of the ease and importance of asset building to the point that customers begin spreading the word of how tsumiki Securities is the choice for asset building. In the future, I plan to branch out from investment trusts to research other investment products that might be useful to our customers in order to create even more services that can be accessed through credit cards as a Japan first.

#### Tatsuya Oguma

Operation Department,  
tsumiki Securities Co., Ltd.  
Qualifications: Securities sales representative



I think the large number of younger customers for whom their EPOS card is their first card is a powerful asset for MARUI GROUP's securities business. I was working at a store until just recently. With the faces and voices of the customers I served at my store in mind, I will strive to foster a community that blurs the lines between customers and employees as we learn about finance together.

#### Yuuto Sakuma

FinTech Business Development Department,  
Epos Card Co., Ltd.  
Qualifications: Securities sales representative

As part of an overseas dispatch seminar, I had the opportunity to observe Nordic societies. This experience made me realize the need for asset building frameworks to support life security in Japan. At tsumiki Securities, my job, of course, involves providing financial insight. More important, however, is to develop an understanding of customers' concerns by speaking with them and then find ways to alleviate these concerns. I want to help create a society in which everyone is able to use their money to achieve self-actualization.

#### Hiroyuki Kasugai

Women's Purses,  
Shinjuku Marui Main Building,  
MARUI CO., LTD.  
Qualifications: Financial planner



# Profession Change System for Fostering Empathy and Innovation

MARUI GROUP's profession change system is a unique human resource system that is shared throughout the Group and that allows for relocations between the Company and 11 Group companies. This system enables employees to experience a wide range of businesses, including retail at stores, IT, logistics, and credit card services through a program that is almost like changing one's profession. As of April 1, 2018, approximately 2,200 employees, or 43% of our entire employee base, had undergone profession changes.



After joining MARUI GROUP, all employees are first appointed to positions such as sales floors to allow them to experience face-to-face interactions with customers. This is done to foster a capacity for empathy—the ability to comprehend the position of others and build shared understanding to be more sympathetic to them—by having them engage with customer needs first-hand. Once this capacity has been cultivated, they are allowed to experience various professions in order to develop a propensity for innovation, which will inspire them to enjoy differences and changes and drive them to autonomous action. Moreover, being placed in a new profession can enable employees to escape preconceptions. Such transitions thus contribute to the growth of the employees undergoing profession changes as well as to transformations in the new workplaces in which they are placed. Through this profession change system, 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.

By experiencing various professions, employees develop a propensity for innovation that inspires them to enjoy changes and drives them to autonomous action.

Employees experience face-to-face customer service at MARUI CO., LTD., sales floors, and other positions to foster a capacity for empathy by engaging with customer needs.

All employees first join MARUI GROUP CO., LTD.

Share Groupwide

Human resource and salary systems

Work hours

## Profession Changes through Shared Human

OIOI  
Retailing

AIM  
AIM CREATE  
Space Production,  
Commercial Facility Management,  
and Advertising

M&C  
SYSTEMS  
IT Systems

OIOI HOME SERVICE  
Real Estate Rental

EPOS  
Small-Amount Short-Term  
Insurance Policy Business

OIOI Kit Center  
Support for Group Companies

### Platform Supporting





Employees that embody a customer-first mentality and are adept at responding to change enact proposals from a Groupwide perspective.



Human resources with a capacity for empathy and a propensity for innovation make proposals that are not bound by industry conventions or preconceptions.

## Made Possible Resource System



FinTech



Apparel Distribution  
Internet Sales Support

## MARUI FACILITIES

Total Building Management



Loan Collection



Securities Business

# OIOI

## MARUI GROUP

### Ratio of Employees Changing Positions between Group Companies

# 43%

Aggregate total from April 2013–April 2018  
(Excludes officers and managers)

### Percentage of Employees Who Experienced Personal Growth after Profession Change

# 86%

According to the results of a survey carried out  
in November 2016

## Profession Changes

Welfare systems

Labor union

Health insurance  
union

## Post-Professional Change Monitoring

- Self-declaration system allowing employees to declare the professions and divisions in which they are interested in working (twice a year)
- Opportunities for discovery for employees who have changed their profession as well as their new colleagues

# Cultivation of an Organization That Creates Innovation through Diversity

MARUI GROUP believes that, when its approximately 6,000 unique employees are accepting toward one another and able to merge their values, it will be able to cultivate a corporate culture that is conducive to innovation. Promoting diversity has been defined as one of the strategies of the medium-term management plan launched in the fiscal year ended March 31, 2015, and we are therefore pursuing diversity with regard to individual talents, gender, and age. A distinctive characteristic of our diversity initiatives is our Groupwide project teams, which recruit members through open application and in which any employee may volunteer to participate. Rather than division, age, or position, members are selected based on essays. These members discuss various themes that are important to Group management.

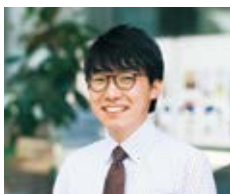


## Groupwide Project Teams Engaged in Deep, Forward-Looking Discussion

MARUI GROUP has established four official project teams that engage in deep, forward-looking discussion on themes that are related to the Company or society as a whole from a medium-to-long-term perspective. After participating, members utilize the knowledge and ideas they gained to formulate and implement action plans for incorporating this insight into the business, procedures, or other aspects of their workplace. Project members are changed on an annual basis, producing a new set of autonomous employees with increased knowledge and awareness each year and thereby cultivating a corporate culture emphasizing autonomous thought and action.



### Message from an Employee



**Natsuki Yano**

Sustainability Project Team Member  
Women's Shoes,  
Yurakucho Marui,  
MARUI CO., LTD.

Through my participation in the Sustainability Project Team, I gained a clear idea of the inclusive society we envision for the future. I feel strongly that addressing poverty, environmental, and other social issues will become a core element of the business and the growth of MARUI GROUP going forward. In the future, I want to engage in co-creation with everyone on the planet. I hope to create innovation within MARUI GROUP that will be more impactful and that will spread across the globe.



**Marui Future Project Team**

Launched in 2011, the Marui Future Project Team is currently discussing concrete ideas for bringing joy to all customers through products and services.



**Diversity Project Team**

Created in 2015, the Diversity Project Team now promotes the development of a comfortable workplace that is conducive to innovation with a focus on the diversity of individual talents and ages.



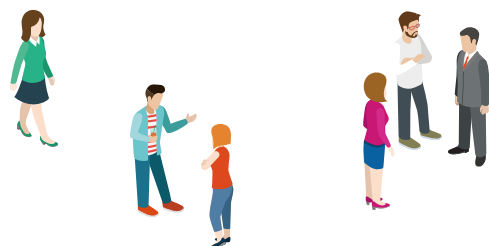
**Healthcare Promotion Project**

Established in 2016, the Healthcare Promotion Project is working toward its vision of ensuring that 100% of employees can proudly proclaim they are healthy in 2050.



**Sustainability Project Team**

The Sustainability Project Team was created in 2018 to form a vision for MARUI GROUP in 2050 based on a broad perspective examining various scenarios for the future.





## Medium-Term Management Visionary Committee Receiving 1,000 Applications for Participation with Each Iteration

The Medium-Term Management Visionary Committee is a forum for discussing various topics that will be important to the future of Group management, which are selected from a long-term perspective. While this committee was previously only open to members of Group management, in January 2016 we made the committee open to any interested employee, and meetings have been held almost every month since. Active discussion is conducted among the roughly 300 members that are selected from the approximately 1,000 applications received for each iteration.



Employee Participants

**2,768**

(Approx. 50% of all employees)



## Committee Meeting Discussion Topics in 2017

Social environment as it pertains to MARUI GROUP and future outlook

Long-term operating environment changes and new growth initiatives

MARUI GROUP's ESG: Forward-Looking Initiatives for Transforming Our Main Business into a Socially Contributing Undertaking—  
Lecture by Abe Chiyo, Fumino Sugiyama, and Toshiya Kakiuchi

The Digital Industrial Revolution: Era of Redefining Industries—  
Lecture by Tak Miyata of Scrum Ventures

Innovation Creation Approach Apparent in Global Management Practices—Lecture by Professor Akie Iriyama of Waseda Business School

## Committee Meeting Discussion Topics in 2018

Corporate Strategies for Realizing a Sustainable Society—Lecture by Peter David Pedersen of PricewaterhouseCoopers Sustainability LLC

Hello! Miraijin—A Look at the Sensibilities of the Future

Singularity and Exponential Thinking: Characteristics of Companies and People That Can Survive in Volatile Times—Lecture by Kazunori Saito of Exponential Japan

Long-Term Operating Environment and Impact on MARUI GROUP—  
Lecture by Peter David Pedersen of PricewaterhouseCoopers Sustainability LLC

Joy Brought to Customers through Cumulative Investment—  
Lecture by Ken Shibusawa of Commons Asset Management, Inc., Haruhiro Nakano of Saison Asset Management Co., Ltd., and Hideto Fujino of Rheos Capital Works Inc.

# Work Style Reforms Creating a Venue for Contributions of All Employees

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 see a company as a venue for the contributions of all its employees. We are therefore cultivating a comfortable workplace environment in which all employees are accepting toward one another, regardless of their age, gender, lifestyle, or sexual preference, and that is conducive to innovation in order to create a venue in which all employees are able to grow and access opportunities.

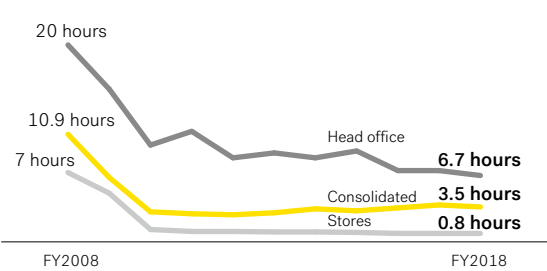


## Average Monthly Overtime Lowered to 3.5 Hours

MARUI GROUP began implementing work style reforms in 2008, and the Company now boasts one of the lowest levels of overtime in Japan as a result.

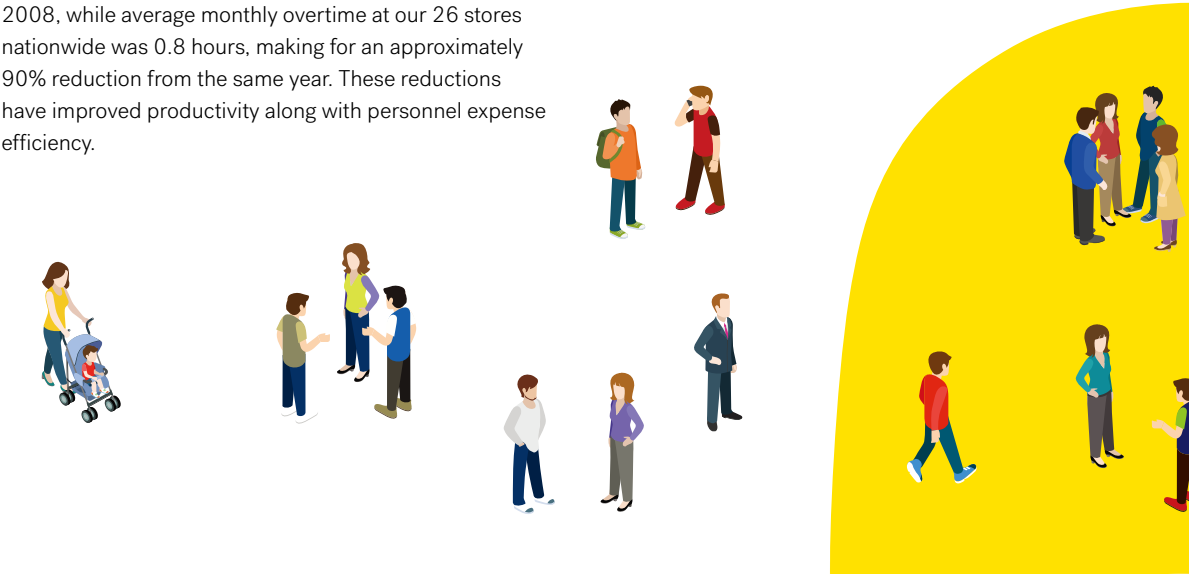
As part of these reforms, overtime reduction policies and targets have been set for each position and shifts are formulated systematically for stores using up to 50 working patterns defined in 10-minute increments. In addition, processes related to delivering and returning products to storage and other 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 3.5 in the fiscal year ended March 31, 2018, while average annual overtime hours decreased to 42. Average monthly overtime among head office employees was 6.7 hours in the fiscal year ended March 31, 2018, representing a roughly two-thirds reduction compared with the fiscal year ended March 31, 2008, while average monthly overtime at our 26 stores nationwide was 0.8 hours, making for an approximately 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	FY2018	Benefit
Average annual overtime hours per person	130 hours	42 hours	-88 hours
Total overtime payments	¥3.4 billion	¥0.8 billion	-¥2.6 billion
Employee turnover rate (excluding mandatory retirement)	6.8%	2.3%	-4.5 ppt





## Healthcare Management 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 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. We are promoting healthcare management on a Groupwide basis. 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 2016 and to be included in the Excellent Enterprise of Health and Productivity Management—White 500 for two consecutive years beginning with 2017. Furthermore, MARUI GROUP was the only retail industry company included in the 2018 Health & Productivity Stock Selection.

In March 2018, we began encouraging employees to take Japan's healthcare master certification test to improve health literacy. To date, approximately 1,000 employees have applied to take this test. A resounding 97% of all test takers have stated that studying for the test spurred changes in their awareness or behavior. MARUI GROUP is committed to advancing healthcare initiatives in terms of both systems and its corporate culture going forward.



## 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<br>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<br>Started holding self-care training sessions for all employees<br>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<br>Incorporated new healthcare management items into labor agreements<br>Established outside advisory board and began analyzing healthcare management practices and data<br>Formulated Groupwide Healthcare Management Project Team |
| 2017 | Established MARUI GROUP Occupational Health and Safety Policy and declared Companywide commitment to improving occupational health and safety and advancing voluntary initiatives to this end  |
| 2018 | Appointed chief health officer   |



### Message from an Employee



**Tomohiro Niikura**

Health Management Division  
MARUI GROUP CO., LTD.

Encouraging employees to exercise autonomy in improving their own health has proven beneficial for improving life and exercise habits. These efforts have also led to a big increase in employees' self-efficacy, which refers to their confidence in their own abilities. I anticipate that these benefits will have a positive impact on invigorating our people and organization. I also expect that this energy will become a driving force accelerating our growth.

# Revision of Evaluation Systems and Desired Characteristics in Employees

MARUI GROUP seeks to help create a flourishing and inclusive society offering happiness to all. We recently revised our human resource evaluation systems and the desired characteristics we look for in employees based on our corporate philosophy and our vision for the future of MARUI GROUP. This revision was based on discussions with employees and students scheduled to join the Company.

## Evaluation Systems Revised Based on Discussion among Employees

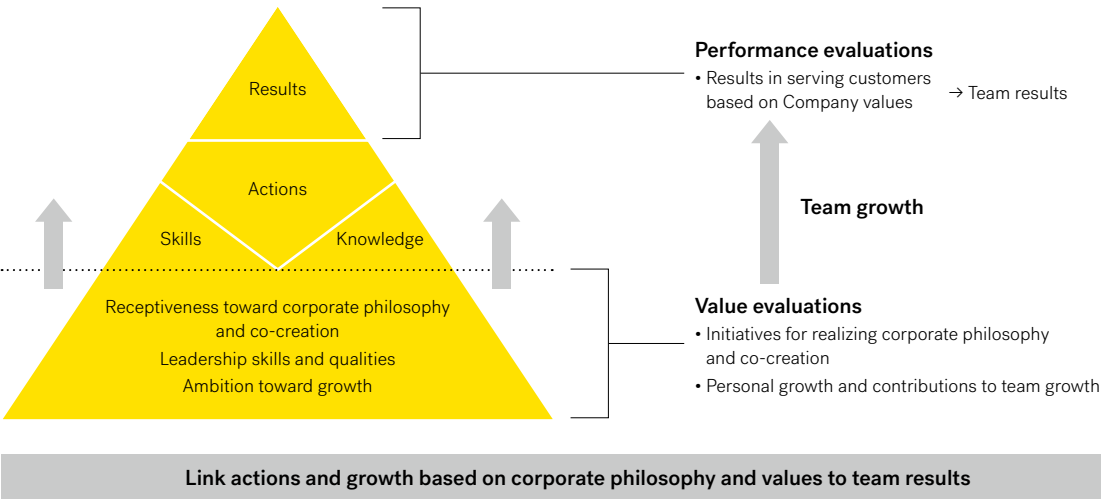
In October 2017, MARUI GROUP revised its personnel evaluation systems to assess employees based on value evaluations and performance evaluations. The revision process was initiated in December 2015 with the establishment of a Groupwide committee tasked with examining the possibilities for new human resource and evaluation systems. This committee has held discussions on the implementation of these systems and their quantitative and qualitative targets with an aggregate total of approximately 2,900 employees.

Value evaluations assess the self-guided actions of employees based on the Company's corporate philosophy and values. Through these evaluations, we aim to develop strong organizations. These organizations should not simply focus on how to achieve the targets handed to

them at the beginning of each year. Rather, they should create new ideas and pursue lofty goals to respond to social change and customer needs. These evaluations will be conducted from various perspectives, through self-evaluations and evaluations by supervisors, coworkers, and subordinates, based on the desired characteristics defined for each position. A goal of involving all employees in evaluations is to encourage employees to take interest in the work habits of others, to think together, and to engage in more active communication.

Performance evaluations look at the results created by teams as opposed to by individuals. We hope that these evaluations will help us develop an organization that makes use of diversity and in which employees coordinate their differing strengths and compensate for their shortcomings, teach each other, and continue growing as teams dedicated to serving customers.

## New Personnel Evaluation Systems



Desired characteristics we look for in employees

[www.0101maruigroup.co.jp/recruit/2019newgraduate/recruit/personality.html](http://www.0101maruigroup.co.jp/recruit/2019newgraduate/recruit/personality.html)  
(Japanese only)



## Human Resource Systems for Utilizing Diversity

In September 2017, labor agreements were updated to include a clear declaration that individuals are not to suffer discrimination on the basis of sexual identity or sexual orientation. Moreover, an internal helpline was established to allow employees to receive consultation with regard to LGBT issues related to work, themselves, or their families. This helpline added to the previously existing external helpline. In addition, the scope of application of human resource systems pertaining to spouses was expanded in April 2018 to include spouses from legal marriages as well as spouses from common-law marriages and same-sex partners. In conjunction with this change, the word "spouse" was replaced with "partner" in these systems. This change was applied to leave, compensation, welfare, and other systems.

## Desired Characteristics of Understanding and Innovation

We have redefined the desired characteristics we look for in employees to include capacity for empathy and a propensity for innovation. A capacity for empathy refers to the ability of employees to adopt the viewpoints of our various stakeholders to understand their thinking and their pain. This understanding gives rise to the propensity for innovation that drives our employees to seek resolutions to the issues faced by customers, society, and the environment. All MARUI GROUP employees should strive to develop these characteristics to support the Company in practicing co-creation sustainability management.

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### Message from an Employee



**Moe Yamashita**

MARUI GROUP CO., LTD.  
(Joined in April 2018)

I feel that working as a member of society is a way to repay one's debt to society and the people around them. MARUI GROUP's corporate philosophy aligned with my view. MARUI GROUP is a company aimed at creating innovation that goes beyond the boundaries of industries or positions. My decision to join was based on the belief that this aspect of the Company will ensure it is always necessary to society, no matter how times may change. I hope to experience lots of professions to gain the skills needed to leave an impression on all the customers I help.

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### Message from an Employee



**Takuma Ishikawa**

MARUI GROUP CO., LTD.  
(Joined in April 2018)

The goal of my job hunt was to find a position where I could be of help to people. I decided on MARUI GROUP because of how its corporate philosophy matched this goal. During my job hunt, I was reminded of the truly large number of friendly and understanding people working at MARUI GROUP. I believe that I possess the capacity for empathy the Company seeks, but I still lack the propensity for innovation. I therefore aim to acquire this trait as I work going forward.





# Unique Integrated Group Management Enabling Co-Creation Sustainability Management

MARUI GROUP's integrated Group management has given rise to the profession change system, project teams encompassing employees of all ranks, and various other new initiatives and businesses. The following is a discussion between Masao Nakamura and Toshikazu Takimoto, the segment representatives who underwent MARUI GROUP's most prominent profession changes, and Junko Tsuda and Miyuki Kawara, who are knowledgeable on the start of Groupwide project teams. These individuals discuss the potential for MARUI GROUP to create further innovation through its practice of integrated Group management.



### Realization of Integrated Group Management through Adoption of Pure Holding Company System

**Nakamura:** President Aoi took the helm in 2005 and we adopted the pure holding company system in 2007. Prior to that, we used an operating holding company system in which MARUI CO., LTD., led the retailing business while housing corporate functions. Hiring was performed by individual operating companies.

**Takimoto:** In 2003, each business established its own sales company, which engaged in relentless sales activities to create higher numbers to tally. The result was a corporate culture that was counteractive to employee happiness and growth. In the past, we had a system in which all employees were hired by MARUI CO., LTD. Today, it feels like we have finally returned to those days.

**Kawara:** The atmosphere was more hostile at that time. The person who sold the most would be the most highly evaluated and receive the highest salary. Rather than helping or teaching others, everyone was preoccupied with their own interests. I remembered when President Aoi wrote a letter to all employees in 2007. This letter explained the reason behind the transition to the pure holding company system and the sentiments that had been incorporated into the corporate philosophy. The letter described a corporate culture in which employees and businesses worked and grew together. This culture has finally been achieved.

**Tsuda:** The attitude within the Company has undergone a 180-degree turn. Today, employees have a strong commitment to developing their businesses as a member of the Group, a stark contrast to the past obsession with heightening individual skills and results.

**Nakamura:** In the past, we had also hired everyone through the same company. However, it was a bit different in that when you were placed in a specific field, products or systems, for example, you would stay there until retirement. These specializations were kind of like separate operating companies. Today's system feels like we returned to that point and then took a step in the right direction.

### Profession Changes as a Wellspring for New Ideas

**Nakamura:** Currently, 43% of our employee base has undergone profession changes by being relocated to a different Group company. The profession change system was launched around 2007, when we began co-creation activities with customers. Those of us on the sales floor at that time had each developed our own image of customers, and nothing short of a profession change would have enabled us to change our thinking.

**Kawara:** The greatest benefit of my profession change was that, by expanding my network and subsequently broadening my perspective, I was able to come up with new ideas. I was recently transferred from Epos Card Co., Ltd., to a retail position. After this change, I began to naturally link ideas related to retailing, FinTech, and technologies in my mind. Profession changes truly are a wellspring of new initiatives to be enacted by overlapping the strengths of the Group.

**Tsuda:** I agree completely. I spent a number of years in retail. However, after experiencing positions in purchasing and sales promotion and later store management and new business development, my range of knowledge became substantially more varied. In these different positions, I have formed an ever wider network with



**Junko Tsuda**

Executive Officer  
Director and Store Manager,  
Marui Family Mizonokuchi,  
MARUI CO., LTD.

**Masao Nakamura**

Director and Managing Executive Officer  
Responsible for FinTech Segment  
President and Representative Director,  
AIM CREATE CO., LTD.

**Toshikazu Takimoto**

Managing Executive Officer and  
Chief Information Officer  
Responsible for Retailing Segment  
President and Representative Director,  
M & C SYSTEMS CO., LTD.

**Miyuki Kawara**

Executive Officer  
Director and Store Manager,  
Ueno Marui, MARUI CO., LTD.



business partners, community members, and other outside individuals. This has given me confidence in new undertakings. The value to be found in these reciprocal relationships is multifaceted and something that other companies cannot imitate.

**Nakamura:** In 2017, Mr. Takimoto and I switched places; I assumed his role in leading the FinTech segment and he took over my position of heading the Retailing segment. This change left a strong impression on people both inside and outside of the Company. As we were in the midst of encouraging people throughout the Group of all ages to undergo profession changes, I felt that this symbolic swap of the representatives of the Retailing and FinTech segments would send an important message to the rest of the Company.

**Takimoto:** In my case, I did not feel that this relocation would put me in a completely unfamiliar position, as I had held positions in sales, sales promotion, and planning in the past. However, after the change, I immediately recognized possibilities for EPOS cards that had eluded me previously as well as new initiatives we could implement from a retailing perspective. I have no doubt that this change was a positive development for the Group.

**Nakamura:** After switching positions with Mr. Takimoto, I found myself working together with him more often as we sought means to further integrate retailing and FinTech. Come to think of it, we have had a past of such switches. Yoshinori Saito, current president and representative director of Epos Card Co., Ltd., used to be a director of MARUI CO., LTD., and Hajime Sasaki, current president and representative director of MARUI CO., LTD., was previously a director of Epos Card Co., Ltd. In the future, I look forward to periodically changing positions so that I can make new discoveries to incorporate into new initiatives for the Group.

### Groupwide Project Teams Allowing Exchanges between Employees of All Ages and Ranks

**Takimoto:** Even if we have allowed for intra-Group profession changes, it did not change the fact that almost all MARUI GROUP employees join right out of university and are cultivated in the same environment. There was thus a need for further change in our corporate culture.

**Tsuda:** I think it was in 2013 when we decided to establish Groupwide project teams that examine important management themes through a bottom-up approach

with management acting in a supportive role. These project teams drove steady change in our corporate culture and atmosphere.

**Kawara:** Project teams assemble members from all businesses of all ages and ranks, and members are able to voice opinions without concern for hierarchy. I therefore believe that these meetings provide good stimulation for all in attendance. Those of us representing management are also made aware of previously elusive insights regarding the future through the opinions of new employees.

**Tsuda:** Whether participating in Groupwide project teams or changing professions, the decision is based on employee volition, and these undertakings allow for discussions that transcend rank to give rise to new ideas. When I think about it, our efforts to reduce overtime and the healthcare management initiatives of today can be traced back to the Work Style Project Team formed in 2008 to involve younger employees in discussions with management. These efforts have gradually led to more proactive thinking, evolving into the quest to make employees healthier and more energetic in their work.

**Kawara:** The first task of the Diversity Project Team was supporting female employees working shortened hours for childcare purposes, which entailed entrenching an evaluation process that looked at the quality of output as opposed to the length of work hours. Another facet of these efforts was to encourage male employees to get involved in childrearing. As men taking childcare leave became commonplace, the project team's activities evolved to the current focus on building lifestyles that empower employees in their private and professional lives and contribute to higher productivity.

**Nakamura:** In the past, there were many who simply did overtime to match the work hours of their supervisors. Today, we evaluate people based on their accomplishment of goals and their exercise of the corporate philosophy. It has therefore become important to think about how to create results without overtime.

**Takimoto:** I want to eliminate unnecessary work to give people more time to think about customers and human resource development. Profession changes can be good experiences. However, employees can find themselves needing specialized knowledge at companies like M & C SYSTEMS CO., LTD., and in businesses such as credit card services. This need and the fast pace of progress mean that significant study is necessary to compete in these areas.



**Kawara:** It is also important to get enough sleep and exercise and to eat right in order to deliver the best performance. These healthy habits help you clear your mind and can give rise to new ideas. Healthcare management has formed the foundations for such habits.

**Nakamura:** Health is crucial to creativity in work, and innovation is impossible without such creativity. In this manner, the positioning of health has not always matched its fundamental purpose.

### DNA of MARUI GROUP Attracting Younger Generations

**Kawara:** A major strength of MARUI GROUP is employees who find happiness in helping others. This fact is readily apparent if you take a step outside of the Company. I therefore think that the idea of inclusion, or not excluding anyone, is a perfect match for us. Identifying issues as we seek out those who are troubled and resolving these issues through our business is a process sure to create innovation.

**Takimoto:** Our growth up until now has been driven by providing joy to those who were at risk of being excluded and making them appreciate our existence. This quest is part of our very DNA. The securities business we launched in 2018 was a product of our desire to prevent

younger generations from being excluded from financial services. This undertaking is in line with our DNA. I hope that customers who start cumulative investments through Tsumitate NISA when young will be grateful that they used their EPOS card to partake in this program when they turn 60.

**Nakamura:** It used to be the case that new graduates were interested in specific businesses. Now, they seem to be drawn to our corporate philosophy. In addition, many state a desire to test the limits of their potential through profession changes in light of MARUI GROUP's wide range of businesses.

**Tsuda:** Younger employees were not at all resistant toward the profession change system, and this system has come to be recognized as an opportunity for growth. This system is now a normal part of our business, but to students it is a source of appeal. The cultivation of a culture of tackling new challenges contributes to growth for individuals and businesses while also nurturing the seeds of innovation.

**Nakamura:** At the moment, we are searching for means of growing the seeds of innovation into new businesses for the Group. By fostering a culture of tackling new challenges, I want to create an ecosystem in which the development of our people equates to development of the Company.

# Strong Support for Inclusion

## Inclusion Fes 2018—Co-Creation of Happiness for Everyone

The Inclusion Fes event has been held since 2017 to provide a venue for fostering awareness among employees and allowing them to experience their differences firsthand. The second iteration of this event took place in 2018. Over a three-day period, this event spread support for inclusion among the approximately 1,700 employees and family members that attended.



### Customer Diversity and Inclusion



Booths were set up that allowed attendees to use wheelchairs and otherwise experience the difficulties of differently abled individuals that are inconvenienced by our society together with such individuals, and booths for experiencing para-sports. We also planned forums for discussing life and lifestyles with members of the LGBT community and differently abled individuals that enabled participants to learn about their differences.



### Promotion of Diversity of Individuals' Talents and Ages



To give employees a glimpse of the diverse range of sensibilities found outside of the Company, lectures and panel discussions on the topics of conditions outside of the Group were held by former MARUI GROUP employees and employees seconded to other companies that are active outside of the Group. We also arranged business mixers with representatives from other companies to promote discussion with people from outside of the Group.

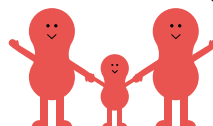


Tai chi workshops for relaxing the mind and body were conducted along with programs using the JINS MEME motion tracking glasses to teach participants about the deep world of meditation. In addition, special presentations were held on the RIZAP Method of exercise, and organic vegetables were sold to get people thinking about healthy eating. These events were meant to allow employees to experience health in terms of the body, mind, food, and everything else.

### Health of Body, Mind, and Everything Else



Inclusion Fes 2018 was planned and administered by members of Groupwide project teams based on themes of MARUI GROUP's future, diversity, and health.











O/O

# SUSTAIN MANAGE

## Co-Creation Sustainability Management

### CONTENTS

66	Medium-Term Management Plan
66	Basic Policy of the Medium-Term Management Plan
67	MARUI GROUP's Three Focus KPIs
68	Opportunities and Threats to be Faced over the Next Decade
70	Progress in Growth Investments
72	Dialogue 05: Future of MARUI GROUP Forged through Co-Creation with Start-up Companies
76	Retailing Segment
80	FinTech Segment
84	Message from the CFO
85	Target Balance Sheet
88	Shareholder Returns and Policies
90	Co-Creation Corporate Governance
90	Corporate Governance for Co-Creating Corporate Value
93	Messages from External Directors
102	Directors, Audit & Supervisory Board Members, and Executive Officers

# ABILITY MENT

### 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

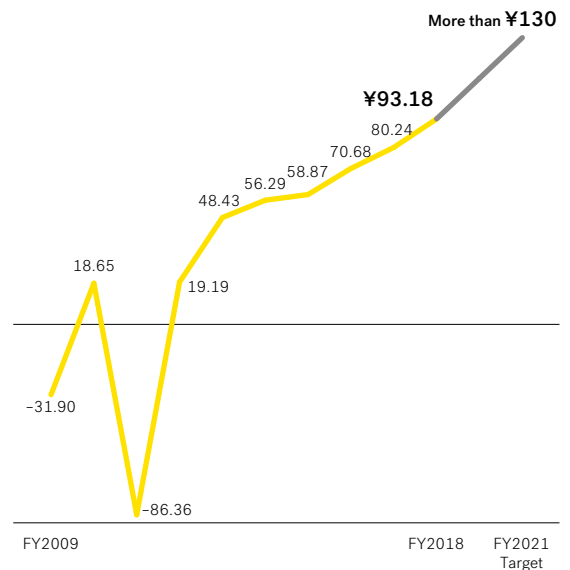


## MARUI GROUP's Three Focus KPIs

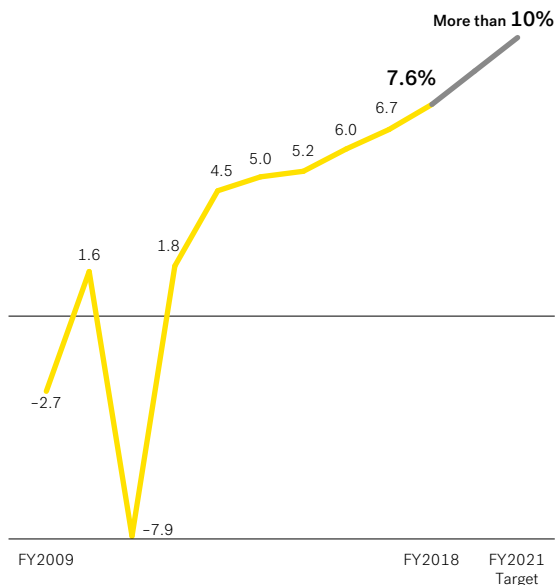
In line with the belief that all of its business assets are borrowed from society, MARUI GROUP identified three key performance indicators (KPIs) for gauging Groupwide performance beginning with the fiscal year ended March 31, 2017. These KPIs include earnings per share (EPS) and return on equity (ROE),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

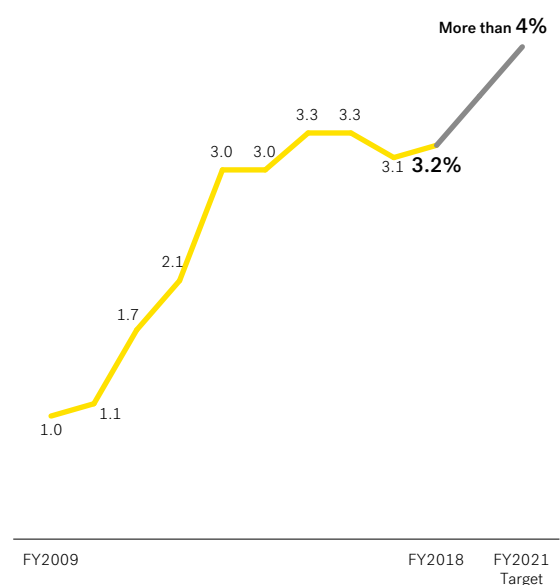
### Earnings per Share (EPS)



### Return on Equity (ROE)



### Return on Invested Capital (ROIC)



## 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

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



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.

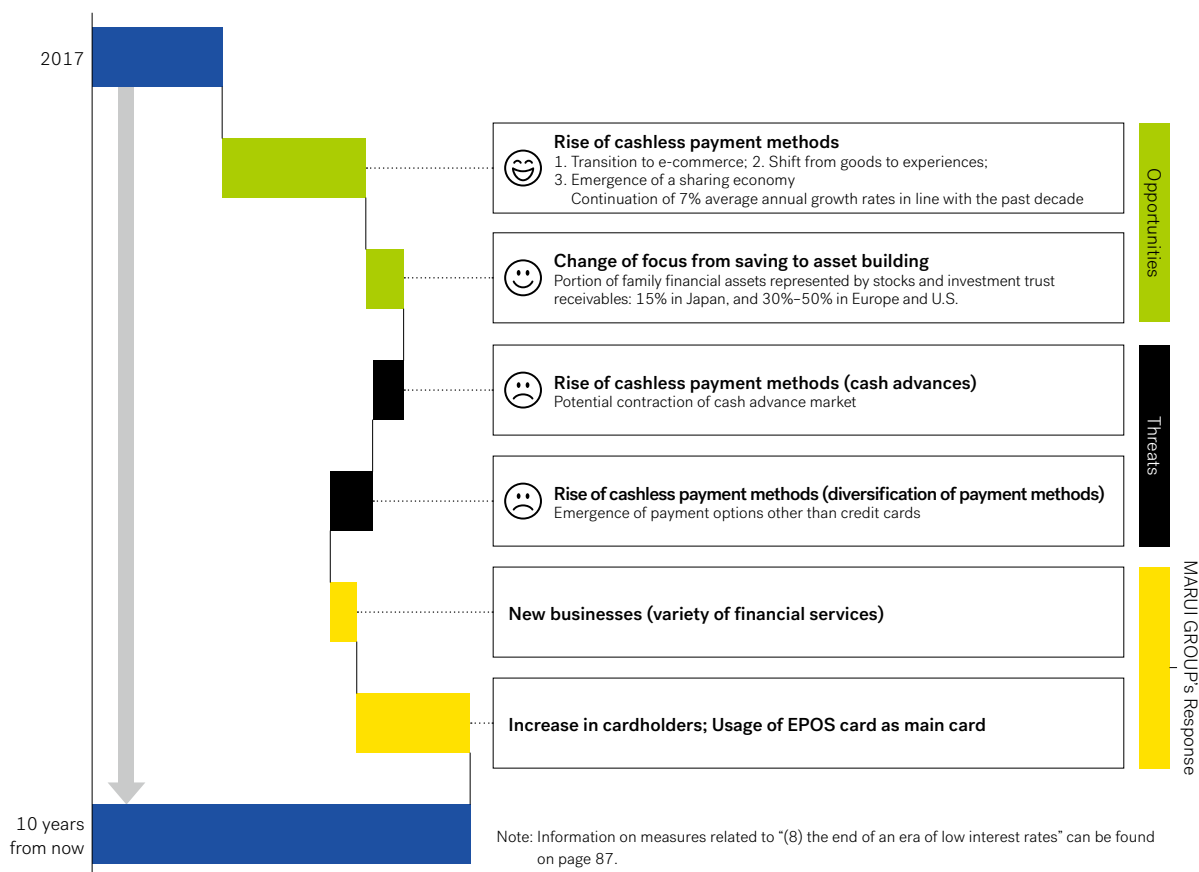
### Response to the Rise of Cashless Payment Methods

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.

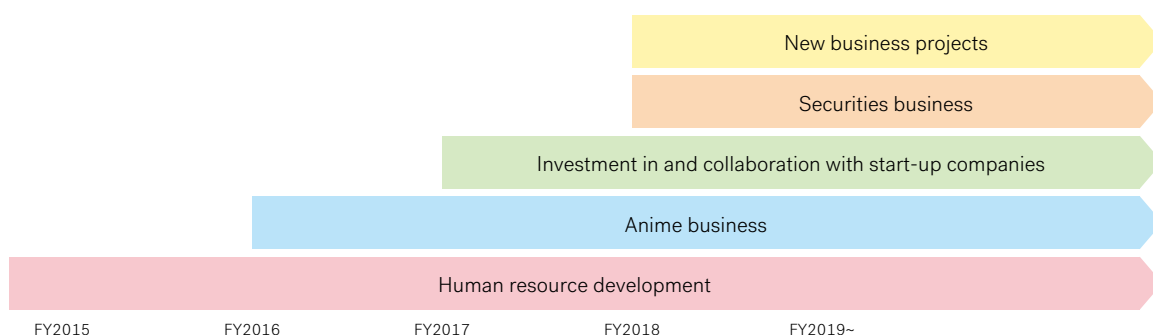
However, the transition to a multipurpose credit card—the EPOS card—which took place in 2006, has given us a business model that can take advantage of the rise of cashless payment methods. We also have an answer for the diversification of payment methods: linking other payment methods to credit cards, 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 FinTech Segment over the Next Decade



## 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.

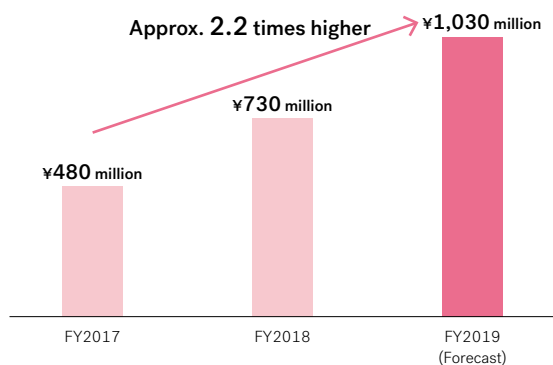


### Investments in Human Resource Development

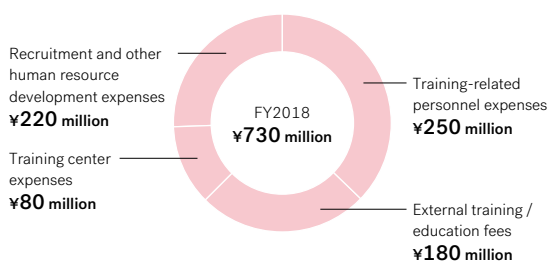
MARUI GROUP recognizes the growth of employees that are committed to helping others as the source of all the value it creates. Accordingly, we strive to foster a corporate culture that is respectful of diverse values and in which all employees can feel energized and continue growing. In the fiscal year 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



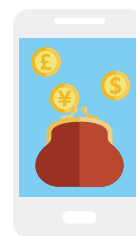
### Sharing

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.

# 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.

### Kyohei Taguchi

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

### Mai Mitsumori

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

### 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

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**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

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**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.

### 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.



**T**he 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<sup>2</sup> 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.

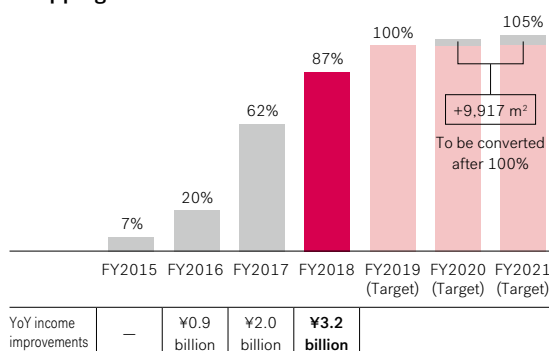
Total e-commerce sales amounted to ¥23.0 billion in the fiscal year ended March 31, 2018, an increase of 8% year on year (Figure 2). Factors behind this increase included our ability to expand our lineup of products not in Company warehouses by sharing inventory information with our business partners 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**



**Figure 2: E-Commerce Sales**

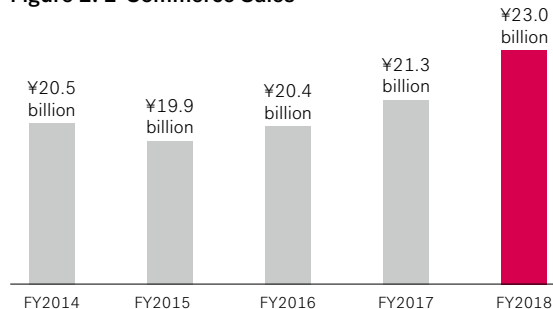
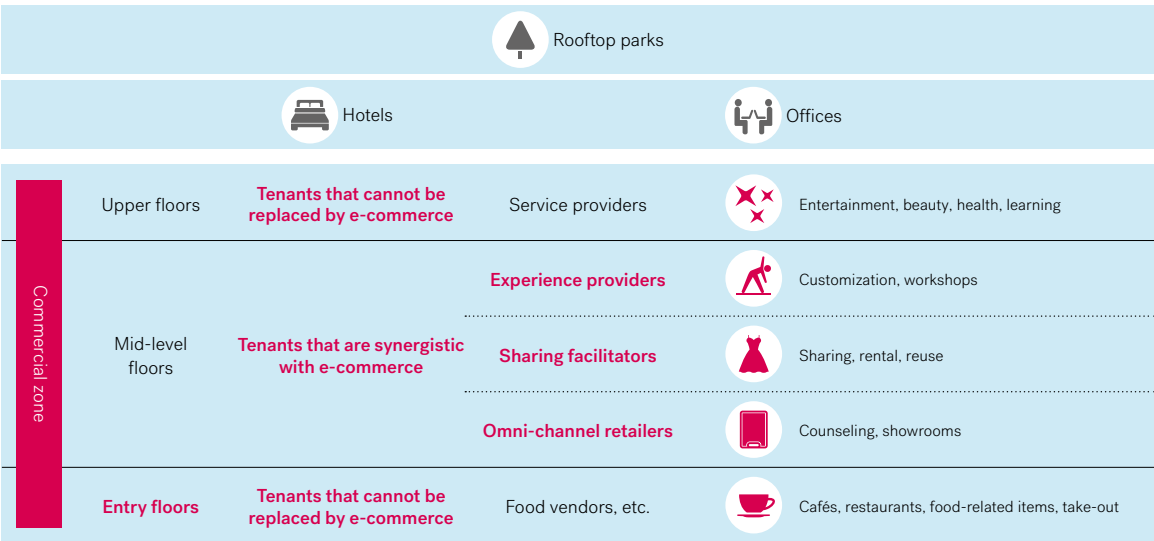


Figure 3: Stores of the Future (Stores Offering Distinctive Services That Cannot Be Replaced by E-Commerce)



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 KARITOKU, 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



System enabling storage and management of large quantities of products



Robots that automatically pick necessary products

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.

### 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.

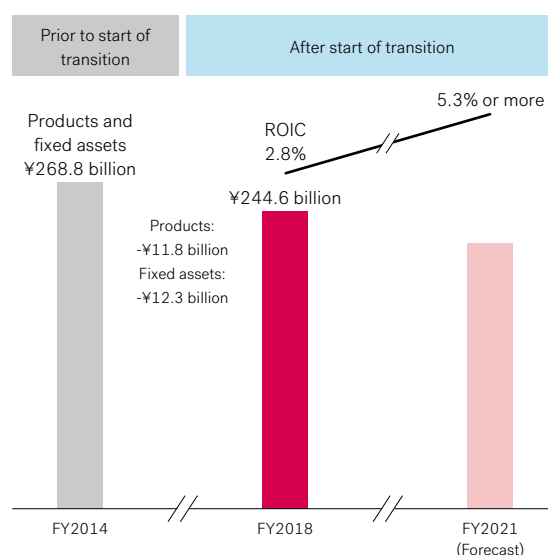
One type of business model change to be undertaken will be the development of rental operations, which are garnering a great deal of attention amid the trend toward usage over ownership. In the fiscal year ending March 31, 2019, MARUI GROUP will take its first rental operation foray in the area of women's 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,

**Figure 4: ROIC Forecast**



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.

### 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,

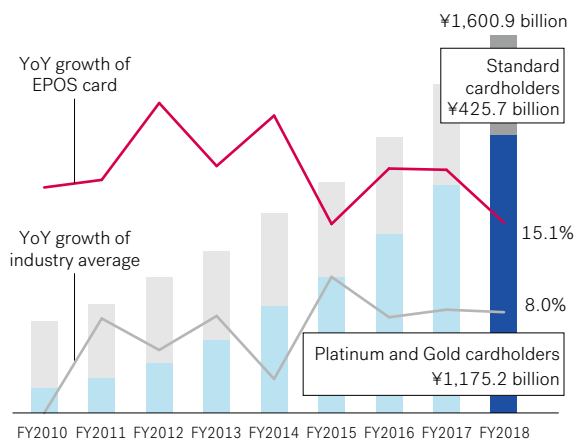
2019, and we therefore project a 17% increase in revolving and installment payment transactions. MARUI GROUP aims to achieve rapid growth in installment payments, which are the target of strong demand from customers, by accelerating our initiatives for promoting this type of payment, increasing the number 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.

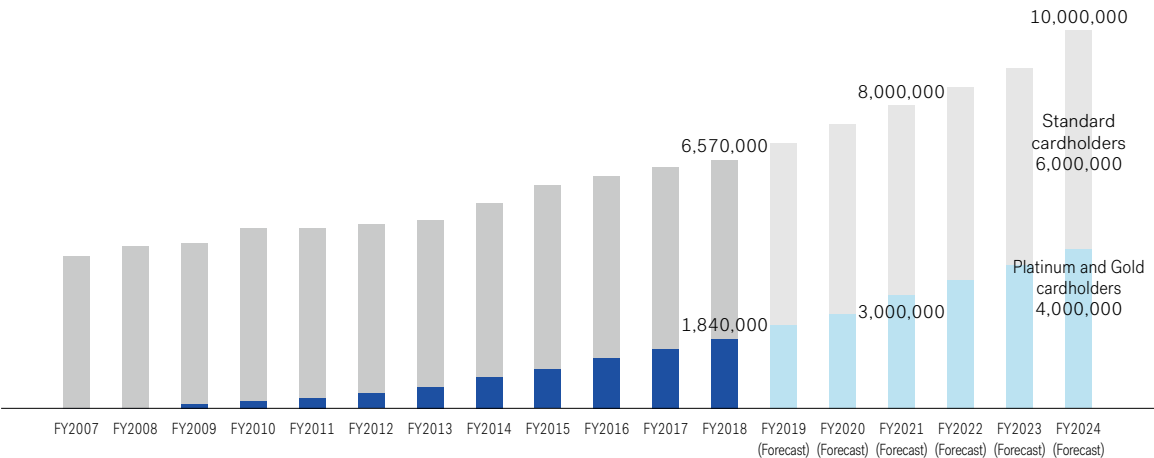
We are targeting the swift achievement of 3 million premium cardholders through these initiatives (Figure 2).

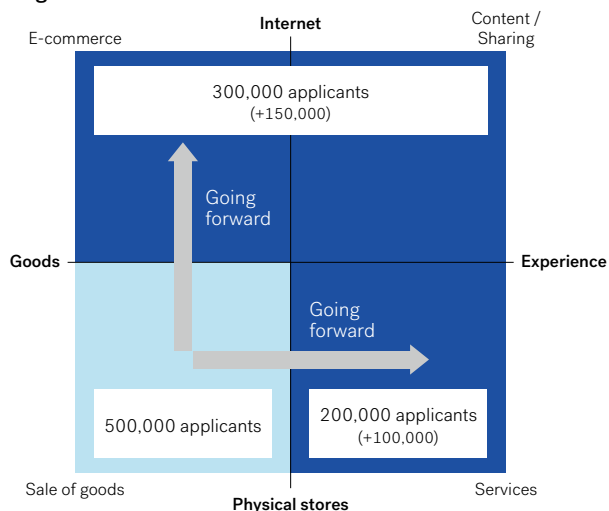
**Promotion of New Card Applications through Internet- and Experience-Oriented Fields**

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

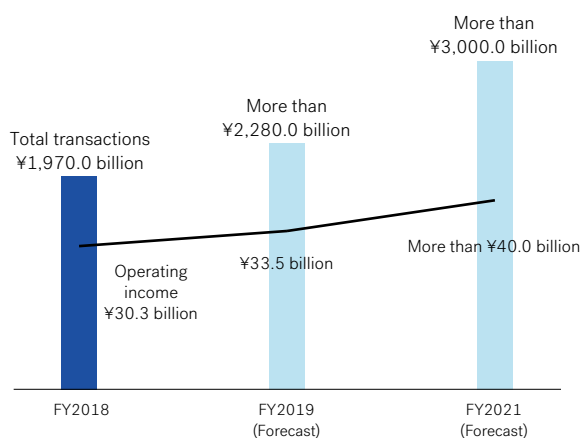
Figure 2: EPOS Cardholder Forecast



**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.

**Figure 4: Medium-Term Targets for the FinTech Segment**

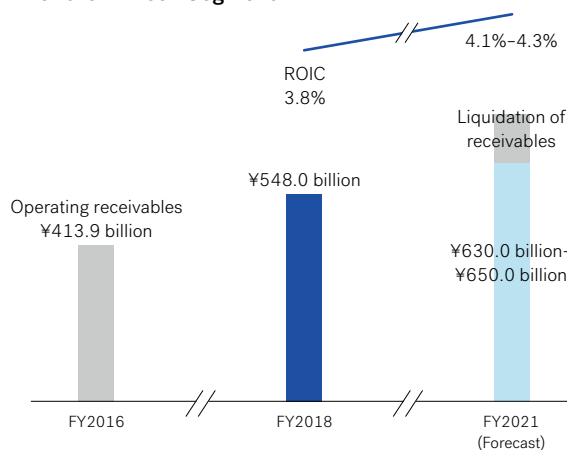
### EPOS Pay QR Code Payment Service

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

## Message from the CFO



**By constructing the optimal capital structure for the Group's business, we will consistently generate ROIC that exceeds capital costs.**

**Motohiko Sato**

Senior Managing Executive Officer and CFO

In the fiscal year ended March 31, 2018, the second year of the medium-term management plan, total Group transactions rose 13.2% year on year, to ¥2,189.4 billion, exceeding ¥2 trillion for the first time thanks to the strong growth of card shopping transactions. At the same time, operating income increased for the ninth consecutive year, to ¥35.2 billion, and net income attributable to owners of parent grew for the seventh consecutive year, to ¥20.9 billion. Coupled with the benefits of share buybacks and dividend increases, this income growth contributed to a 0.9 percentage point increase in ROE, to 7.6%; a 16.1% rise in EPS, to ¥93.2; and a total shareholder return of 45.6%, well above the Tokyo Stock Price Index average of 22.0%. In addition, income improvements in the Retailing segment led ROIC to rise by 0.1 percentage point, to 3.2%. ROIC exceeded weighted average cost of capital (WACC), which was 3.0%, for the second

consecutive year as a result of efforts to reconstruct our business and capital structures to achieve the corporate value improvements targeted by the medium-term management plan.

The reconstruction of our capital structure is being advanced based on our target balance sheet, a vision for the balance sheet judged to be ideal from the perspective of long-term corporate value improvement, our participation in the securities business, and new business entries and reforms to be undertaken in the future. Total assets are expected to rise to ¥1 trillion in the fiscal year ending March 31, 2021, as a result of higher operating receivables (installment sales accounts receivable and consumer loans outstanding) in the FinTech segment. Meanwhile, the liability portion of our balance sheet has been more oriented toward retailing with high levels of shareholders' equity. Under the medium-term management plan, we aim to address this structure by transforming our business model to target an equity ratio of approximately 30%. Higher funding demands will be met through the procurement of low-cost capital as we seek to lower overall capital costs by increasing the portion of funds accounted for by interest-bearing debt. At the same time, we will seek to maintain a level of interest-bearing debt that is equivalent to around 90% of operating receivables to ensure financial safety.

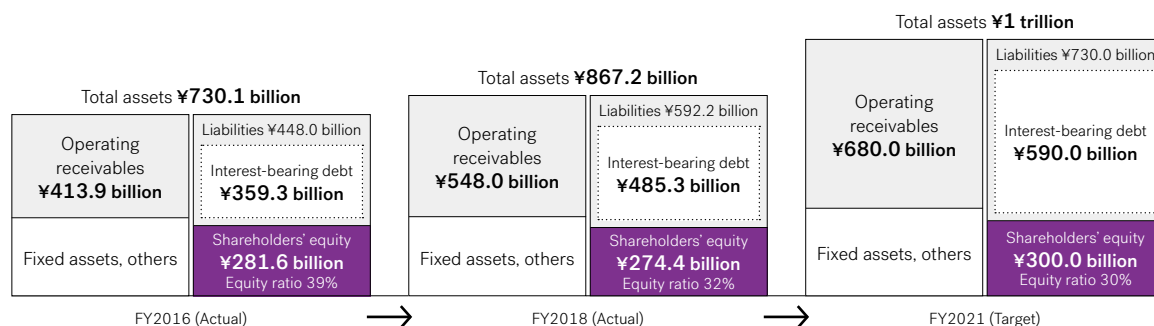
We plan to enact a fund procurement policy of liquidating operating receivables and procuring funds through borrowings from financial institutions and bond issuances. Our end goal is to improve asset efficiency by limiting the increase in total assets and liabilities.

## Target Balance Sheet

01  
POINT

### Target Balance Sheet

Procurement through interest-bearing debt in response to increases in operating receivables  
Optimal capital structure defined as targeting an equity ratio of approximately 30%



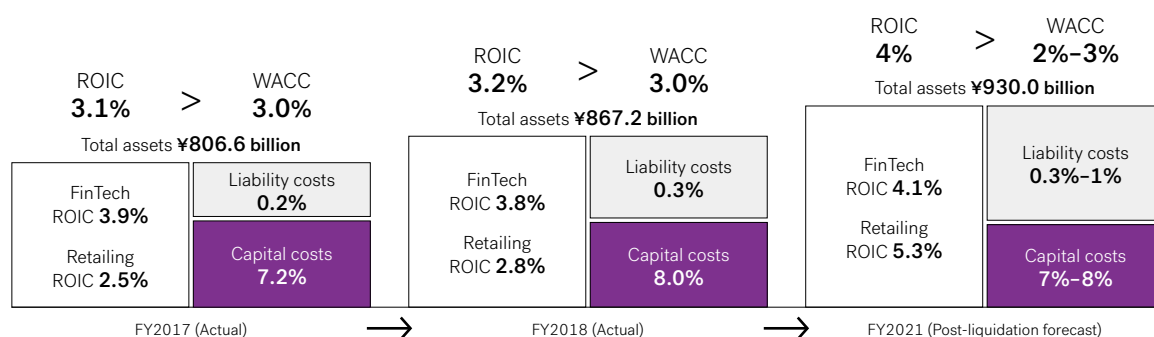
The medium-term management plan with the fiscal year ending March 31, 2021 as its final year, defined our target balance sheet with the aim of bringing the liability portion of the balance sheet in line with our earnings structure. Based on this target, we will procure funds in the form of interest-bearing debt to address the

projected rise in operating receivables with the aim of maintaining a level of interest-bearing debt that is equivalent to around 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.

02  
POINT

### Creation of Corporate Value through ROIC Exceeding WACC

Structure in which ROIC consistently exceeds WACC to be achieved by increasing ROIC and lowering capital costs  
Surplus income once again achieved in the fiscal year ended March 31, 2018, through steady advance of financial strategies



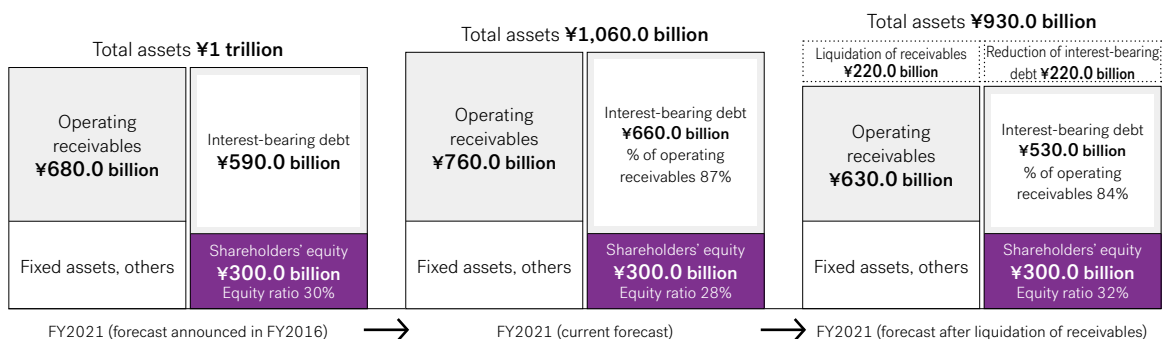
In the fiscal year ended March 31, 2018, ROIC exceeded WACC for the second consecutive year following an improvement in the ROIC of the Retailing segment. In the FinTech segment, we are targeting ROIC of 4.1% or more in the fiscal year ending March 31, 2021, by growing service revenues that require less invested capital through initiatives in the securities business and other new fields. Our ROIC target for this year in the Retailing

segment is 5.3% or more. We will work toward this target through growth in e-commerce earnings and by pursuing income improvements by raising the value of the transition to shopping centers and fixed-term rental contracts after its completion. We will also develop businesses that do not require increased assets to improve the efficiency of invested capital.

03  
POINT

## Forecasts and Issues Related to Target Balance Sheet

Equity ratio of 32% in the fiscal year ended March 31, 2018, approaching optimal level of 30%  
Operating receivables to exceed initial forecast, making for total assets of ¥1 trillion  
in the fiscal year ending March 31, 2021

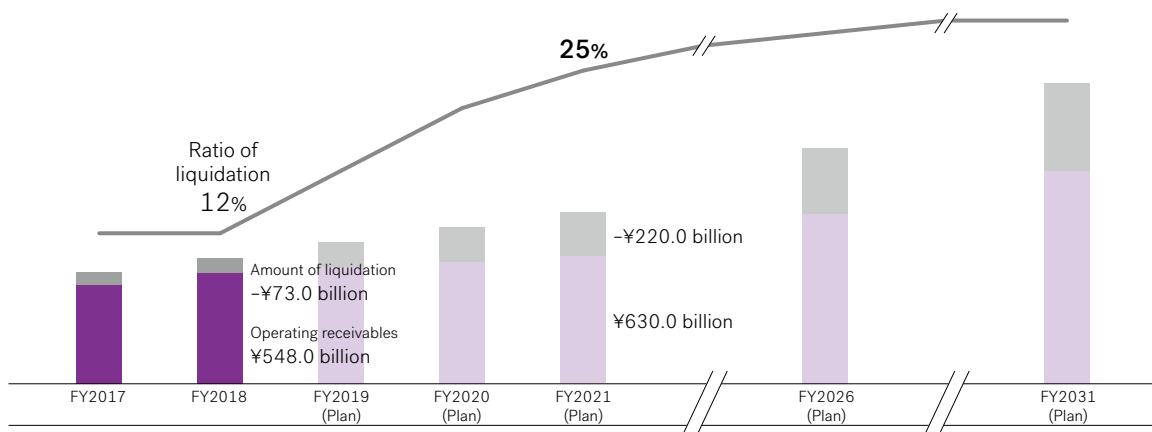


In the fiscal year ended March 31, 2018, the equity ratio reached 32%, a large step toward the optimal level of 30% from the level of 39% in the fiscal year ended March 31, 2016. However, operating receivables are expected to exceed our initial forecast for the fiscal year ending March 31, 2021, due to the growth of the FinTech segment. As we address this rise in receivables through additional interest-bearing debt, this situation is projected to cause the equity ratio to fall below 30% while total assets exceed ¥1 trillion in this year.

We will respond to this issue through a systematic increase in fund procurement through the liquidation of operating receivables beginning in the fiscal year ending March 31, 2019. By raising the ratio of liquidated operating receivables to around 25% from the level of 12% seen on March 31, 2018, we aim to keep total assets below ¥1 trillion in the fiscal year ending March 31, 2021, which enables us to maintain an equity ratio of more than 30%, moving us closer to our optimal capital structure.

## Operating Receivable Liquidation Schedule

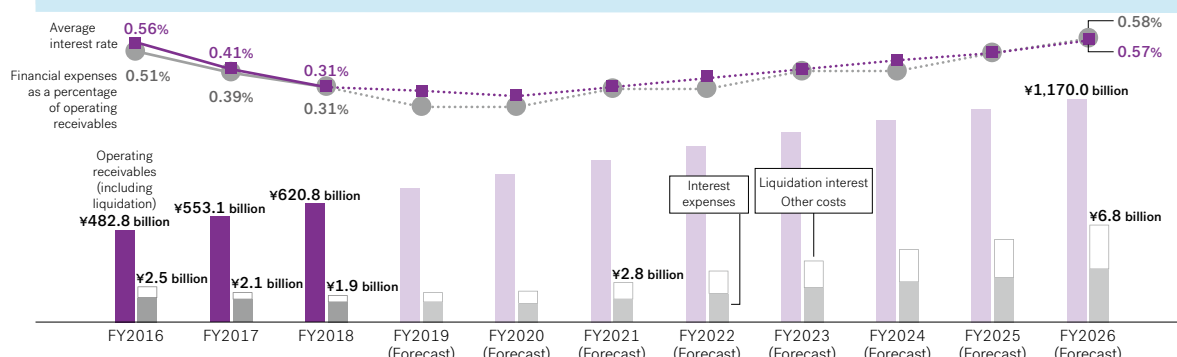
Ratio of liquidated operating receivables to be systematically raised from 12% to 25%  
Equity ratio of more than 30% to be maintained by keeping total assets below ¥1 trillion  
in the fiscal year ending March 31, 2021



## 04 POINT

### Interest Rate Hike Risk (Preliminary Calculation of Amount of Impact)

Limited impact on financial expenses anticipated from projected interest rate hike risks  
Liability costs to be controlled through optimal fund procurement balance



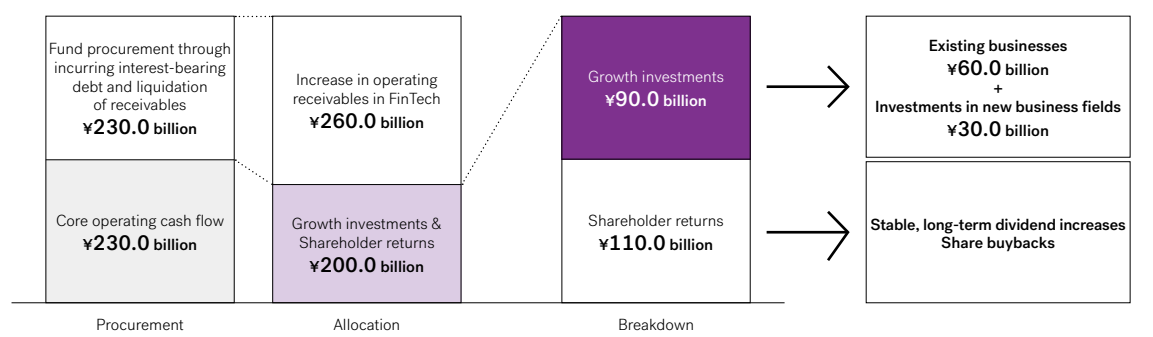
As the FinTech segment continues to grow, it will be impossible to avoid increases in liabilities. A higher level of liabilities means that interest rate hikes will have greater impact on the Company. If long-term interest rates are increased by 0.1% every year, the average interest rate on the Company's debt is estimated to rise from 0.31% in the fiscal year ended March 31, 2018, to 0.57% in the fiscal year ending March 31, 2026. These higher interest rates will cause financial expenses to

climb above ¥6.0 billion in this year. However, this amount will only represent 0.58% of operating receivables (including liquidation), a level that is not significantly larger than now. MARUI GROUP has been successful in absorbing a portion of the potential impact of interest rate hikes by procuring funds with lower interest rates, longer borrowing periods, and even fixed interest rates. Going forward, we will continue to monitor interest rate trends to limit liability costs.

## 05 POINT

### Cash Flow Forecasts

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



Over the period of the medium-term management plan, core operating cash flow, which excludes outflows associated with increases in operating receivables, is expected to amount to ¥230.0 billion. 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 for investments in new business fields and collaborative ventures. The remaining ¥110.0 billion will go to shareholder returns.

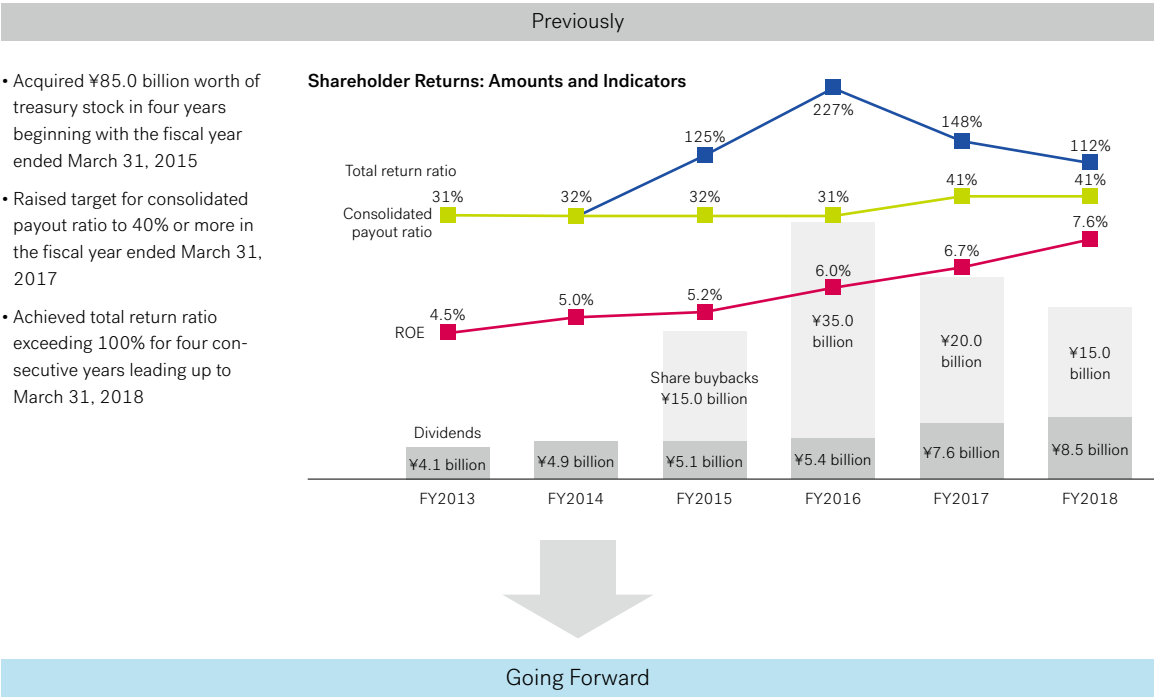


# Shareholder Returns and Policies

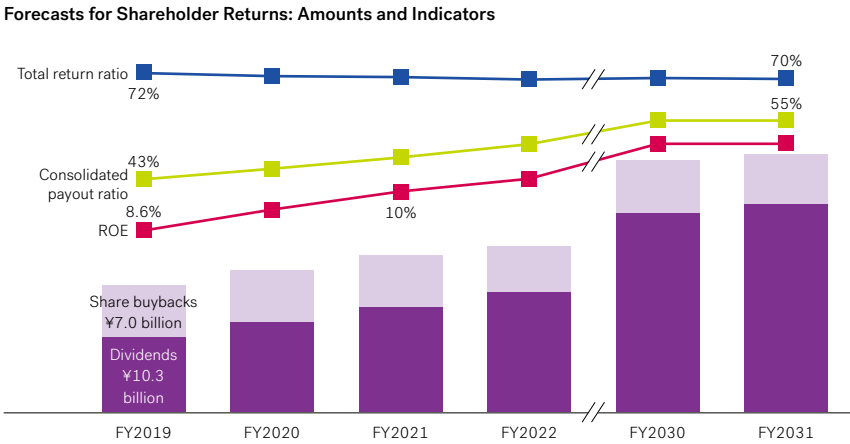
## Continuous, Long-Term Dividend Increases

MARUI GROUP has been conducting proactive share buybacks over the past four years. Also, in the fiscal year ended March 31, 2017, we raised our target for consolidated payout ratio from 30% or more to 40% or more. The total return ratio exceeded 100% for four consecutive years leading up to March 31, 2018, representing a high level of shareholder returns. Looking ahead, MARUI GROUP will be gradually shifting the focus of

shareholder returns from share buybacks to dividends, and we will aim for a consolidated payout ratio of 55% and move toward this ratio in a phased manner as we implement ongoing, long-term dividend increases. Our target for the total return ratio will be around 70%, a level that will enable us to maintain an equity ratio of 30% going forward. Acquired treasury stock will, in principle, be canceled.



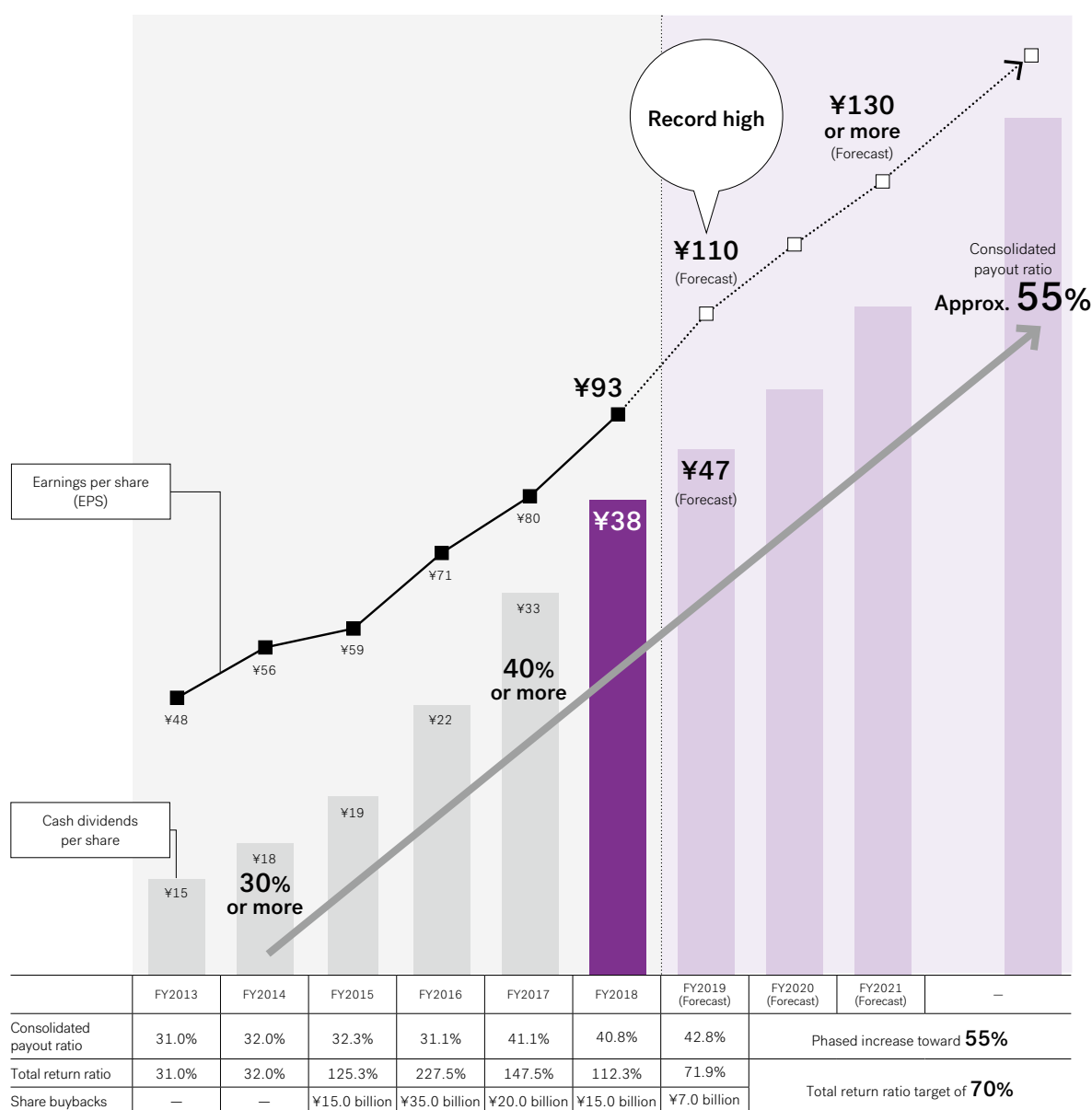
- Gradually shift the focus of shareholder returns from share buybacks to dividends beginning in the fiscal year ending March 31, 2019
- Target a total return ratio of approximately 70% to maintain an equity ratio of 30% going forward
- Aim for a consolidated payout ratio of 55% and move toward this ratio in a phased manner



## High Growth Coupled with High Returns

For the fiscal year ended March 31, 2018, we raised dividend payments by ¥5 per share, to the record high of ¥38 per share. In the fiscal year ending March 31, 2019, MARUI GROUP will target record-breaking EPS of ¥109.9 through income growth and capital measures.

In addition, we plan to issue higher dividends for the seventh consecutive year with dividends of ¥47 based on our new shareholder return policies. The Company will also acquire ¥7.0 billion worth of treasury stock in this year. In May 2018, MARUI GROUP canceled 10 million shares of acquired treasury stock.



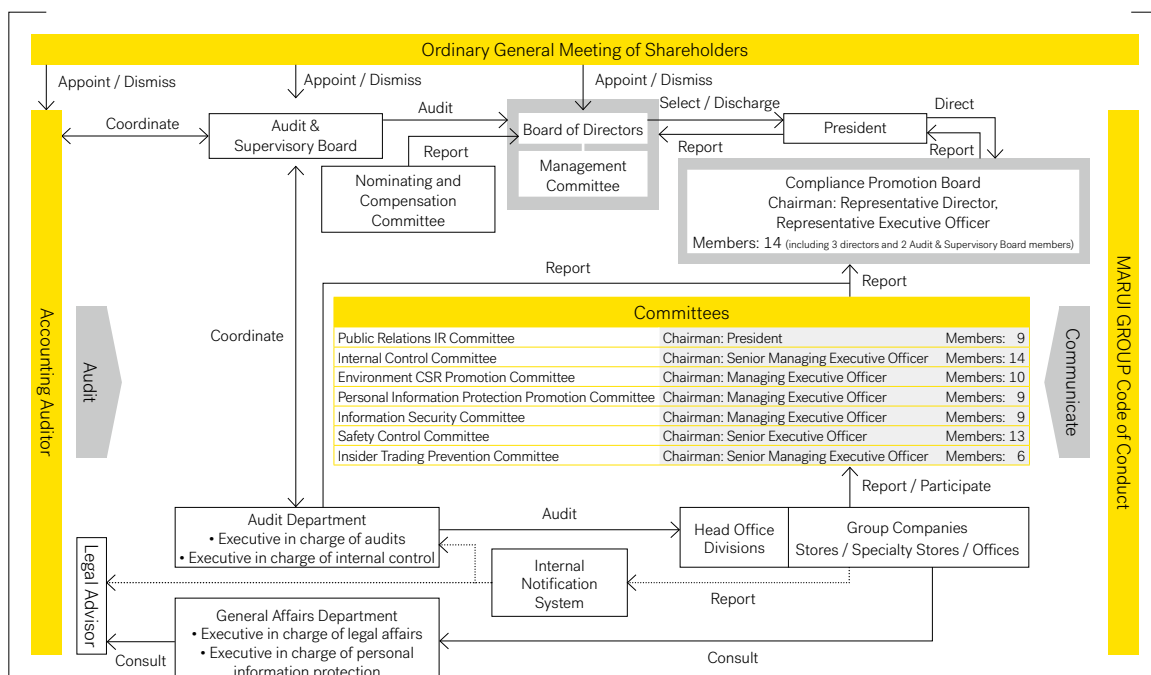
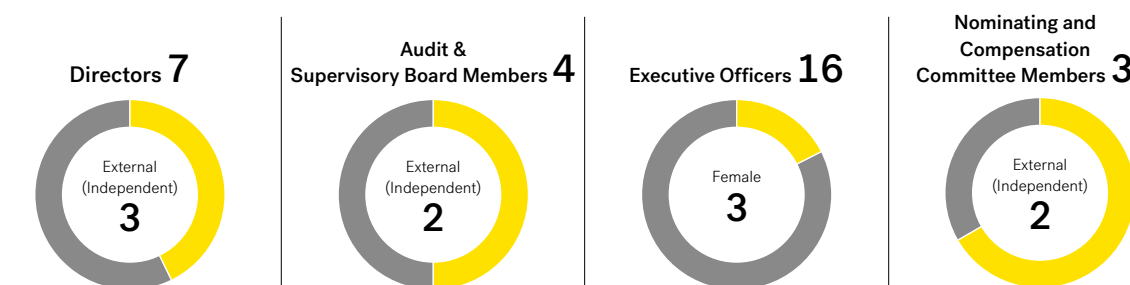


## Corporate Governance for Co-Creating Corporate Value

MARUI GROUP conducts co-creation sustainability management to co-create the happiness of all stakeholders with the aim of improving its corporate value over the medium-to-long term. Strengthening corporate governance through co-creation sustainability management is crucial to MARUI GROUP in its quest to achieve harmony between the interests of all stakeholders.

As a Company with Company Auditor(s), as described in the Companies Act of Japan, MARUI GROUP has in place its Board of Directors and Audit & Supervisory Board. In addition, the Company has

established the Management Committee, the highest decision-making body; the Nominating and Compensation Committee; seven committees that manage risks pertaining to environmental, social, and governance (ESG) issues, among others; and the Compliance Promotion Board, which oversees these committees. Following the expiration of the term of former external director Koichiro Horiuchi (appointed in June 2008), the Company appointed one new external director in June 2018.



## Agenda Items Discussed by the Board of Directors

The major agenda items discussed by the Board of Directors in the fiscal year ended March 31, 2018, are detailed in the table below. In addition to resolutions and reports, time was allocated for free and open discussion and exchanges of opinion regarding issues pointed out by external directors and ESG and other themes related to long-term improvements in corporate value.

	Resolutions and Reports		Discussion Themes
First Quarter	<ul style="list-style-type: none"> <li>Progress of growth investments</li> <li>Abolition of takeover defense measures</li> <li>Distribution of shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Results of evaluations of the effectiveness of the Board of Directors</li> <li>Performance-linked bonuses for directors</li> <li>Initiatives with external experts</li> </ul>	<ul style="list-style-type: none"> <li>Preparation for Ordinary General Meeting of Shareholders</li> <li>Evaluation of the Board of Directors</li> </ul>
Second Quarter	<ul style="list-style-type: none"> <li>Audit plans for Audit &amp; Supervisory Board</li> <li>Cross-shareholdings and sales policies</li> <li>Fund procurement policies</li> </ul>	<ul style="list-style-type: none"> <li>Revision of human resource systems</li> <li>Revision of labor agreements (change in systems related to LGBT community and childcare)</li> </ul>	<ul style="list-style-type: none"> <li>Review of Ordinary General Meeting of Shareholders</li> </ul>
Third Quarter	<ul style="list-style-type: none"> <li>Revision of MARUI GROUP Code of Conduct</li> <li>Establishment of Groupwide policies</li> <li>Progress of official Groupwide project teams</li> </ul>	<ul style="list-style-type: none"> <li>Reports from Compliance Promotion Board</li> <li>Overview of co-creation sustainability explanatory forum</li> </ul>	<ul style="list-style-type: none"> <li>New businesses</li> </ul>
Fourth Quarter	<ul style="list-style-type: none"> <li>Establishment of securities business</li> <li>Progress of Co-Creation Management Academy (CMA)</li> <li>Participation in Japan Deep Learning Association</li> <li>Revision of human resource systems related to spouses</li> </ul>	<ul style="list-style-type: none"> <li>Policies for Management Committee and other committees</li> <li>Fund procurement policies</li> <li>Anime business services</li> <li>Acquisition of certification from Science Based Targets for greenhouse gas targets</li> </ul>	<ul style="list-style-type: none"> <li>Corporate governance initiatives</li> </ul>

### EXAMPLE Transcript of Board of Directors' Discussion



The following is an abridged transcript of a discussion by the Board of Directors regarding MARUI GROUP's potential entry into the securities business prior to it being put to resolution.

**Kato:** The main point of this business is the purchase of investment trusts with credit cards. Generally, it is not possible to purchase investment trusts with credit cards. However, I learned that trusts can be purchased using credit cards if it is for cumulative investments through a securities company. I thus sought to commercialize this scheme.

**Muroi:** Financial inclusion has significant strategic and social meaning. I therefore think we should go through with this business. It is my understanding, though, that Tsumitate NISA offers only very limited investment trust fees. We will need to rigorously control fixed and variable costs after formulating business plans.

**Okajima:** Promoting EPOS cards is not the purpose of this business. Marketing and public relations activities will therefore need to be geared toward making finance a more familiar concept. Organization structures will also be important, and you will probably have to recruit specialized talent from outside of the Company; these people must share MARUI GROUP's principles.

**Aoi:** That is definitely important. The candidates we are considering now do not just boast specialized knowledge; they also share our vision of creating an asset building culture that facilitates financial inclusion of younger generations and everyone else.

**Okajima:** Long-term investment is a business that requires long-term commitment and bears the risk of damaging a company's reputation. Exit conditions should probably be defined ahead of time.

**Kato:** We will consider such conditions as we formulate business plans.

**Muroi:** Investors consider the social meaning of businesses as well as whether investments will harm corporate value. Most of the industry thinks that Tsumitate NISA is not profitable. We will therefore need to be able to explain our business based on an overarching scenario that includes its synergies with other businesses.

**Aoi:** That is the reason we are so committed to investment using credit cards. This scheme allows us to explain how we expect earnings from the securities business itself as well as from improved LTV for the Group.



## 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.

### Initiatives in the Fiscal Year Ended March 31, 2018

**Compensation systems:** In light of the upcoming conclusion of the first period to which medium-to-long-term incentives are linked in the fiscal year ending March 31, 2019, opportunities were arranged for the Board of Directors to discuss officer compensation, which is an important element of corporate governance. Once again finding that the portion of total officer compensation accounted for by variable medium-to-long-term incentives was low in comparison to other Japanese companies, the Board of Directors examined instances of companies utilizing pre-financial information, such as that related to ESG factors, for evaluations for performance-linked compensation. The factors to be examined when developing future officer compensation systems were identified through this process.

**Succession plans:** The future leader development program (CMA) was launched in April 2017, to bestow upon participants the knowledge and understanding required of managers. Individuals that completed the initial development phase in the first iteration of the program have been undergoing relocations between Group companies in their second year of the program. By assigning these individuals to highly demanding divisions and positions with wide-ranging responsibilities, the Company aims to enable them to continue growing through practical application of their skills.

### Results of Effectiveness Evaluation from the Fiscal Year Ended March 31, 2018

#### Areas Applauded

The overall evaluation of factors including the increase in the number of external directors and the start of the future leader development program (CMA) was high and the Board of Directors was judged to be sufficiently functional.

#### Issues

1. Low portion of total officer compensation accounted for by variable medium-to-long-term incentives (continuing from the fiscal year ended March 31, 2017)
2. Incomplete state of future leader development program (CMA) aimed at discovering and cultivating manager successors over the medium-to-long term

#### Response to Issue 1

**Compensation systems:** Based on investigations of industry trends and the compensation systems of other domestic companies, the Company will develop officer compensation systems that are better linked to improvements in medium-to-long-term corporate value for the next period for performance linkage. Measures to be adopted include the expansion of the portion of total compensation accounted for variable compensation as well as the utilization of ESG-related pre-financial information associated with sustainable management alongside conventional evaluation indicators.

#### Response to Issue 2

**Succession plans:** The Board of Directors will discuss matters including the overall plan for the future leader development program (CMA), the positioning and promotion of applicants after completion of the program, and other aspects of systems for promoting ongoing development. The possibility of holding regular forums to allow program applicants to speak with the Board of Directors and creating opportunities and frameworks for ongoing monitoring will be examined.

## Messages from External Directors



**I focus on whether MARUI GROUP  
is devoting management resources  
to the risks that should be taken.**

**Etsuko Okajima**

External Director (appointed in June 2014)  
Nominating and Compensation Committee Member

**T**he effectiveness of MARUI GROUP's corporate governance has improved greatly over the four years since I was appointed as an external director. The first step in this improvement was the reduction of internal directors and the increase in external directors, which made these directors a larger part of the Board of Directors. This was followed by improvements in the methods of formulating agendas, which allowed for active discussion on matters of strategic importance. In addition, MARUI GROUP conducts evaluations of the Board. The feedback gathered through surveys in these evaluations is utilized and swift action is taken to make any necessary improvements.

I see my role at MARUI GROUP as being to help cultivate human resources that can create future innovation and develop future managers. This is my area of expertise, and I therefore hope to implement changes to both frameworks and procedures to this end. MARUI GROUP is currently in the process of expanding the scope of its business model integrating stores, credit cards, and the Internet to new fields to contribute to the resolution of social issues while generating profits. In these new fields, the Company will need human resources that are completely different from those that have driven past success. MARUI GROUP has earmarked

¥30.0 billion for growth investments in new businesses under the medium-term management plan. In addition, the Company takes steps to identify younger employees with the potential to drive rapid growth and to second them to partnering start-up companies. These efforts are important for two reasons. The first reason is the ability to gain tools for use in future business scope expansion, as opposed to capital gains from businesses. The second reason is the provision of opportunities for younger employees to gain experience making decisions in different industries. To use an example from soccer, the next FIFA World Cup will be in 2022, with the next after that scheduled for 2026. If you ask someone the type of players that will be needed to win in the 2026 World Cup today, no one will be able to answer for sure. However, that does not change the fact that preparations for 2026 need to start today. Companies are the same. It is crucial to cultivate employees that can respond to future changes and to give them lots of opportunities to make decisions. Such employees may come to create new industries in the future. I like to think of myself as a catalyst at the Company, and I focus on whether MARUI GROUP is devoting management resources to the risks that should be taken at meetings of the Board of Directors.



**T**here are two reasons why I chose to become an external director at MARUI GROUP. The first was that the Company's principle of co-creation with customers resonated with me. The second is that I respected the foresight MARUI GROUP is exercising through new initiatives advanced together with outside partners in the midst of the large social changes spurred by AI and sharing economies. I am currently the president of a transportation company. The transportation industry too is expected to realign its viewpoint to better consider the customer by redefining its objective from "transporting customers' belongings" to "being entrusted with the transportation of customers' assets." I therefore feel that I can help MARUI GROUP from the same perspective that it has adopted. Meanwhile, being from a different industry with a different business model, my perspective still differs a bit from that of the Company, enabling me to make new proposals to management.

A manager must be able to assess social trends, determine the direction for their company, and move

forward on that path. When the managers of MARUI GROUP lose their way, I think that my management experience will make it easier for them to consult with me as I will be able to talk to them from the perspective of a manager.

The gauge I use as an external director is based on whether or not MARUI GROUP's strategies will benefit customers. Of course, forward-looking projects entailing large investment risks will require that the Board of Directors discuss matters such as investment recovery period. However, if such a project will create new value for customers, I will encourage the Company to take this path. In these forward-looking projects, it is possible to look too far ahead of the customer's perspective. Whether for the customer or for the business, it is best to be a half-step ahead of customers. I therefore plan to support MARUI GROUP's efforts to create value that is a half-step ahead of its customers.

**From my perspective as a manager, I plan to support MARUI GROUP's efforts to create value that is a half-step ahead of its customers.**

**Yoshitaka Taguchi**

External Director (appointed in June 2018)  
Nominating and Compensation Committee Member





## MARUI GROUP will need to create forward-looking growth strategies for the tumultuous operating environment.

**Masahiro Muroi**

External Director (appointed in June 2017)

Over the year since I became an external director at MARUI GROUP, I have dedicated myself to the supervision of the Company's management. I have held meetings with managers, visited numerous stores and data centers, and even participated in the Medium-Term Management Visionary Committee, which sees voluntary participation by employees. I have also had the opportunity to speak directly with overseas institutional investors. These experiences have made me aware of three unique characteristics of MARUI GROUP.

The first is that its management is rooted in ESG, and concepts such as inclusion and sustainability have become entrenched throughout the organization. I have seen frontline employees speaking passionately about store and product development activities involving customers, environmental measures spanning the value chain, and work style reforms. In addition, MARUI GROUP continues to receive awards and certifications for its environment management, healthcare management, and investor relations activities, and the Company has been included in various ESG investment indexes.

The second characteristic is that MARUI GROUP is at the forefront of innovation. At meetings of the Medium-Term Management Visionary Committee, where hundreds of employees gather, information on the potential impacts of e-commerce and sharing economies on the retailing business and the threats to the credit card services business posed by cashless payments is provided together with concrete examples from countries where digitization is in advanced stages. As such, MARUI GROUP employees hold the necessary sense of danger while pursuing innovation in their business and creating new businesses.

The third characteristic of MARUI GROUP is its distinctive use of open innovation. There are companies in fields related to retailing and FinTech that are developing new businesses guided by a keen eye for future consumer needs. MARUI GROUP utilizes its high-quality internal ecosystem to form relations with promising start-up companies to take part in various verification tests through collaboration or investment. I look forward to seeing MARUI GROUP cultivate next-generation sharing and FinTech businesses through these efforts.

The role of an external director is first and foremost to protect management through supervision from an independent standpoint. However, MARUI GROUP's focus on an ESG perspective in its corporate activities means that there is little need for this protection. MARUI GROUP will therefore need to create forward-looking growth strategies for the tumultuous operating environment. I will support these strategies by taking an independent standpoint in discussions.

## Revision of Japan's Corporate Governance Code

The MARUI GROUP Corporate Governance Guidelines have been revised as described below with the aim of facilitating sound, highly transparent, profitable, and efficient management in order to improve corporate value over the medium-to-long term.

Tokyo Stock Exchange, Inc., revised Japan's Corporate Governance Code, which defines principles for effective corporate governance, as well as its listing

requirements in June 2018. MARUI GROUP respects the intent and the essence of these documents.

For more information on our implementation of the principles of Japan's Corporate Governance Code, please refer to the Japan's Corporate Governance Code Compliance Table at the end of MARUI GROUP's Corporate Governance Report.

## June 2018 Revision to MARUI GROUP Corporate Governance Guidelines

Revised Item	Details of Revision	Applicable Page of Report
Duties of Directors (Article 4)	<ul style="list-style-type: none"> <li>Described status of oversight for succession plans by Board of Directors and details on the future leader development program (CMA)</li> <li>Provided information on minimum attendance rates to meetings of the Board of Directors and Audit &amp; Supervisory Board</li> </ul>	P97
Composition of the Board of Directors (Article 5) Composition of the Audit & Supervisory Board (Article 9)	<ul style="list-style-type: none"> <li>Clarified commitment to developing a Board of Directors composed of directors from a diverse range of backgrounds with differing specialties and experience and of various genders and nationalities</li> <li>Stated that Audit &amp; Supervisory Board members are expected to have insight with regard to areas such as finance, accounting, and legal affairs and that one member should possess specialties related to finance and accounting</li> </ul>	P102 P103
Selection of Candidates for Positions as Directors, Audit & Supervisory Board Members, and Managers Ranked Lower Than President and Representative Director, and Dismissal of Individuals in These Positions (Article 15)	<ul style="list-style-type: none"> <li>Provided clear information on both selection and dismissal procedures</li> <li>Described how the Nominating and Compensation Committee will be used to ensure objectivity and transparency in newly defined dismissal procedures</li> </ul>	P90
Compensation of Directors, Audit & Supervisory Board Members, and Executive Officers (Article 16)	<ul style="list-style-type: none"> <li>Detailed compensation policies and performance-linked compensation</li> </ul>	P97
Risk Management System (Article 19)	<ul style="list-style-type: none"> <li>Included information on the Information Security Committee established in June 2018 and described systems and policies for ensuring security of information assets</li> </ul>	P100
Basic Policies for Capital Measures (Article 23)	<ul style="list-style-type: none"> <li>Explained capital measures being implemented based on capital costs</li> <li>Described policies for capital investments, human resource investments, and other growth investments</li> </ul>	P84 P70
Shareholder Returns (Article 24)	<ul style="list-style-type: none"> <li>Explained new targets for consolidated payout ratio and total return ratio</li> <li>Stated intent to, in principle, cancel all acquired shares of treasury stock</li> </ul>	P88
Cross-Shareholdings (Article 25)	<ul style="list-style-type: none"> <li>Declared that, in principle, the Company will not engage in cross-shareholdings</li> <li>Stated that the Company only provides overviews of holdings due to confidentiality</li> <li>Explained that voting rights attached to shares held through cross-shareholdings will be exercised based on each proposal</li> </ul>	P98



## Officer Compensation Systems

The amount of compensation paid to individual directors is to be decided by the Nominating and Compensation Committee and set within the limit approved at the Ordinary General Meeting of Shareholders. These amounts are to be determined based on a comprehensive evaluation of factors including the responsibility of each director for the management of the Group and the progress of the Group's medium-term management plan. The amount of compensation paid to individual executive officers is to be decided by the Nominating and Compensation Committee.

Compensation for directors includes fixed basic compensation as well as performance-linked bonuses, which are based on the performance of the Company in a given fiscal year to function as a short-term incentive, and performance-linked stock-based compensation, which is based on the medium-to-long-term performance of the Company to function as a medium-to-long-term incentive. The portion of compensation linked to performance is meant to provide incentive for pursuing

sustainable growth for the Company. However, external directors will only receive fixed basic compensation based on their position to ensure that they maintain an independent standpoint.

Performance-linked bonuses will be set as an amount equivalent to 10/90 of the compensation of directors for each fiscal year and will be adjusted upward or downward by as much as 10% based on the degree of accomplishment of the Company's consolidated operating income target for the respective fiscal year.

As for performance-linked stock-based compensation, directors will be awarded points based on their rank at a set time in each of the fiscal years ended/ending March 31, 2017–2019. These points will then be adjusted via a coefficient within the range of 0% to 100% determined based on progress toward targets for three focus KPIs (ROE, ROIC, and EPS) in the fiscal year ending March 31, 2019. Shares of the Company's stock will then be allocated to each director in reflection of their aggregate total of points post-adjustment.

## Officer Compensation in the Fiscal Year Ended March 31, 2018 (Millions of yen)

	Basic Compensation	Performance-Linked Bonuses (Short-Term Incentive)	Performance-Linked Stock-Based Compensation (Medium-to-Long-Term Incentive)	Total Compensation
President and representative director	84	9	9	102
Directors (excluding external directors)	148	16	16	181
External directors	38	0	0	38
Audit & Supervisory Board members (excluding external Audit & Supervisory Board members)	34	0	0	34
External Audit & Supervisory Board members	15	0	0	15

By resolution at the Ordinary General Meeting of Shareholders, the upper limit for full-year compensation paid to directors has been set at ¥300 million, the upper limit for performance-linked bonuses paid to directors has been set at ¥100 million, the upper limit for performance-linked stock-based compensation issued to directors has been set at ¥300 million, and the upper limit for monthly compensation of Audit & Supervisory Board members has been set at ¥6 million.

## Future Leader Development Program

MARUI GROUP unveiled its Co-Creation Management Academy (CMA) future leader development program in April 2017 with the aim of cultivating human resources capable of promoting management reforms. 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. After training, participants continue to be nurtured into future leaders in a wide range of actual work situations through strategic intra-Group relocations.



Cultivation of Future Leaders

[www.0101maruigroup.co.jp/en/sustainability/theme04/leader.html](https://www.0101maruigroup.co.jp/en/sustainability/theme04/leader.html)



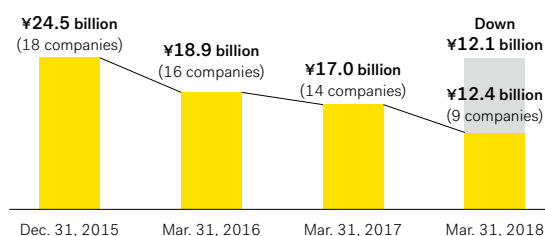
## Cross-Shareholdings

In principle, the Company will not engage in cross-shareholdings except for cases in which such holdings are deemed necessary for maintaining or building upon collaborative or transactional relationships that are strategically critical for improving corporate value. At a meeting of the Board of Directors held in February 2016, it was determined that the Company had already established sufficiently strong business relationships with cross-shareholding counterparties, and it was therefore decided to undertake a phased reduction in cross-shareholdings out of consideration for asset efficiency and stock price fluctuation risks.

Since then, the returns from each cross-shareholding have been verified at meetings of the Board of Directors held in either July or August of each year. The extent to which holdings have been reduced was confirmed at these meetings. On March 31, 2018, the Company

held shares of the stock in nine companies as cross-shareholdings (nine companies fewer than on December 31, 2015), and the total value of these shares on the consolidated balance sheets was ¥12.4 billion (down ¥12.1 billion from December 31, 2015).

### Total Value of Cross-Shareholdings on the Consolidated Balance Sheets



## Advisory Board

The Advisory Board was established in July 2016, and contracts with the current members cover the one-year period from July 1, 2018, to June 30, 2019.

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 establishment of strategies for Groupwide efforts to accomplish the

targets of the medium-term management plan and to improve corporate value over the medium-to-long term as we seek to address the rapidly changing operating environment and the diversifying society. Regular bimonthly meetings of the Advisory Board are held, at which the president, pertinent directors, and representatives from relevant areas attend; advice is also sought on specific themes and operations are inspected.

### Advisory Board Members



#### Tadasu Ohe

President, PLANTEC ASSOCIATES INC.

Area of Specialty and Past Activities  
Proposals for better utilizing real estate from the user's perspective

- Discussion and proposals regarding store directives
- Inspection of stores and discussion regarding vision for future stores
- Inspection of distribution centers and proposals for environmental measures
- Lectures at Group companies



#### Yuji Yamamoto

Physician, Representative Director, MinaCare Co., Ltd.

Area of Specialty and Past Activities  
Analysis and advice for promoting healthcare management

- Discussion and proposals regarding tracking the relationship between health and productivity
- Guidance on how to be included in healthcare management-related indexes
- Sharing of external healthcare management case studies and related proposals



#### Masakazu Masujima

Partner, Mori Hamada & Matsumoto

Area of Specialty and Past Activities  
Provision of information for developing new FinTech businesses

- Proposal of specific growth investment targets
- Advice and proposals regarding entry into securities business
- Advice on FinTech-related laws and regulations



#### Meyumi Yamada

Executive Director, istyle Inc.

Area of Specialty and Past Activities  
Provision of information regarding sharing economies and omni-channel retailing

- Discussion on sharing economies, omni-channel retailing, and other social trends

## Co-Creation of Corporate Value with Shareholders and Other Investors

MARUI GROUP conducts proactive investor relations activities to engage with shareholders and other investors and to reflect their input in its co-creation sustainability management.

The Company has been issuing co-creation management reports and co-creation sustainability reports as communication tools since 2015. Under the guidance of President Aoi, these business strategy reports are forged over the course of more than 40 planning meetings each year.

In addition, Director and Senior Executive Officer Hirotsugu Kato regularly takes part in exchanges of opinion as a member of the Forum for Integrated Corporate Disclosure and ESG Dialogue established by the Ministry of Economy, Trade and Industry as a forum for dialogue between companies and investors based on the ministry's *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation: ESG Integration, Non-Financial Information Disclosure, and Intangible Assets into Investment*.



### Dialogue with Shareholders

The Ordinary General Meeting of Shareholders is the highest decision-making authority for corporate management at MARUI GROUP. The Company revises its methods of proceeding and administration of meetings to provide an open atmosphere that is ideal for reflecting the opinions and suggestions of shareholders in management and is expanding the range of opportunities for dialogue with shareholders.

**Ordinary General Meeting of Shareholders Held in June 2018** Shareholders in attendance: 182 Questions: 14 Ratio of voting rights exercised: 87.6%

#### Comments from Attendees

"I want MARUI GROUP to explore and commercialize initiatives for addressing social needs."

"The meeting was great. I appreciate the thorough and easy-to-understand answers to questions."

"I was able to understand how Tsumitate NISA will help alleviate concern regarding investment among younger generations."



### Dialogue with Institutional Investors

Through coordination between the IR Department, the Corporate Planning Division, the General Affairs Division, and the ESG Promotion Department, MARUI GROUP holds financial results briefings and twice-annual IR DAY events, accommodates visits from domestic and overseas investors and requests for individual meetings, and provides other opportunities for direct discussion with institutional investors. In addition, the Company participates in the Ministry of the Environment's Environmental Reporting Platform Development Pilot Project, through which it engages in dialogue with ESG-minded investors and conducts surveys of approximately 150 institutional investors and companies, using the input gained in improving management and information disclosure activities.

**Fiscal year ended March 31, 2018** Aggregate institutional investors met with: Approx. 250 Financial results briefings: 4 Financial results briefings attendees: 364

#### Comments from Institutional Investors

"I want to hear about growth strategies for after the transition to shopping centers and fixed-term rental contracts."

"Rather than share buybacks, shareholders would prefer a focus on dividends."

"I was quite impressed with the idea of stores that do not sell."

"How will you address the threat of mobile phone payments?"

"MARUI GROUP should more actively advertise its status as a forerunner in ESG initiatives."





## Co-Creation Corporate Governance Risk Countermeasures

As part of its efforts to promote co-creation sustainability management through an integrated Group effort, MARUI GROUP revised the MARUI GROUP Code of Conduct and established the MARUI GROUP Human Rights Policy and the MARUI GROUP Occupational Health and Safety Policy in 2017. The Company later unveiled three policies for reinforcing Groupwide information security in June 2018: the MARUI GROUP Information Security Policy, the MARUI GROUP Privacy Policy, and the MARUI GROUP Social Media Policy. It was also at this time that we formulated the MARUI GROUP Tax Policy for ensuring transparent tax payments and minimizing tax risks.

### MARUI GROUP Information Security Policy (Abridged)

#### 1. Purpose

The purpose of this policy is to provide guidelines for establishing and implementing information security management systems to protect the information assets of customers and of MARUI GROUP from all threats, whether internal or external, accidental or intentional, and thereby help ensure the continuity of MARUI GROUP's business activities.

#### 2. Basic Principles

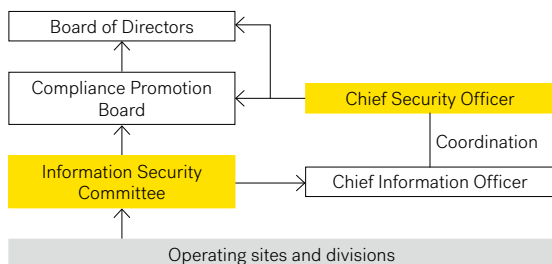
- (1) MARUI GROUP shall practice appropriate management of the information entrusted to it by individuals or organizations during the course of its business activities while respecting the rights and interests of these individuals or organizations.
- (2) MARUI GROUP shall practice appropriate management of trade secrets, technological information, and other valuable information acquired during the course of its business activities and protect the rights and interests of MARUI GROUP.
- (3) MARUI GROUP will engage in research and human resource development in order to work to improve information security as it pertains to customer information and thereby gain greater levels of trust from customers and subsequently society as a whole.

### Reinforcement of Groupwide Information Security

Risk management pertaining to IT systems for the entire Group is overseen by the Compliance Promotion Board, which is chaired by the president and representative director of MARUI GROUP CO., LTD. In addition, the Company established the Information Security Committee in June 2018 and appointed the chief security officer (CSO) to serve as the highest-level authority on security responsible for managing and protecting Groupwide information assets. The CSO coordinates

with the chief information officer (CIO), who is the highest authority responsible for managing Groupwide IT systems. In the event of a major information security incident, the head of the division that detects the incident will report to the chairperson of the Information Security Committee. The chairperson will then report to the CIO, and the CSO will issue a report to the president and representative director of MARUI GROUP CO., LTD., when necessary. The CSO will also be responsible for assembling a specialized team to address the incident.

### MARUI GROUP's Information Security Framework



### Third-Party Assessments

MARUI GROUP recruits and develops the human resources necessary for implementing Groupwide information security measures and provides education on information security to officers and employees to promote awareness. In addition, third-party information security assessments are performed by specialized institutions to help us maintain an understanding of information security systems and levels throughout the Group. We will continue to pursue improvements through regular assessments going forward.



## Environmental Impact Reduction Targets for 2050

MARUI GROUP has defined ecological inclusion as one of its core themes. In 2016, we revised the MARUI GROUP Environmental Policy, based on which we propose ecologically sound lifestyles that are in harmony with nature and the environment to develop businesses with low environmental impact and contribute to the realization of a low-carbon and recycling-oriented society. In addition, we recognize our responsibility as a producer to reduce our environmental footprint across the entire value chain, from the procurement of raw materials and product creation to the sale and disposal of products.

## MARUI GROUP's Medium- and Long-Term Environmental Targets

### Long-Term Greenhouse Gas Emissions Reduction Target

Achieve 80% reduction in Groupwide total greenhouse gas emissions attributable to Scope 1 and Scope 2 from the fiscal year ended March 31, 2017, by the fiscal year ending March 31, 2051

Medium-term target: Achieve 40% reduction in Groupwide total greenhouse gas emissions attributable to Scope 1 and Scope 2 and a 35% reduction in emissions attributable to Scope 3 from the fiscal year ended March 31, 2017, by the fiscal year ending March 31, 2031

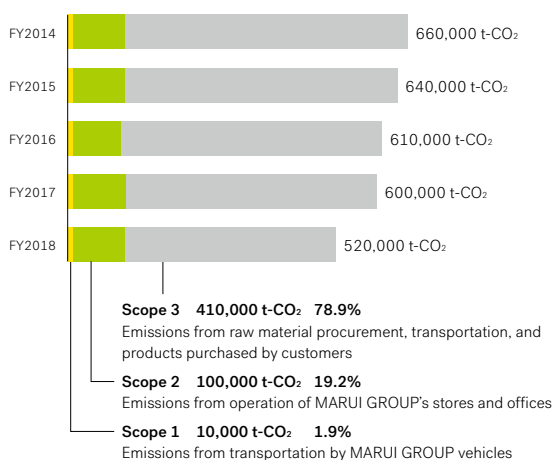
### Targets for Sourcing 100% of Electricity from Renewable Power Sources

Source 100% of electricity used in business activities from renewable power sources by 2030

Medium-term target: Source 70% of electricity used in business activities from renewable power sources by 2025

## Pursuit of 80% Reduction in Greenhouse Gas Emissions

Through ongoing discussion regarding the establishment of environmental impact reduction targets for 2050 based on projected changes to business activities and future impacts on natural capital, MARUI GROUP formulated targets for reducing its greenhouse gas emissions. These targets, which place particular emphasis on lowering electricity consumption, were the first targets from a Japanese retailer to receive certification from the international initiative known as Science Based Targets.



## Sourcing of 100% of Electricity from Renewable Power Sources

MARUI GROUP has become a member of RE100, an international initiative comprising a collective of companies committed to the procurement of 100% of the electricity used in their business activities from renewable power sources.

In its efforts to achieve this goal, MARUI GROUP will take part in a trial of a new service offered by Minna Denryoku Co., Ltd., that will be the first in Japan to use blockchain technology to allow for the identification of the renewable power source from which power has been supplied.



### Message from the Head of RE100

#### Mr. Sam Kimmins

Head of RE100, The Climate Group

By committing to 100% renewable power, MARUI GROUP is growing corporate demand for renewables in Japan and accelerating the country's low-carbon economy. In trialing blockchain technology to trace renewable sources, MARUI GROUP is further showcasing how high levels of ambition can drive smart energy innovation.

# Directors, Audit & Supervisory Board Members, and Executive Officers

As of June 25, 2018

## Directors



### Hiroshi Aoi

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



### Etsuko Okajima

External Director  
Shares held: 0  
Born: May 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 (Incumbent)  
Nov. 2015 Outside Director,  
Lancers, Inc. (Incumbent)  
Dec. 2015 Outside Director,  
SEPTENI HOLDINGS CO., LTD.  
(Incumbent)  
Mar. 2016 Outside Director,  
Link and Motivation Inc. (Incumbent)

#### Participation in committees:

Nominating and Compensation Committee



### Yoshitaka Taguchi

External Director  
Shares held: 0  
Born: April 1961

Mar. 1985 Joined Seino Transportation Co., Ltd.  
(currently Seino Holdings Co., Ltd.)  
Jul. 1989 Director, Seino Transportation Co., Ltd.  
Jul. 1991 Managing Director,  
Seino Transportation Co., Ltd.  
Jun. 1996 Senior Managing Director,  
Seino Transportation Co., Ltd.  
Oct. 1998 Representative Director and  
Vice President,  
Seino Transportation Co., Ltd.  
Jun. 2003 President and Chief Operating Officer,  
Seino Transportation Co., Ltd.  
(Incumbent)  
Jun. 2018 External Director (Incumbent)

#### Participation in committees:

Nominating and Compensation Committee



### Masahiro Muroi

External Director  
Shares held: 0  
Born: July 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)  
Jun. 2018 Audit & Supervisory Board Member,  
The Norinchukin Bank (Incumbent)



### Tomoo Ishii

Director  
Shares held: 18,400  
Born: July 1960

Apr. 1983 Joined the Company  
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  
Apr. 2017 President and Representative Director,  
MOVING CO., LTD. (Incumbent)  
Jun. 2018 Senior Managing Executive Officer,  
Chief Security Officer,  
and Chief Health Officer  
In charge of Audit, General Affairs,  
Personnel, and Health Promotion  
(Incumbent)

#### Participation in committees:

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



### Masao Nakamura

Director  
Shares held: 21,500  
Born: June 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)  
Oct. 2017 Director and Managing Executive Officer  
Responsible for FinTech Segment  
(Incumbent)

#### Participation in committees:

Management Committee  
Compliance Promotion Board  
Public Relations IR Committee

## Audit & Supervisory Board Members



### Hirotugu Kato

Director  
Shares held: 5,200  
Born: July 1963

Mar. 1987 Joined the Company  
Apr. 2015 Executive Officer and General Manager, Corporate Planning Division  
Jun. 2016 Director and Senior Executive Officer, General Manager, Corporate Planning Division and IR Department  
Oct. 2017 Director, Senior Executive Officer, and Chief Digital Officer General Manager, IR Department In charge of Corporate Planning and ESG Promotion (Incumbent)  
Feb. 2018 Director, tsumiki Securities Co., Ltd. (Incumbent)  
Apr. 2018 Senior 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



### Hideaki Fujizuka

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

Apr. 1980 Joined Mitsubishi Bank Ltd. (currently MUFG Bank, 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



### Nariaki Fuse

Audit & Supervisory Board Member (Full time)  
Shares held: 9,800  
Born: June 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 Chief Information Officer In charge of Audit  
Jun. 2018 Audit & Supervisory Board Member (Full time) (Incumbent)

**Participation in committees:**  
Compliance Promotion Board  
Internal Control Committee



### Tadashi Ooe

External Audit & Supervisory Board Member  
Shares held: 74,700  
Born: May 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: 5,200  
Born: January 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, 2018

## Executive Officers



### Hiroshi Aoi

Representative Executive Officer  
Born: January 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



### Motohiko Sato

Senior Managing Executive Officer  
Born: December 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

Senior Managing Executive Officer  
Born: July 1960

Apr. 1983 Joined the Company  
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  
Apr. 2017 President and Representative Director,  
MOVING CO., LTD. (Incumbent)  
Jun. 2018 Senior Managing Executive Officer,  
Chief Security Officer,  
and Chief Health Officer  
In charge of Audit, General Affairs,  
Personnel, and Health Promotion  
(Incumbent)

#### Participation in committees:

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



### Masao Nakamura

Managing Executive Officer  
Born: June 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)  
Oct. 2017 Director and Managing Executive Officer  
Responsible for FinTech Segment  
(Incumbent)

#### Participation in committees:

Management Committee  
Compliance Promotion Board  
Public Relations IR Committee



### Toshikazu Takimoto

Managing Executive Officer  
Born: November 1959

Mar. 1982 Joined the Company  
Mar. 2009 Executive Officer and General Manager,  
Group Profit Improvement Division  
Jun. 2012 Director and Executive Officer  
Apr. 2015 Managing Executive Officer  
Apr. 2016 Managing Executive Officer  
Responsible for FinTech Business  
President and Representative Director,  
MARUI HOME SERVICE Co., Ltd.  
Oct. 2017 Managing Executive Officer  
Responsible for Retailing Segment  
(Incumbent)  
Apr. 2018 Managing Executive Officer and  
Chief Information Officer (Incumbent)  
President and Representative Director,  
M & C SYSTEMS CO., LTD. (Incumbent)

#### Participation in committees:

Management Committee  
Compliance Promotion Board  
Public Relations IR Committee  
Internal Control Committee  
Personal Information Protection Promotion Committee  
(Chairman)  
Information Security Committee (Chairman)



### Takashi Wakashima

Managing Executive Officer  
Born: November 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  
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)





## Hajime Sasaki

Senior Executive Officer  
Born: November 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)



## Hirotsugu Kato

Senior Executive Officer  
Born: July 1963

- Mar. 1987 Joined the Company
- Apr. 2015 Executive Officer and General Manager, Corporate Planning Division
- Jun. 2016 Director and Senior Executive Officer General Manager, Corporate Planning Division and IR Department
- Oct. 2017 Director, Senior Executive Officer, and Chief Digital Officer General Manager, IR Department In charge of Corporate Planning and ESG Promotion (Incumbent)
- Feb. 2018 Director, tsumiki Securities Co., Ltd. (Incumbent)
- Apr. 2018 Senior 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



## Yoshinori Saito

Senior Executive Officer  
Born: July 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)

### Participation in committees:

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



## Yoshiaki Kogure

Executive Officer  
Born: September 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  
Safety Control Committee







## Masahiro Aono

Executive Officer  
Born: March 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 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)
- Apr. 2018 General Manager, Group Design Center (Incumbent)

### Participation in committees:

Management Committee  
Environment CSR Promotion Committee



## Mayuki Igayama

Executive Officer  
Born: June 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  
Information Security Committee



## Junko Tsuda

Executive Officer  
Born: May 1972

- Mar. 1995 Joined the Company
- Apr. 2014 Store Manager, Nakano Marui, MARUI CO., LTD.
- Apr. 2015 Executive Officer (Incumbent)  
Director and Store Manager, Marui Family Shiki, MARUI CO., LTD.
- Apr. 2017 Executive Officer and General Manager, New Business Development Department
- Apr. 2018 Director and Store Manager, Marui Family Mizonokuchi, MARUI CO., LTD. (Incumbent)

### Participation in committees:

Management Committee  
Compliance Promotion Board  
Safety Control Committee



## Miyuki Kawara

Executive Officer  
Born: August 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.
- Apr. 2018 Director and Store Manager, Ueno Marui, MARUI CO., LTD. (Incumbent)

### Participation in committees:

Management Committee  
Personal Information Protection  
Promotion Committee



## Masahisa Aoki

Executive Officer  
Born: July 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
- Apr. 2017 Executive Officer (Incumbent)
- Apr. 2018 General Manager, New Business Development Department, In charge of Anime Business (Incumbent)

### Participation in committees:

Management Committee



# Overview of MARUI GROUP

As of March 31, 2018

## Company Overview

<b>Name</b>	MARUI GROUP CO., LTD.
<b>Head office</b>	3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
<b>Date of foundation</b>	February 17, 1931
<b>Date of establishment</b>	March 30, 1937
<b>Capital</b>	¥35,920 million
<b>Business activities</b>	Corporate planning and management for Group companies engaged in Retailing segment and FinTech segment
<b>Stores</b>	Marui and Modi: 26 located in Kanto, Tokai, Kansai, and Kyushu regions
<b>Total sales floor area</b>	439,800m <sup>2</sup>
<b>Number of employees</b>	5,548 (Group total, excludes temporary employees)
<b>Main banks</b>	The Bank of Tokyo-Mitsubishi UFJ, Ltd. *1 Sumitomo Mitsui Banking Corporation Mitsubishi UFJ Trust and Banking Corporation Mizuho Bank, Ltd. Development Bank of Japan Inc.
<b>Accounting auditor</b>	KPMG AZSA LLC

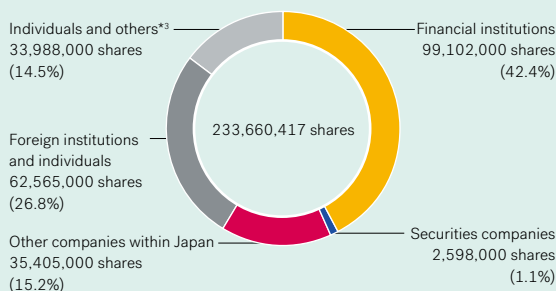
\*1 Currently MUFG Bank, Ltd.

## Stock Information

<b>Stock listing</b>	Tokyo Stock Exchange, First Section (loan margin trading issues)
<b>Securities code</b>	8252
<b>Number of authorized shares</b>	1,400,000,000
<b>Number of common shares issued*2</b>	233,660,417
<b>Number of shareholders</b>	24,080

\*2 Number of common shares issued includes 12,767,206 shares of treasury stock, equivalent to 5.5% of the total number of shares of common stock issued.

## Distribution of Shares Held by Shareholder Type



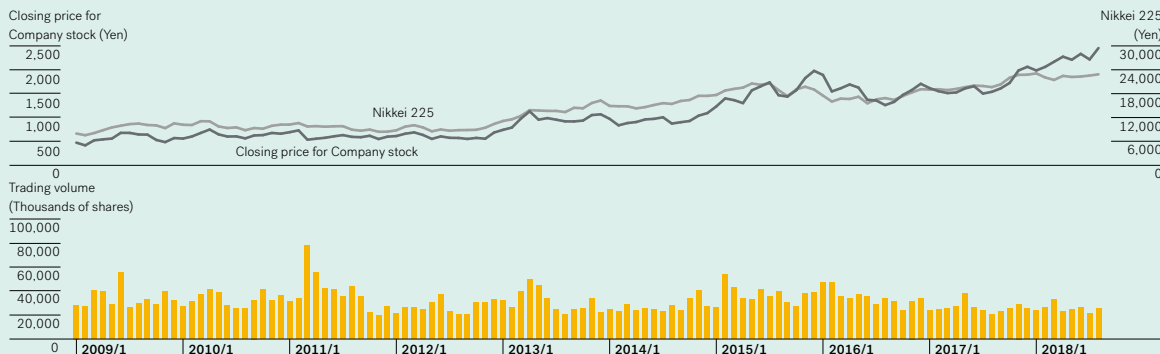
\*3 Individuals and others includes 12,767,206 shares of treasury stock.

## Major Shareholders

Name	Number of shares (Thousands of shares)	Percentage of total shares issued** (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	31,735	14.4
Japan Trustee Services Bank, Ltd. (Trust Account)	17,242	7.8
Japan Trustee Services Bank, Ltd. (Trust Account 9)	6,220	2.8
Aoi Real Estate Co., Ltd.	6,019	2.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.*1	5,808	2.6
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	4,171	1.9
TOHO CO., LTD.	3,779	1.7
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,770	1.7
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,603	1.6
STATE STREET BANK WEST CLIENT - TREATY 505234	3,529	1.6

\*4 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.

## Stock Price





## MARUI GROUP's Business

### 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](http://www.0101.co.jp.e.ex.hp.transer.com)

### 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.eposcard.co.jp](http://www.eposcard.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](http://www.aim-create.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](http://www.moving.co.jp) (Japanese only)

### 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](http://www.m-and-c.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](http://www.marui-facilities.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](http://www.marui-hs.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](http://www.mri-s.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](http://www.epos-ssi.co.jp) (Japanese only)

### tsumiki Securities Co., Ltd.

Sale of investment trusts applicable under Tsumitate NISA through credit payment via EPOS cards

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

🌐 [www.tsumiki-sec.com](http://www.tsumiki-sec.com) (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)



Group of new university students supported in the fiscal year ending March 31, 2019

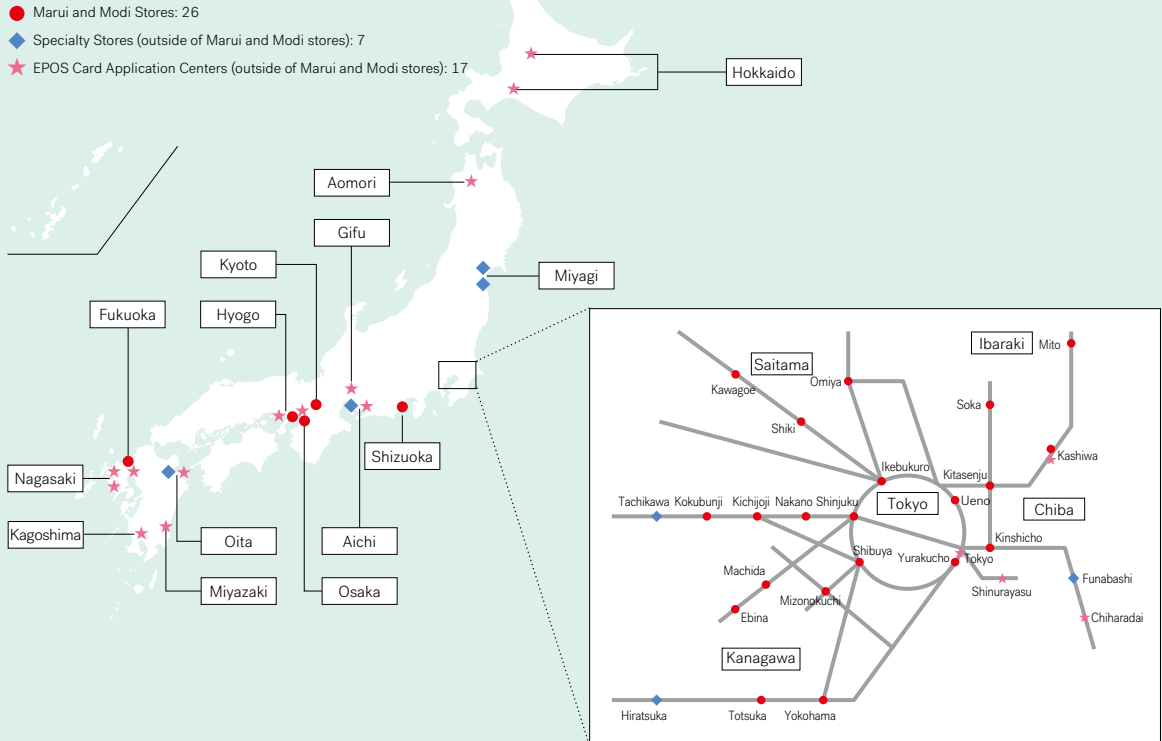
The AOI SCHOLARSHIP FOUNDATION was established by MARUI GROUP founder Chuji Aoi with the aim of contributing to the development of people that can shape the future of Japan and benefit society. Over the more than 40 years since its establishment, this foundation has helped fund the education of high 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: ¥1,810 million  
Total number of students supported: 1,561 (As of April 2018)

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

# MARUI GROUP Store Network

As of March 31, 2018



## Marui and Modi Stores

	Name	Sales floor area (m <sup>2</sup> )	Transactions (billions of yen)	Opened	Address	Telephone
Tokyo	Kitasenju Marui	35,300	37.4	February 27, 2004	3-92 Senju, Adachi-ku 120-8501	03-5244-0101
	Shinjuku Marui	30,590	24.6	September 10, 1948	3-30-13 Shinjuku, Shinjuku-ku 160-0022	03-3354-0101
	Yurakucho Marui	18,500	21.6	October 12, 2007	2-7-1 Yurakucho, Chiyoda-ku 100-0006	03-3212-0101
	Machida Location	21,270	15.3	September 20, 1980	6-1-6 Haramachida, Machida-shi 194-0013	042-728-0101
	Ueno Marui	16,390	12.7	August 24, 1985	6-15-1 Ueno, Taito-ku 110-8502	03-3833-0101
	Kinshicho Marui	22,990	12.3	September 2, 1983	3-9-10 Kotobashi, Sumida-ku 130-0022	03-3635-0101
	Kokubunji Marui	14,300	12.2	March 1, 1989	3-20-3 Minami-cho, Kokubunji-shi 185-8562	042-323-0101
	Shibuya Location	14,090	11.5	October 1, 1958	1-22-6 Jinnan, Shibuya-ku 150-0041	03-3464-0101
	Ikebukuro Marui	12,170	5.7	January 20, 1952	3-28-13 Nishi-Ikebukuro, Toshima-ku 171-0021	03-3989-0101
	Nakano Marui	4,950	5.5	February 17, 1931	3-34-28 Nakano, Nakano-ku 164-0001	03-3382-0101
Kanagawa	Kichijoji Marui	11,950	5.3	October 30, 1960	1-7-1 Kichijojiminami-cho, Musashino-shi 180-8552	0422-48-0101
	Marui Family Mizonokuchi	32,260	21.1	September 12, 1997	1-4-1 Mizonokuchi, Takatsu-ku, Kawasaki-shi 213-0001	044-814-0101
	Totsuka Modi	16,580	9.3	March 15, 2007	10 Totsuka-cho, Totsuka-ku, Yokohama-shi 244-0003	045-862-0135
	Marui Family Ebina	19,500	8.9	April 19, 2002	1-6-1 Chuo, Ebina-shi 243-0483	046-232-0101
	Marui City Yokohama	16,770	8.2	September 20, 1996	2-19-12 Takashima, Nishi-ku, Yokohama-shi 220-0011	045-451-0101
Saitama	Marui Family Shiki	18,900	11.0	February 25, 2000	5-26-1 Hon-cho, Shiki-shi 353-0004	048-487-0101
	Omiya Marui	13,970	6.7	September 28, 1982	2-3 Sakuragi-cho, Omiya-ku, Saitama-shi 330-9501	048-642-0101
	Soka Marui	16,530	4.6	February 21, 1992	2-9-1 Takasago, Soka-shi 340-0015	048-922-0101
	Kawagoe Modi	7,850	1.8	March 24, 2007	4-2 Wakita-cho, Kawagoe-shi 350-1122	049-227-5950
Chiba	Kashiwa Location	18,810	6.7	April 24, 1964	1-1-11 Kashiwa, Kashiwa-shi 277-0005	04-7163-0101
Ibaraki	Mito Marui	13,300	1.9	July 25, 1970	1-2-4 Miyamachi, Mito-shi 310-0015	029-225-0101
Shizuoka	Shizuoka Location	13,460	3.2	September 21, 1969	6-10 Miyukicho, Aoi-ku, Shizuoka-shi 420-0857	054-252-0101
Osaka	Namba Marui	17,000	10.6	September 22, 2006	3-8-9 Namba, Chuo-ku, Osaka-shi 542-0076	06-6634-0101
Kyoto	Kyoto Marui	8,760	4.5	April 27, 2011	68 Shin-cho, Shijodori-Kawaramachi-Higashiiru, Shimogyo-ku, Kyoto-shi 600-8567	075-257-0101
Hyogo	Kobe Marui	6,940	4.3	October 3, 2003	1-7-2 Sannomiya-cho, Chuo-ku, Kobe-shi 650-0021	078-334-0101
Fukuoka	Hakata Marui	15,000	7.6	April 21, 2016	9-1 Chuogai, Hakataekai, Hakata-ku, Fukuoka-shi 812-0012	092-415-0101

Note: "Shinjuku Marui" refers to Shinjuku Marui Main Building, Shinjuku Marui Annex, Shinjuku Marui Men. "Shibuya Location," "Machida Location," "Kashiwa Location," and "Shizuoka Location" refer to both the Marui and Modi stores located at these sites.

**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-minamiyatsugaike, 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 870-0831	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 Kashiwadai Minami, Chitose-shi 066-8765	0123-27-3511
	Feeeel EPOS Card Application Center	Feeeel Asahikawa EPOS Card Application Center, 1st Underground Floor, Feeeel 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
Tokyo	KITTE Marunouchi EPOS Card Application Center	KITTE Marunouchi EPOS Card Application Center, 4th Floor, KITTE Marunouchi, 2-7-2 Marunouchi, Chiyoda-ku, Tokyo 100-7004	03-5224-6611
Chiba	MONA Card Application Center	MONA Card Application Center, MONA Shinurayasu, 2nd Floor, 1-5-1 Irifune, 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
Osaka	Kishiwada CanCan EPOS Card Application Center	Kishiwada CanCan EPOS Card Application Center, 2nd Floor, Kishiwada CanCan Bayside Mall, 2-1 Minatomidori-machi, Kishiwada-shi 596-0014	072-433-5311
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
Fukuoka	AMU PLAZA HAKATA JQ Card EPOS Counter	JQ Card EPOS Counter, 1st Underground Floor, AMU PLAZA HAKATA, 1-1 Hakataekichuogai, Hakata-ku, Fukuoka-shi 812-0012	092-432-5911
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, 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	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



Marui store and product information  
[www.0101.co.jp/e.ex.hp.transer.com](http://www.0101.co.jp/e.ex.hp.transer.com)



MARUI Internet shopping  
 "marui web channel" (Japanese only)  
[voi.0101.co.jp](http://voi.0101.co.jp)



Epos Card Co., Ltd. (Japanese only)  
[www.eposcard.co.jp](http://www.eposcard.co.jp)





# Financial and Non-Financial Summary

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries

FACT BOOK

[www.0101maruigroup.co.jp/en/ir/lib/fact.html](http://www.0101maruigroup.co.jp/en/ir/lib/fact.html)



Fiscal years ended March 31	2008	2009	2010	2011
Total Group transactions	—	—	—	—
Retailing* <sup>1</sup>	—	—	—	—
FinTech* <sup>1</sup>	—	—	—	—
Eliminations* <sup>2</sup>	—	—	—	—
Total operating revenues* <sup>3</sup>	—	—	—	—
Revenue* <sup>3</sup>	493,533	447,400	419,255	406,472
Gross profit	177,565	160,125	149,926	144,736
Selling, general and administrative expenses	159,382	150,986	139,488	129,940
EBITDA* <sup>4</sup>	36,870	28,522	29,695	30,457
Operating income	18,183	9,138	10,438	14,795
Net income (loss) attributable to owners of parent	7,603	(8,750)	5,104	(23,638)
Segment income* <sup>1</sup>				
Retailing* <sup>1</sup>	—	—	—	—
FinTech* <sup>1</sup>	—	—	—	—
Retailing and Store Operation* <sup>1</sup>	10,645	1,252	37	2,110
Credit Card Services* <sup>1</sup>	5,740	6,725	10,272	13,704
Retailing-Related Services* <sup>1</sup>	6,772	3,740	2,509	1,568
Total assets	695,491	685,351	664,357	628,910
Shareholders' equity	336,445	310,818	312,188	284,526
Installment sales accounts receivable	73,781	88,761	95,871	111,760
Consumer loans outstanding	222,534	207,117	191,486	158,707
Interest-bearing debt	277,537	292,061	283,676	264,692
Net cash provided by (used in) operating activities	13,919	15,316	30,811	30,280
Core operating cash flow* <sup>5</sup>	—	—	—	—
Net cash provided by (used in) investing activities	3,134	(18,234)	(13,034)	(7,033)
Net cash provided by (used in) financing activities	(32,241)	2,409	(14,519)	(22,926)
Cash and cash equivalents	29,535	29,026	32,283	32,603
Capital investments	23,649	24,073	17,398	14,332
Depreciation and amortization	18,686	19,384	19,257	15,661
Earnings (loss) per share (yen)	24.91	(31.90)	18.65	(86.36)
Net assets per share (yen)	1,207	1,135	1,140	1,039
Cash dividends per share (yen)	28.0	28.0	14.0	14.0
Payout ratio (%)	112.4	—	75.1	—
Total return ratio (%)	911.3	—	75.1	—
Operating income margin (%)* <sup>6</sup>	3.7	2.0	2.5	3.6
Return on equity (%)	2.1	(2.7)	1.6	(7.9)
Return on invested capital (%)	1.9	1.0	1.1	1.7
Return on assets (%)	2.4	1.1	1.5	2.2
Equity ratio (%)	48.4	45.4	47.0	45.2
Stock price at year-end (yen)	1,061	523	678	537
Market capitalization				
(including treasury stock) (billions of yen)	338.0	166.6	216.0	171.1
Price earnings ratio (times)	42.6	—	36.4	—
Price book-value ratio (times)	0.9	0.5	0.6	0.5
Number of common shares issued (including treasury stock)	318,660,417	318,660,417	318,660,417	318,660,417
Number of shares of treasury stock	39,913,811	44,918,979	44,941,174	44,946,398
Total number of employees	7,147	7,085	6,847	6,492
Ratio of female employees (%)	44.4	44.6	44.7	44.4
Ratio of female managers (%)	—	—	—	—
Employee turnover rate				
(excluding mandatory retirement) (%)	—	—	—	—
Total number of stores* <sup>7</sup>	25	25	25	26
Total sales floor area (thousand m <sup>2</sup> )	381.4	444.8	453.3	457.8
EPOS cardholders (including Akai Card)				
(ten thousands of members)	429	437	476	476
Ratio of delinquent debt (%)	4.22	3.91	3.19	3.35
Energy consumption (GJ)	—	—	—	—
GHG emissions (Scope 1 & 2) (t-CO <sub>2</sub> )* <sup>8 *9</sup>	125,628	122,136	130,600	114,900
GHG emissions (Scope 3) (t-CO <sub>2</sub> )* <sup>8 *9</sup>	—	—	—	—

\*<sup>1</sup> 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.

\*<sup>2</sup> Eliminations under total Group transactions represent the deduction of credit card transactions recorded in Retailing.

\*<sup>3</sup> 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.

\*<sup>4</sup> EBITDA (earnings before interest, taxes, and depreciation and amortization) = Operating income + Depreciation and amortization



							Millions of yen
2012	2013	2014	2015	2016	2017	2018	
—	—	1,297,250	1,469,111	1,703,353	1,933,685	2,189,374	
—	—	—	—	341,478	326,327	328,486	
—	—	—	—	1,473,539	1,723,254	1,972,482	
—	—	—	—	(111,664)	(115,896)	(111,594)	
—	—	253,077	249,847	245,867	237,022	238,999	
412,408	407,366	416,460	404,947	—	—	—	
147,240	148,172	156,642	159,448	160,035	165,964	174,405	
129,224	123,886	129,495	131,406	130,419	134,711	139,162	
33,085	35,237	37,134	38,338	39,286	41,374	45,517	
18,015	24,285	27,146	28,042	29,615	31,253	35,243	
5,251	13,255	15,409	16,036	17,771	18,724	20,907	
—	—	—	—	10,658	7,759	8,826	
—	—	—	—	23,094	27,111	30,310	
7,547	9,885	10,562	8,074	7,856	—	—	
10,619	13,177	15,634	20,126	22,186	—	—	
2,567	3,792	4,523	3,333	3,674	—	—	
615,130	624,173	664,019	675,627	730,126	806,575	867,150	
289,975	303,637	315,446	306,795	281,610	273,883	274,434	
142,995	171,187	213,466	227,121	279,763	348,191	402,030	
132,280	123,739	125,215	128,030	134,107	140,569	146,011	
245,175	243,762	264,824	277,839	359,324	434,327	485,331	
24,897	5,111	(9,227)	12,310	(35,310)	(45,955)	(19,329)	
—	—	—	25,484	26,788	28,188	35,853	
(3,913)	435	(6,791)	(3,867)	(4,063)	1,995	747	
(23,660)	(5,571)	16,141	(7,267)	40,719	47,630	27,773	
29,928	29,940	30,053	31,229	32,575	36,245	45,437	
7,941	7,665	11,238	9,786	12,882	15,696	10,250	
15,069	10,951	9,988	10,296	9,670	10,121	10,274	
19.19	48.43	56.29	58.87	70.68	80.24	93.18	
1,059	1,109	1,152	1,166	1,161	1,196	1,245	
14.0	15.0	18.0	19.0	22.0	33.0	38.0	
73.0	31.0	32.0	32.3	31.1	41.1	40.8	
73.0	31.0	32.0	125.3	227.5	147.5	112.3	
4.4	6.0	10.7	11.2	12.0	13.2	14.7	
1.8	4.5	5.0	5.2	6.0	6.7	7.6	
2.1	3.0	3.0	3.3	3.3	3.1	3.2	
2.8	3.9	4.3	4.2	4.1	4.1	4.2	
47.1	48.6	47.5	45.4	38.6	34.0	31.6	
690	975	885	1,365	1,613	1,513	2,168	
219.8	310.6	282.0	380.3	449.4	353.5	506.6	
36.0	20.1	15.7	23.2	22.8	18.9	23.3	
0.7	0.9	0.8	1.2	1.4	1.3	1.7	
318,660,417	318,660,417	318,660,417	278,660,417	278,660,417	233,660,417	233,660,417	
44,947,345	44,948,289	44,901,353	15,588,364	36,270,334	4,704,750	13,269,506	
6,218	6,101	5,966	5,918	5,899	5,732	5,548	
44.4	44.3	44.5	44.6	45.5	45.1	44.4	
—	6.4	7.3	8.5	8.9	10.0	11.0	
—	2.8	2.3	2.0	1.6	2.6	2.3	
27	27	27	27	28	27	26	
458.4	453.1	446.5	444.0	441.8	452.1	439.8	
487	498	542	591	613	636	657	
3.10	2.32	1.84	1.68	1.57	1.45	1.60	
—	1,998,182	2,525,815	2,350,595	2,305,099	2,341,454	2,327,713	
96,300	86,765	119,129	111,216	103,613	118,183	113,104	
—	—	550,612	530,595	509,070	489,439	412,256	

\*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 From the fiscal year ended March 31, 2017, sites at which both a Marui store and a Modi store exist are counted as one store.

\*8 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.

\*9 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, 2017 and 2018

	Thousands of		
	Millions of yen	U.S. dollars (Note 1)	
	2017	2018	2018
<b>Assets</b>			
Current assets:			
Cash and deposits (Notes 10 and 27)	¥ 36,257	¥ 45,448	\$ 428,754
Notes and accounts receivable-trade (Note 10)	4,840	7,006	66,094
Accounts receivable-installment (Notes 6 and 10)	348,191	402,030	3,792,735
Operating loans (Notes 7 and 10)	140,569	146,011	1,377,462
Allowance for doubtful accounts (Note 10)	(9,352)	(11,843)	(111,726)
	484,249	543,205	5,124,575
Inventories	10,437	7,489	70,650
Deferred tax assets (Note 15)	6,934	7,328	69,132
Other	20,920	26,522	250,207
Total current assets	558,799	629,994	5,943,339
Property and equipment (Note 17):			
Land	103,540	103,680	978,113
Buildings and structures	257,647	257,968	2,433,660
Construction in progress	195	764	7,207
Other	33,547	33,363	314,745
Accumulated depreciation	(216,277)	(218,974)	(2,065,792)
Property and equipment, net	178,654	176,803	1,667,952
Investments and other assets:			
Investment securities (Notes 8, 10 and 11)	18,850	14,999	141,500
Intangible assets	6,295	6,388	60,264
Leasehold and other deposits (Note 10)	34,031	32,527	306,858
Deferred tax assets (Note 15)	6,870	3,492	32,943
Other (Note 9)	3,073	2,944	27,773
Total investments and other assets	69,121	60,352	569,358
Total assets	¥806,575	¥867,150	\$8,180,660
<b>Liabilities and net assets</b>			
Current liabilities:			
Accounts payable-trade (Note 10)	¥ 15,850	¥ 12,361	\$ 116,613
Short-term loans payable and current portion of long-term loans payable (Notes 10 and 14)	50,827	75,331	710,669
Current portion of bonds payable (Notes 10 and 14)	20,000	10,000	94,339
Commercial paper (Note 10)	5,000	—	—
Income taxes payable (Note 10)	7,214	5,961	56,235
Provision for bonuses	3,671	3,940	37,169
Provision for point card certificates	9,181	11,445	107,971
Provision for loss on redemption of gift certificates	158	156	1,471
Other	33,150	49,236	464,490
Total current liabilities	145,051	168,431	1,588,971
Non-current liabilities:			
Bonds payable (Notes 10 and 14)	85,000	95,000	896,226
Long-term loans payable (Notes 10, 12, and 14)	273,500	305,000	2,877,358
Deferred tax liabilities (Note 15)	4,003	3,315	31,273
Provision for loss on interest repayment	11,487	6,081	57,367
Provision for loss on guarantees	197	203	1,915
Provision for stock benefits (Note 5)	179	363	3,424
Asset retirement obligations (Note 16)	887	874	8,245
Other	11,928	12,980	122,452
Total non-current liabilities	387,184	423,818	3,998,283
Total liabilities	532,236	592,249	5,587,254
Contingent liabilities (Note 20)			
Net assets (Note 19)			
Shareholders' equity:			
Capital stock	35,920	35,920	338,867
Authorized: 1,400,000,000 shares of common stock			
Issued: 233,660,417 shares as of March 31, 2017 and March 31, 2018			
Capital surplus	91,307	91,307	861,386
Retained earnings	155,079	168,034	1,585,226
Treasury stock (Note 31)			
4,704,750 shares as of March 31, 2017 and 13,269,506 shares as of March 31, 2018	(7,389)	(22,389)	(211,216)
Total shareholders' equity	274,918	272,872	2,574,264
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	(1,034)	1,563	14,745
Deferred gains or losses on hedges	—	(1)	(9)
Total accumulated other comprehensive income	(1,034)	1,561	14,726
Subscription rights to shares (Note 18)	2	—	—
Non-controlling interests	453	466	4,396
Total net assets	274,339	274,900	2,593,396
Total liabilities and net assets	¥806,575	¥867,150	\$8,180,660

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, 2017 and 2018

		Millions of yen	Thousands of U.S. dollars (Note 1)
<b>Consolidated Statements of Income</b>	2017	2018	2018
Revenue (Note 17)	¥237,022	¥238,999	\$2,254,707
Cost of sales (Notes 17 and 21)	71,057	64,593	609,367
Gross profit	165,964	174,405	1,645,330
Selling, general and administrative expenses (Notes 17 and 22)	134,711	139,162	1,312,849
Operating income	31,253	35,243	332,481
Non-operating income (expenses):			
Interest income	103	46	433
Dividend income	338	353	3,330
Gain on bad debt recovered	1,231	1,122	10,584
Gain on sale of property and equipment (Note 17)	13,659	1,121	10,575
Gain on sale of investment securities	208	429	4,047
Interest expenses	(1,682)	(1,492)	(14,075)
Financing expenses	(187)	(224)	(2,113)
Loss on retirement of property and equipment (Note 23)	(2,918)	(1,643)	(15,500)
Loss on closing of stores (Note 23)	(1,310)	(604)	(5,698)
Impairment loss (Note 24)	(291)	(1,184)	(11,169)
Loss on sale of investment securities	(330)	(1,334)	(12,584)
Loss on valuation of investment securities	—	(23)	(216)
Loss on interest repayment	(377)	—	—
Provision for loss on interest repayment (Note 25)	(11,487)	—	—
Other, net	(164)	81	764
	(3,210)	(3,354)	(31,641)
Income before income taxes	28,043	31,888	300,830
Income taxes (Note 15)			
Income taxes-current	10,420	10,765	101,556
Income taxes-deferred	(1,126)	194	1,830
	9,293	10,959	103,386
Net income	18,749	20,929	197,443
Net income attributable to non-controlling interests	24	21	198
Net income attributable to owners of parent	¥ 18,724	¥ 20,907	\$ 197,235

		Yen	Thousands of U.S. dollars (Note 1)
<b>Per share data (Note 30)</b>	2017	2018	2018
Net income per share:			
Basic	¥ 80.24	¥ 93.18	\$ 0.87
Diluted	80.24	93.18	0.87
Cash dividends	33.00	38.00	0.35
Net assets per share	1,196.23	1,245.22	11.74

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

		Millions of yen	Thousands of U.S. dollars (Note 1)
<b>Consolidated Statements of Comprehensive Income</b>	2017	2018	2018
Net income	¥18,749	¥20,929	\$197,443
Other comprehensive income (Note 26):			
Valuation difference on available-for-sale securities	581	2,597	24,500
Deferred gains or losses on hedges	—	(1)	(9)
Total other comprehensive income	581	2,596	24,490
Comprehensive income	¥19,331	¥23,525	\$221,933
Comprehensive income attributable to:			
Owners of parent	¥19,306	¥23,504	\$221,735
Non-controlling interests	24	21	198

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, 2017 and 2018

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total	Subscription rights to shares	Non-controlling interests	Total net assets
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 April 1, 2017	¥35,920	¥91,307	¥155,079	¥ (7,389)	¥274,918	¥(1,034)	¥—	¥(1,034)	¥ 2	¥453	¥274,339
Changes of items during period:											
Dividends from surplus			(7,953)		(7,953)						(7,953)
Net income attributable to owners of parent			20,907		20,907						20,907
Purchase of treasury stock				(15,002)	(15,002)						(15,002)
Disposal of treasury stock		(0)		2	2						2
Retirement of treasury stock					—						—
Transfer from retained earnings to capital surplus		0	(0)		—						—
Net changes of items other than shareholders' equity						2,597	(1)	2,596	(2)	12	2,607
Total changes of items during period	—	—	12,954	(15,000)	(2,045)	2,597	(1)	2,596	(2)	12	561
Balance as of March 31, 2018	¥35,920	¥91,307	¥168,034	¥(22,389)	¥272,872	¥1,563	¥(1)	¥1,561	¥ —	¥466	¥274,900

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity					Accumulated other comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as of April 1, 2017	\$338,867	\$861,386	\$1,463,009	\$ (69,707)	\$2,593,566	\$ (9,754)	\$—	\$ (9,754)	\$ 18	\$4,273	\$2,588,103
Changes of items during period:											
Dividends from surplus			(75,028)		(75,028)						(75,028)
Net income attributable to owners of parent			197,235		197,235						197,235
Purchase of treasury stock				(141,528)	(141,528)						(141,528)
Disposal of treasury stock		(0)		18	18						18
Retirement of treasury stock					—						—
Transfer from retained earnings to capital surplus		0	(0)		—						—
Net changes of items other than shareholders' equity						24,500	(9)	24,490	(18)	113	24,594
Total changes of items during period	—	—	122,207	(141,509)	(19,292)	24,500	(9)	24,490	(18)	113	5,292
Balance as of March 31, 2018	\$338,867	\$861,386	\$1,585,226	\$(211,216)	\$2,574,264	\$14,745	\$(9)	\$14,726	\$ —	\$4,396	\$2,593,396

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, 2017 and 2018

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 28,043	¥ 31,888	\$ 300,830
Depreciation and amortization	10,121	10,274	96,924
Impairment loss (Note 24)	291	1,184	11,169
Increase (decrease) in provision for point card certificates	2,595	2,264	21,358
Increase (decrease) in provision for allowance for doubtful accounts	1,552	2,491	23,500
Increase (decrease) in provision for loss on interest repayment	5,409	(5,406)	(51,000)
Increase (decrease) in provision for bonuses	(85)	269	2,537
Interest and dividend income	(441)	(399)	(3,764)
Interest expenses	1,682	1,492	14,075
Loss (gain) on retirement of property and equipment	1,149	780	7,358
Loss (gain) on sale of property and equipment	(13,659)	(1,121)	(10,575)
Loss (gain) on sale of investment securities	122	904	8,528
Loss (gain) on valuation of investment securities	—	30	283
Decrease (increase) in notes and accounts receivable-trade	2,618	(2,166)	(20,433)
Decrease (increase) in accounts receivable-installment	(68,428)	(53,838)	(507,905)
Decrease (increase) in operating loans	(6,461)	(5,442)	(51,339)
Decrease (increase) in inventories	2,800	2,193	20,688
Increase (decrease) in accounts payable-trade	(8,468)	(3,489)	(32,915)
Other, net	4,213	10,792	101,811
Subtotal	(36,943)	(7,297)	(68,839)
Interest and dividend income received	350	365	3,443
Interest expenses paid	(1,692)	(1,518)	(14,320)
Income taxes paid	(7,882)	(10,880)	(102,641)
Income taxes refund	212	0	0
Net cash provided by (used in) operating activities	(45,955)	(19,329)	(182,349)
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(18,059)	(9,607)	(90,632)
Proceeds from sale of property and equipment	14,607	1,328	12,528
Purchase of investment securities	(399)	(1,793)	(16,915)
Proceeds from sale of investment securities	2,016	8,562	80,773
Payments for leasehold and other deposits	(275)	(161)	(1,518)
Proceeds from collection of leasehold and other deposits	2,097	1,134	10,698
Other, net	2,009	1,285	12,122
Net cash provided by (used in) investing activities	1,995	747	7,047
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	7,502	3,503	33,047
Net increase (decrease) in commercial paper	(5,000)	(5,000)	(47,169)
Proceeds from long-term loans payable	92,500	62,500	589,622
Repayments of long-term loans payable	(15,000)	(10,000)	(94,339)
Proceeds from issuance of bonds	24,883	19,897	187,707
Redemption of bonds	(30,000)	(20,000)	(188,679)
Purchase of treasury stock	(20,711)	(15,016)	(141,660)
Cash dividends paid (Note 19)	(6,386)	(7,953)	(75,028)
Other, net	(157)	(158)	(1,490)
Net cash provided by (used in) financing activities	47,630	27,773	262,009
Net increase (decrease) in cash and cash equivalents	3,670	9,191	86,707
Cash and cash equivalents at beginning of period	32,575	36,245	341,933
Cash and cash equivalents at end of period (Note 27)	¥ 36,245	¥ 45,437	\$ 428,650

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, 2017 and 2018

## 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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥106 = \$1, the approximate rate of exchange at March 31, 2018, 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, 2017 and 2018, 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, 2017 and 2018, 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, principally 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 that 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 EPOS cards 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 cardholders 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.

**(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. ACCOUNTING STANDARD ISSUED BUT NOT YET APPLIED**

The following guidance was issued but not yet applied.

- "Implementation Guidance on Tax Effect Accounting" (the Accounting Standards Board of Japan ("ASBJ") Guidance No. 28, February 16, 2018)
- "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, February 16, 2018)

#### **(1) Overview**

The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as "Type 1" according to the guidance.

#### **(2) Scheduled date of application**

The Company plans to apply the aforementioned guidance from the beginning of the fiscal year ending March 31, 2019.

#### **(3) Effect of application**

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of the aforementioned guidance on the consolidated financial statements.

The following standard and guidance were issued but not yet applied.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

#### (1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following five steps:

Step 1: Identify contract(s) with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

#### (2) Scheduled date of application

The Company plans to apply the aforementioned standard and guidance from the beginning of the fiscal year ending March 31, 2022.

#### (3) Effect of application

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standard and guidance on the consolidated financial statements.

## 4. CHANGE IN PRESENTATION

### ***Consolidated Balance Sheets***

From the fiscal year ended March 31, 2018, the account "Investments in unconsolidated subsidiaries and affiliates," which was previously shown as a separate line item under "Investments and other assets," was reclassified into "Investment securities" or "Other" for the clearer presentation of the consolidated balance sheets. The balance in the previous fiscal year has been reclassified to conform to the current year's presentation. As a result, the amount of ¥872 million presented as "Investments in unconsolidated subsidiaries and affiliates" was reclassified and included in "Investment securities" and "Other" in the amounts of ¥740 million and ¥132 million, respectively.

### ***Consolidated Statements of Cash Flows***

The account "Impairment loss," which was previously included in "Other, net" under "Cash flows from operating activities," is shown separately for the fiscal year ended March 31, 2018. The balance in the previous fiscal year has been reclassified to conform to the current year's presentation. As a result, the amount of ¥4,505 million presented as "Other, net" in the previous fiscal year's consolidated statement of cash flows is reclassified as "Impairment loss" of ¥291 million and "Other, net" of ¥4,213 million.

## 5. ADDITIONAL INFORMATION

### ***Stock Benefit Employee Stock Ownership Plan Trust***

The Company has an incentive plan using 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 sets up a trust with the Senior Managers who fulfill certain requirements as beneficiaries, by contributing funds to acquire the Company's stock. The trust acquires 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 makes 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 of applicable treasury stock is ¥479 million (\$4,518 thousand), and the number of shares is 340,800 shares as of March 31, 2017 and 2018.

### ***Officer Remuneration Board Incentive Plan Trust***

The Company also has an incentive plan using 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 11 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 sets up a trust with the Executives who fulfill certain requirements as beneficiaries, by contributing funds to acquire the Company's stock. The trust acquires 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 makes 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 of applicable treasury stock is ¥217 million (\$2,047 thousand) and the number of shares is 161,500 shares as of March 31, 2017 and 2018.

## 6. ACCOUNTS RECEIVABLE-INSTALLMENT

The following balances for lump sums receivable and revolving receivable are securitized and are therefore excluded from the consolidated balance sheets as of March 31, 2017 and 2018:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Card shopping:			
Lump sums receivable	¥55,000	¥69,973	\$660,122
Revolving receivable	9,290	2,776	26,188

## 7. 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 is as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Total loan limits	¥1,139,270	¥1,188,248	\$11,209,886
Amount executed as loans	140,569	146,011	1,377,462
Unused balance	¥ 998,701	¥1,042,237	\$ 9,832,424

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.

## 8. INVESTMENTS IN STOCKS OF UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

The balance of "Investment securities" includes the investments in stocks of unconsolidated subsidiaries and affiliates as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Stocks of unconsolidated subsidiaries and affiliates	¥740	¥840	\$7,924

## 9. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

The balance of "Other" includes the investments in stocks of unconsolidated subsidiaries and affiliates as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Investments in unconsolidated subsidiaries and affiliates	¥132	¥132	\$1,245



## 10. 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, 2017 and 2018, 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 118).

	2017			2018		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1) Cash and deposits	¥ 36,257	¥ 36,257	¥ —	¥ 45,448	¥ 45,448	¥ —
(2) Notes and accounts receivable–trade	4,840	4,840	—	7,006	7,006	—
(3) Accounts receivable–installment	348,191			402,030		
Allowance for doubtful accounts*1	(6,236)			(8,024)		
	341,955	385,860	43,904	394,005	434,942	40,937
(4) Operating loans	140,569			146,011		
Allowance for doubtful accounts*2	(2,349)			(2,771)		
	138,219	157,324	19,105	143,239	162,550	19,310
(5) Investment securities:						
Available-for-sale securities	17,429	17,429	—	12,954	12,954	—
(6) Leasehold and other deposits	6,993	6,902	(90)	6,173	6,236	62
Assets, total	¥545,695	¥608,615	¥62,919	¥608,829	¥669,139	¥60,310
(1) Accounts payable–trade	¥ 15,850	¥ 15,850	¥ —	¥ 12,361	¥ 12,361	¥ —
(2) Short-term loans payable and current portion of long-term loans payable	50,827	50,827	—	75,331	75,331	—
(3) Current portion of bonds payable	20,000	20,000	—	10,000	10,000	—
(4) Commercial paper	5,000	5,000	—	—	—	—
(5) Income taxes payable	7,214	7,214	—	5,961	5,961	—
(6) Bonds payable	85,000	85,049	49	95,000	95,140	140
(7) Long-term loans payable	273,500	272,556	(943)	305,000	304,597	(402)
Liabilities, total	¥457,391	¥456,498	¥ (893)	¥503,654	¥503,392	¥ (261)

\*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)		
	2018		
	Carrying value	Fair value	Difference
(1) Cash and deposits	\$ 428,754	\$ 428,754	\$ —
(2) Notes and accounts receivable–trade	66,094	66,094	—
(3) Accounts receivable–installment	3,792,735		
Allowance for doubtful accounts	(75,698)		
	3,717,028	4,103,226	386,198
(4) Operating loans	1,377,462		
Allowance for doubtful accounts	(26,141)		
	1,351,311	1,533,490	182,169
(5) Investment securities			
Available-for-sale securities	122,207	122,207	—
(6) Leasehold and other deposits	58,235	58,830	584
Assets, total	\$5,743,669	\$6,312,632	\$568,962
(1) Accounts payable–trade	\$ 116,613	\$ 116,613	\$ —
(2) Short-term loans payable and current portion of long-term loans payable	710,669	710,669	—
(3) Current portion of bonds payable	94,339	94,339	—
(4) Commercial paper	—	—	—
(5) Income taxes payable	56,235	56,235	—
(6) Bonds payable	896,226	897,547	1,320
(7) Long-term loans payable	2,877,358	2,873,556	(3,792)
Liabilities, total	\$4,751,452	\$4,748,981	\$ (2,462)

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, 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 12, "DERIVATIVE TRANSACTIONS," for details.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Unlisted stocks	¥ 1,421	¥ 1,788	\$ 16,867
Contributions to investment limited partnerships	—	256	2,415
Part of security deposits	27,796	28,225	266,273

The items above are not included in (5) Investment securities or (6) Leasehold and other deposits in the table on page 125, as it is extremely difficult to determine the fair value since there were no market prices available and their future cash flows cannot be estimated.

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

	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

Millions of yen

	2018			
	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	¥ 45,448	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	7,006	—	—	—
Accounts receivable-installment	217,645	124,809	33,372	26,203
Operating loans	69,434	76,414	111	50
Leasehold and other deposits	799	3,244	436	1,693
Total	¥340,334	¥204,468	¥33,920	¥27,947

Thousands of U.S. dollars (Note 1)

	2018			
	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	\$ 428,754	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	66,094	—	—	—
Accounts receivable-installment	2,053,254	1,177,443	314,830	247,198
Operating loans	655,037	720,886	1,047	471
Leasehold and other deposits	7,537	30,603	4,113	15,971
Total	\$3,210,698	\$1,928,943	\$320,000	\$263,650

See Note 14, "SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT," for the schedule of aggregate annual maturities of long-term loans payable and long-term debt.

## 11. INVESTMENT SECURITIES

(1) Information on available-for-sale securities as of March 31, 2017 and 2018, is as follows:

Millions of yen

	2017			2018		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Carrying value exceeding acquisition cost:						
Stocks	¥10,633	¥ 9,956	¥ 677	¥12,555	¥10,149	¥2,406
Subtotal	10,633	9,956	677	12,555	10,149	2,406
Carrying value not exceeding acquisition cost:						
Stocks	6,795	8,959	(2,164)	398	564	(165)
Subtotal	6,795	8,959	(2,164)	398	564	(165)
Total	¥17,429	¥18,915	¥(1,486)	¥12,954	¥10,713	¥2,241

Thousands of U.S. dollars (Note 1)			
2018			
	Carrying value	Acquisition cost	Difference
Carrying value exceeding acquisition cost:			
Stocks	\$118,443	\$ 95,745	\$22,698
Subtotal	118,443	95,745	22,698
Carrying value not exceeding acquisition cost:			
Stocks	3,754	5,320	(1,556)
Subtotal	3,754	5,320	(1,556)
Total	\$122,207	\$101,066	\$21,141

Unlisted stocks in the amount of ¥681 million and ¥948 million (\$8,943 thousand) as of March 31, 2017 and 2018, respectively, and contributions to investment limited partnerships in the amount of ¥256 million (\$2,415 thousand) as of March 31, 2018, are not included in the table above as it is extremely difficult to determine the fair value since their market price is not readily available and their future cash flows cannot be estimated.

(2) Information on sale of available-for-sale securities for the fiscal years ended March 31, 2017 and 2018, is as follows:

Millions of yen						
2017			2018			
	Proceeds from sales	Gains	Losses	Proceeds from sales	Gains	Losses
Stocks	¥2,016	¥208	¥330	¥8,562	¥429	¥1,334
Total	¥2,016	¥208	¥330	¥8,562	¥429	¥1,334

Thousands of U.S. dollars (Note 1)			
2018			
	Proceeds from sales	Gains	Losses
Stocks	\$80,773	\$4,047	\$12,584
Total	\$80,773	\$4,047	\$12,584

(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. For the fiscal year ended March 31, 2018, the disclosure of impairment loss on investment securities was omitted due to insignificance of the amount. For the fiscal year ended March 31, 2017, no impairment loss on investment securities was recognized.

## 12. DERIVATIVE TRANSACTIONS

For the fiscal years ended March 31, 2017 and 2018, 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)		
2017			2018			2018		
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
¥22,000	¥17,000	*	¥17,000	¥10,000	*	\$160,377	\$94,339	*

\* 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.

## 13. LEASES

### (As a Lessee)

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

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Within one year	¥ 3,861	¥ 3,728	\$ 35,169
Over one year	21,275	17,818	168,094
Total	¥25,136	¥21,546	\$203,264

### (As a Lessor)

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Within one year	¥12,058	¥10,038	\$ 94,698
Over one year	8,881	6,554	61,830
Total	¥20,939	¥16,592	\$156,528

## 14. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable and current portion of long-term loans payable as of March 31, 2017 and 2018, consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Short-term loans payable	¥40,827	¥44,331	\$418,216
Current portion of long-term loans payable	10,000	31,000	292,452
Total	¥50,827	¥75,331	\$710,669

Annual weighted-average interest rates of short-term loans payable were 0.27% and 0.28% and those of current portion of long-term loans payable were 0.65% and 0.43% for the fiscal years ended March 31, 2017 and 2018, respectively.



Long-term debt as of March 31, 2017 and 2018, consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
0.27% long-term loans from banks and others due through 2028, excluding current portion	¥273,500	¥305,000	\$2,877,358
20th series unsecured 0.79% corporate bond, due 2017	10,000	—	—
21st series unsecured 0.57% corporate bond, due 2017	10,000	—	—
22nd series unsecured 0.85% corporate bond, due 2019	5,000	5,000	47,169
24th series unsecured 0.582% corporate bond, due 2018	10,000	10,000	94,339
25th series unsecured 0.344% corporate bond, due 2019	10,000	10,000	94,339
26th series unsecured 0.562% corporate bond, due 2021	10,000	10,000	94,339
27th series unsecured 0.337% corporate bond, due 2020	15,000	15,000	141,509
28th series unsecured 0.543% corporate bond, due 2022	10,000	10,000	94,339
29th series unsecured 0.050% corporate bond, due 2019	15,000	15,000	141,509
30th series unsecured 0.130% corporate bond, due 2021	10,000	10,000	94,339
31st series unsecured 0.190% corporate bond, due 2022	—	10,000	94,339
32nd series unsecured 0.300% corporate bond, due 2024	—	10,000	94,339
Lease obligation	1,719	1,570	14,811
	380,219	411,570	3,882,735
Less: Current portion of corporate bond and lease obligation	20,149	10,149	95,745
Total	¥360,070	¥401,420	\$3,786,981

The aggregate annual maturities of long-term debt subsequent to March 31, 2018, are as follows:

Year ending March 31	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Long-term loans payable	Bonds payable	Lease obligation	Long-term loans payable	Bonds payable	Lease obligation
2019	¥ 31,000	¥ 10,000	¥ 149	\$ 292,452	\$ 94,339	\$ 1,405
2020	42,000	30,000	149	396,226	283,018	1,405
2021	51,000	15,000	149	481,132	141,509	1,405
2022	35,000	20,000	149	330,188	188,679	1,405
2023 and thereafter	177,000	30,000	971	1,669,811	283,018	9,160
Total	¥336,000	¥105,000	¥1,570	\$3,169,811	\$990,566	\$14,811

## 15. DEFERRED TAX ACCOUNTING

Major components of deferred tax assets and deferred tax liabilities as of March 31, 2017 and 2018, are as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Deferred tax assets:			
Depreciation	¥ 5,741	¥ 5,597	\$ 52,801
Impairment loss	5,073	5,384	50,792
Provision for loss on interest repayment	3,982	1,860	17,547
Provision for point card certificates	3,194	3,286	31,000
Net unrealized loss on non-current assets	1,353	1,191	11,235
Provision for bonuses	1,263	1,240	11,698
Net operating loss carried forward	315	523	4,933
Other	6,034	5,593	52,764
Subtotal	26,958	24,678	232,811
Valuation allowance	(6,969)	(5,630)	(53,113)
Total deferred tax assets	¥19,988	¥19,047	\$179,688
Deferred tax liabilities:			
Reserve for special account for advanced depreciation of non-current assets	¥9,900	¥11,259	\$106,216
Valuation difference on available-for-sale securities	23	61	575
Other	263	221	2,084
Total deferred tax liabilities	¥10,187	¥11,542	\$108,886
Deferred tax assets, net	¥ 9,801	¥ 7,505	\$ 70,801

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 are as follows:

	2017	2018
Statutory tax rate	30.9%	30.9%
Adjustments:		
Permanent differences such as entertainment expenses, etc.	0.3	0.2
Permanent differences such as dividends, etc.	(0.1)	(0.1)
Change in valuation allowance	(0.9)	(4.2)
Inhabitants' tax	0.5	0.5
Difference in tax rates of consolidated subsidiaries	3.6	3.3
Tax credit	(1.5)	0.0
Adjustments to deferred tax assets in connection with application of pro forma standard taxation*	—	3.5
Other	0.3	0.3
Effective tax rate	33.1%	34.4%

\* A certain consolidated subsidiary became subject to pro forma standard taxation due to an increase in its capital amount. This is the effect of application of such taxation.

## 16. 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, 2017 and 2018, consist of the following:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Beginning balance	¥974	¥892	\$8,415
Increase due to acquisition of property and equipment	7	—	—
Adjustments due to passage of time	4	4	37
Decrease due to fulfillment of obligation	(93)	—	—
Ending balance	¥892	¥897	\$8,462

### (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.

## 17. 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, 2017 and 2018, was ¥10,929 million and ¥17,509 million (\$165,179 thousand), respectively. For the fiscal years ended March 31, 2017 and 2018, the Group recognized ¥13,659 million and ¥1,121 million (\$10,575 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 are as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Carrying value*1:			
Beginning balance	¥ 45,240	¥ 86,249	\$ 813,669
Changes during the year*2	41,008	17,679	166,783
Ending balance	¥ 86,249	¥103,928	\$ 980,452
Fair value*3	¥159,321	¥215,080	\$2,029,056

\*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 ¥37,267 million and ¥18,530 million (\$174,811 thousand) for the fiscal years ended March 31, 2017 and 2018, respectively.

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

## 18. SUBSCRIPTION RIGHTS TO SHARES

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

	2016
Date of resolution	June 25, 2015
Title and number of grantees	4 Directors and 12 Executive Officers of the Company
Type and number of shares to be issued upon exercise of stock options	Common stock 32,000 shares
Granted date	July 10, 2015
Vesting conditions	No provision
Eligible service period	No provision
Exercise period	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, 2018. The number of stock options is translated into the number of shares.

	Number of shares
	2016
Before vested:	
As of March 31, 2017	—
Granted	—
Forfeited	—
Vested	—
As of March 31, 2018	—
After vested:	
As of March 31, 2017	1,400
Vested	—
Exercised	1,400
Forfeited	—
As of March 31, 2018	—

	Yen	U.S. dollars (Note 1)
Exercise price	¥ 1	\$0.009
Average exercise price	1,482	13.98
Fair value at granted date	1,589	14.99

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.

## 19. 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, 2017 and 2018:

2017					
Resolution	Class of share	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 29, 2016	Common stock	¥2,666	¥11	March 31, 2016	June 30, 2016
Board of Directors' meeting held on November 4, 2016	Common stock	3,719	16	September 30, 2016	December 5, 2016

Note: The amount of dividends resolved at the Board of Directors' meeting held on November 4, 2016, includes ¥8 million of dividends for the BIP Trust and ESOP Trust.

2018							
Resolution	Class of share	Total amount of dividends		Dividends per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)	(Yen)	(U.S. dollars) (Note 1)		
Ordinary General Meeting of Shareholders held on June 26, 2017	Common stock	¥3,900	\$36,792	¥17	\$0.16	March 31, 2017	June 27, 2017
Board of Directors' meeting held on November 9, 2017	Common stock	4,052	38,226	18	0.16	September 30, 2017	December 4, 2017

Note 1: The amount of dividends resolved at the Ordinary General Meeting of Shareholders held on June 26, 2017, includes ¥8 million (\$75 thousand) of dividends for the BIP Trust and ESOP Trust.

Note 2: The amount of dividends resolved at the Board of Directors' meeting held on November 9, 2017, includes ¥9 million (\$84 thousand) of dividends for the BIP Trust and ESOP Trust.

Dividends with a record date during the fiscal year ended March 31, 2018, but with an effective date subsequent to the fiscal year ended March 31, 2018, are as follows:

Resolution	Class of share	Total amount of dividends		Source	Dividends per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)		(Yen)	(U.S. dollars) (Note 1)		
Ordinary General Meeting of Shareholders held on June 25, 2018	Common stock	¥4,417	\$41,669	Retained earnings	¥20	\$0.18	March 31, 2018	June 26, 2018

Note: The amount of dividends resolved at the Ordinary General Meeting of Shareholders held on June 25, 2018, includes ¥10 million (\$94 thousand) of dividends 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	
	2017	2018
Common stock, issued and outstanding:		
At the beginning of the year	278,660,417	233,660,417
Decrease due to retirement of treasury stock	(45,000,000)	—
At the end of the year	233,660,417	233,660,417
Treasury stock:		
At the beginning of the year	36,270,334	4,704,750
Increase due to purchase of treasury stock in the stock market	12,966,300	8,564,700
Increase due to acquisition of stock through BIP Trust and ESOP Trust	502,300	—
Increase due to purchase of odd lot shares	1,178	1,473
Decrease due to retirement of treasury stock	(45,000,000)	—
Decrease due to exercise of stock options	(35,300)	(1,400)
Decrease due to sale of stock to odd lot shareholders	(62)	(17)
At the end of the year	4,704,750	13,269,506

## 20. 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, 2017 and 2018, the amounts of the Group's guarantee obligations were ¥25,428 million and ¥24,616 million (\$232,226 thousand), respectively.

## 21. COST OF SALES

For the fiscal years ended March 31, 2017 and 2018, cost of sales included the revaluation loss on inventories in the amounts of ¥48 million and ¥24 million (\$226 thousand), respectively.

## 22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2017 and 2018, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Advertisement	¥ 12,425	¥ 12,168	\$ 114,792
Provision for point card certificates	9,181	11,445	107,971
Provision for allowance for doubtful accounts	9,610	12,344	116,452
Salaries and allowances	32,023	31,386	296,094
Provision for bonuses	3,441	3,604	34,000
Rent	16,308	15,888	149,886
Depreciation and amortization	8,960	8,899	83,952
Other	42,760	43,425	409,669
	¥134,711	¥139,162	\$1,312,849

**23. 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, 2017 and 2018, consisted of the following:

	2017	2018	Thousands of U.S. dollars (Note 1)
		Millions of yen	
Buildings and structures	¥ 988	¥ 535	\$ 5,047
Furniture and fixtures	1,930	1,108	10,452
	¥2,918	¥1,643	\$15,500

For the fiscal years ended March 31, 2017 and 2018, the Group recognized ¥1,310 million and ¥604 million (\$5,698 thousand) of loss on closing of stores, which primarily consisted of restoration costs involved in the closing of stores.

**24. 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
Stores	Kawasaki store	Buildings and structures	¥278
	Kawasaki, Kanagawa, etc.	Other	12
		Total	¥291

The impairment loss recognized for the fiscal year ended March 31, 2018, is as follows:

Use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars (Note 1)
Stores	Mito store	Land	¥ 738	\$ 6,962
	Mito, Ibaraki, etc.	Other	446	4,207
		Total	¥1,184	\$11,169

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.

**25. PROVISION FOR LOSS ON INTEREST REPAYMENT**

For the fiscal year ended March 31, 2017, the Company re-examined the amount of provision based on the situation in which repayment claims continue although the actual repayments decreased compared with the previous fiscal year, and recorded the necessary amount at the fiscal year-end.



## 26. COMPREHENSIVE INCOME

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Valuation difference on available-for-sale securities:			
Amounts incurred for the year	¥116	¥ 2,847	\$ 26,858
Reclassification adjustments	122	904	8,528
Before tax effect adjustment	238	3,751	35,386
Tax effect	343	(1,154)	(10,886)
Valuation difference on available-for-sale securities	581	2,597	24,500
Deferred gains or losses on hedges:			
Amounts incurred for the year	—	(2)	(18)
Tax effect	—	0	0
Deferred gains or losses on hedges	—	(1)	(9)
Total other comprehensive income	¥581	¥ 2,596	\$ 24,490

## 27. 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, 2017 and 2018, are as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Cash and deposits	¥36,257	¥45,448	\$428,754
Time deposits with maturity in excess of three months	(11)	(11)	(103)
Cash and cash equivalents	¥36,245	¥45,437	\$428,650

## 28. 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.

	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

\*1 Adjustment to segment income consists of intersegment elimination of ¥2,037 million and corporate expenses of ¥(5,654) million that are not allocated to each reportable segment. Adjustment to segment assets mainly consists of intersegment elimination of ¥(362,554) million and corporate assets of ¥335,571 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 in the consolidated statements of income.

	Millions of yen				
	2018			Adjustment *1	Consolidated *2
	Reportable segment		Total		
	Retailing	FinTech			
Revenue:					
Outside customers	¥132,241	¥106,758	¥238,999	¥ —	¥238,999
Intersegment	5,839	2,187	8,026	(8,026)	—
Total	¥138,081	¥108,945	¥247,026	¥ (8,026)	¥238,999
Segment income	¥ 8,826	¥ 30,310	¥ 39,137	¥ (3,894)	¥ 35,243
Segment assets	¥297,199	¥595,844	¥893,044	¥(25,893)	¥867,150
Other items:					
Depreciation and amortization	¥ 8,484	¥ 1,819	¥ 10,303	¥ (29)	¥ 10,274
Increase in property and equipment and intangible assets	9,030	1,874	10,905	(654)	10,250

Thousands of U.S. dollars (Note 1)					
2018					
	Reportable segment			Adjustment *1	Consolidated *2
	Retailing	FinTech	Total		
Revenue:					
Outside customers	\$1,247,556	\$1,007,150	\$2,254,707	\$ —	\$2,254,707
Intersegment	55,084	20,632	75,716	(75,716)	—
Total	\$1,302,650	\$1,027,783	\$2,330,433	\$ (75,716)	\$2,254,707
Segment income	\$ 83,264	\$ 285,943	\$ 369,216	\$ (36,735)	\$ 332,481
Segment assets	\$2,803,764	\$5,621,169	\$8,424,943	\$ (244,273)	\$8,180,660
Other items:					
Depreciation and amortization	\$ 80,037	\$ 17,160	\$ 97,198	\$ (273)	\$ 96,924
Increase in property and equipment and intangible assets	85,188	17,679	102,877	(6,169)	96,698

\*1 Adjustment to segment income consists of intersegment elimination of ¥2,534 million (\$23,905 thousand) and corporate expenses of ¥(6,428) million (\$60,641 thousand) that are not allocated to each reportable segment. Adjustment to segment assets mainly consists of intersegment elimination of ¥(416,031) million (\$3,924,820 thousand) and corporate assets of ¥390,674 million (\$3,685,603 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 in the consolidated statements of income.

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, 2017 and 2018, an impairment loss of ¥291 million and ¥1,184 million (\$11,169 thousand), respectively, was reported by the Retailing segment.

## 29. RELATED PARTY INFORMATION

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

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	Real estate rental	Direct 1.0%	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	32	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.

2018									
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 (\$94 thousand) (Note 1)	Real estate rental	Direct 1.0%	Property rental Concurrent position as director	Property rental	¥45 (\$424 thousand) (Note 1)	Leasehold and other deposits	¥41 (\$386 thousand) (Note 1)
								Other current liabilities	1 (\$9 thousand) (Note 1)
Seiwa Kogyo Co., Ltd.	Shinjuku, Tokyo	10 (\$94 thousand) (Note 1)	Real estate rental	Direct 0.8%	Property rental Concurrent position as director	Property rental	32 (\$301 thousand) (Note 1)	Leasehold and other deposits	191 (\$1,801 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.

### 30. PER SHARE INFORMATION

Net income per share, both basic and diluted, for the fiscal years ended March 31, 2017 and 2018, is as follows:

	2017	2018	Yen	U.S. dollars (Note 1)
				2018
Net income per share	¥80.24	¥93.18		\$0.87
Diluted net income per share	80.24	93.18		0.87

	2017	2018	Thousands of shares
Weighted-average number of outstanding shares	233,346	224,381	
Diluted shares:			
Assumed exercise of stock options	8	0	

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 and 502 thousand shares for the fiscal years ended March 31, 2017 and 2018, respectively).

### 31. SUBSEQUENT EVENT

At the Board of Directors' meeting held on May 10, 2018, 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), and also resolved to retire treasury stock in accordance with Article 178 of the Act.

#### Reason for acquisition and retirement

Based on the medium-term management plan to be achieved by the fiscal year ending March 31, 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. As part of the plan, the Company will execute acquisition and retirement of treasury stock to improve its corporate value by achieving the following targets: an ROE of 10%, an ROIC of 4%, and an EPS of ¥130.

Based on these Group strategies, the Company resolved to acquire and retire treasury stock as follows:

#### (Acquisition of treasury stock)

(i) Class of shares	Common stock
(ii) Maximum number of shares to acquire	4 million shares (1.81% of total outstanding shares)
(iii) Maximum amount for acquisition	¥7,000 million (\$66,037 thousand)
(iv) Acquisition period	From May 11, 2018 to March 31, 2019

#### (Retirement of treasury stock)

(i) Class of shares	Common stock
(ii) Number of shares to be retired	10 million shares (4.28% of total outstanding shares)
(iii) Number of total outstanding shares after retirement	223,660,417 shares
(iv) Date of retirement	May 31, 2018



## **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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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, 2018  
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.

# 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.

## Global Socially Responsible Investment Indexes



MARUI GROUP has been included in the FTSE4Good Index Series, a series of well-known socially responsible investment indexes arranged by FTSE Russell that comprise companies meeting evaluation standards pertaining to ESG factors, for two consecutive years. As of June 30, 2018, a total of 925 companies from around the world were included in these indexes, of which 152 were Japanese companies.



MARUI GROUP has been selected for inclusion in the Dow Jones Sustainability World Index, a major global socially responsible investment index, for the first time and has been included in the Dow Jones Sustainability Asia Pacific Index for the second consecutive year.



In *RobecoSAM Sustainability Yearbook 2018*, a compilation of companies displaying excellence in terms of ESG initiatives and information disclosure, MARUI GROUP was the only Japanese company from the retail sector identified as a yearbook member. Moreover, this was our first year of inclusion.



MARUI GROUP was selected for inclusion in the SNAM Sustainability Index for the first time. This index is compiled by Sompo Japan Nipponkoa Asset Management Co., Ltd., and used in its SNAM Sustainable Investment Fund, which prioritizes ESG ratings by investment firms.

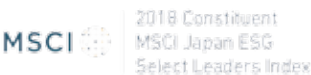


MARUI GROUP was selected for inclusion in the Morningstar Socially Responsible Investment Index for the second consecutive year. This socially responsible investment index compiles and indexes the stock price of approximately 150 companies from among the roughly 4,000 listed companies in Japan that display excellence in terms of social contributions based on corporate governance-, environment-, social-, and human resource-related matters.

## Three ESG Indexes Utilized by the Government Pension Investment Fund



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\* for the second consecutive year. 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.



For two consecutive years, 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.

## JPX-Nikkei Index 400

MARUI GROUP was included, for the first time, in the JPX-Nikkei Index 400, a stock price index composed of companies with high appeal for investors that meet requirements of global investment standards, such as efficient use of capital and investor-focused management perspectives.

## Ranked No. 1 in Retail Sector in Three Categories of U.S. Institutional Investor's All-Japan Executive Team Rankings

Best Analyst Days	Combined No. 1
Best ESG/SRI Metrics	Combined No. 1
Best Corporate Governance	Combined No. 1
Best CEOs	Buy Side No. 3
Best IR Programs	Combined No. 3, Buy Side No. 2
Most Honored Companies	Combined No. 5

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 2018, votes were received from 1,002 institutional investors and securities analysts from 410 institutions.

\* 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 was awarded a score of A- for the second consecutive year in *CDP Climate Change Report 2017*, Japan edition, out of recognition for its efforts to control emissions of CO<sub>2</sub> and other greenhouse gases and manage risks related to climate change.



MARUI GROUP was awarded with the highest rating of gold in the PRIDE INDEX out of recognition of its inclusion of a clear declaration that individuals are not to suffer discrimination on the basis of sexual identity or sexual orientation among the items prohibiting discriminatory treatment in its labor agreements and its establishment of an internal consultation venue for LGBT issues, among other initiatives.



MARUI GROUP's greenhouse gas emission reduction targets for 2050 were the first targets by a Japanese retailer to receive certification from the international initiative known as Science Based Targets.



In the International ARC Awards, one of the two major U.S. annual report competitions, *Co-Creation Sustainability Report 2016* (English-language edition) received a Silver award in 2017 and *Co-Creation Management Report 2017* (English-language edition) received a Bronze award in 2018.

#### 21st Nikkei Corporate Environmental Management Survey

The Nikkei Corporate Environmental Management Survey is a survey designed to evaluate companies that are effectively addressing environmental issues in their management, which has been instituted once a year since 1997. MARUI GROUP ranked first in the retail and restaurants category of the most recent survey with perfect scores in areas related to environment management systems, pollution prevention and biodiversity initiatives, and global warming countermeasures.



In the 2017 Vision Awards Annual Report Competition, one of the two major U.S. annual report competitions, *Co-Creation Sustainability Report 2017* (English-language edition) won a Gold award and *Co-Creation Management Report 2017* (English-language edition) won a Silver award.



MARUI GROUP was included in the Health & Productivity Stock Selection for the first time in 2018, recognizing it as a company that is strategically addressing employee health and productivity management issues based on a management perspective. The Company was rated the highest among retail sector companies for its organizational framework and measures.

#### NIKKEI Annual Report Awards 2017

In NIKKEI Annual Report Awards 2017, MARUI GROUP's *Co-Creation Management Report 2017* integrated report received an award for outstanding performance based on the high scores for its senior management messages, descriptions of measures and plans for improving medium-to-long-term corporate value, and overall quality.



MARUI GROUP was selected for inclusion in the Nadeshiko Brand for the first time based on the high evaluation of its efforts to promote diversity through systems for encouraging active participation by all employees and frameworks for swiftly incorporating employee input.

#### 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.



MARUI GROUP was included in the New Diversity Management Selection 100 for the first time out of recognition of its cultivation of a corporate culture in which employees voluntarily participate in initiatives and its creation of new services that merge physical stores, e-commerce, and FinTech.

#### MARUI GROUP Websites



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](http://www.0101maruigroup.co.jp/en/ci/award.html)



#### 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](http://www.0101maruigroup.co.jp/ir/infomail/reg.html)



MARUI GROUP was presented with its first award for outstanding performance in the Awards for Enterprises and Workplaces with Pleasant Working Environments and High Productivity program out of recognition of its efforts to reduce overtime through various work systems and to build a pleasant working environment.





## Participation in the Forum for Integrated Corporate Disclosure and ESG Dialogue

MARUI GROUP emphasizes the importance of dialogue in its co-creation efforts with shareholders and other investors. For this reason, I became a member of the Forum for Integrated Corporate Disclosure and ESG Dialogue, which was established by the Ministry of Economy, Trade and Industry (METI) as a platform for discussion with investors on the topic of integrated corporate disclosure. This forum is a venue for dialogue between companies and investors with regard to topics such as the *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation: ESG Integration, Non-Financial Information Disclosure, and Intangible Assets into Investment* (Guidance for Collaborative Value Creation) created by METI in 2017 and how to use, disseminate, and entrench this guidance.

The Guidance for Collaborative Value Creation provides a guideline for companies on how to systematically organize information on corporate philosophies, business models, strategies, corporate governance, and other matters in an integrated manner to facilitate improvements to information disclosure and investor engagement. At a forum meeting, I made a presentation on MARUI GROUP's co-creation sustainability management and on *Co-Creation Management Report 2017* based on the Guidance for Collaborative Value Creation. I also

took part in frank discussions on business models, KPIs, and the United Nations Sustainable Development Goals as they pertain to integrated reporting in past meetings and formulated action plans based on these discussions. In preparing *Co-Creation Management Report 2018*, we referenced the Guidance for Collaborative Value Creation as well as the International Integrated Reporting Framework released by the International Integrated Reporting Council.

METI has prepared a logo for the Guidance for Collaborative Value Creation to support management and information disclosure activities that reference this guidance. Endorsing the objectives of this guidance, we proudly display this logo on *Co-Creation Management Report 2018*.

### Hirotsugu Kato

Member of Forum for Integrated Corporate Disclosure and ESG Dialogue

Director and Senior Executive Officer  
Chief Digital Officer, General Manager, IR Department  
in charge of Corporate Planning and ESG Promotion,  
MARUI GROUP CO., LTD.







Twelve Group employees in front of the Nakano head office

## From the Chief Editor

Thank you for reading *Co-Creation Management Report 2018* to its end.

MARUI GROUP creates its reports based on a three-year cycle, and *Co-Creation Management Report 2018* represents the start of a new cycle. In preparing this report, we assembled a project team comprising members from the Corporate Planning Division, the IR Department, the Financial Department, the Sustainability Department, the ESG Promotion Department, and the General Affairs Division. Led by President Aoi, we engaged in multiple discussions in which we considered what best to communicate to stakeholders. The answer we arrived at was our core value, the value without which the Company would cease to be MARUI GROUP. Explaining this core value was sure to be the closest path to help stakeholders understand MARUI GROUP's essence. The core value that has guided us since our founding is the co-creation of creditability. We hope this report has helped you understand how this value has sculpted the business we have today and how it will shape our business in the future.

Our co-creation management reports are meant to provide a platform for expanding the scope of our co-creation activities through communication with all of the Group's stakeholders. With the goal of better incorporating your feedback and requests, we have created an

online questionnaire. We hope you will feel free to offer your frank opinions. I look forward to your ongoing support of MARUI GROUP.

### Takahiro Matsumoto

Chief Editor of *Co-Creation Management Report 2018*  
General Manager, Public Relations Office,  
General Affairs Department,  
MARUI GROUP CO., LTD.



Online Co-Creation Management Report 2018  
Questionnaire (Japanese only)  
www.0101.co.jp/form2/pub/maruigrp/2018report



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# CO-CREATION