



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.

The evaluation of the effectiveness of the Board of Directors conducted in the fiscal year ended March 31, 2019, confirmed the progress of the future leader development program that functions as the Company's succession plan while also judging that the composition of the Board of Directors, in terms of the balance of its internal and external directors and their specialties and backgrounds, was appropriate. It was thus determined that the Board of Directors was sufficiently effective overall. Conversely, the following three issues were identified as areas requiring improvement going forward.

- Issue 1:** Lack of discussion on medium-to-long-term business strategies at meetings of the Board of Directors
- Issue 2:** Lack of participation in and oversight of the future leader development program launched in the fiscal year ended March 31, 2018, as a succession plan
- Issue 3:** Low ratio of medium-to-long-term incentives (stock-based compensation) to total officer compensation and failure to orient compensation systems toward medium-to-long-term improvements in corporate value

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 10–20 candidates are selected from among volunteers. Those selected are submitted to a one-year training curriculum developed under the guidance of outside experts and external directors to instill in them a management perspective. This curriculum includes programs to facilitate the acquisition of crucial insight as well as discussions with members of management and guest

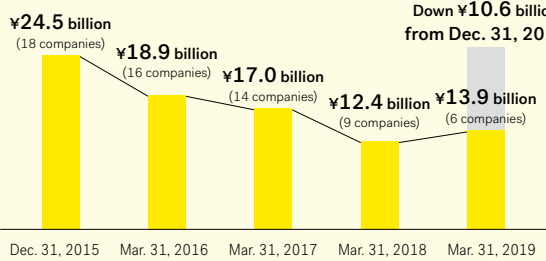
speakers. After the curriculum has been completed, participants continue to be monitored and nurtured into future leaders through secondment to affiliates or assignment to strategic or corporate planning posts.

Reduction of 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, 2019, the Company held shares of the stock in six companies as cross-shareholdings (12 companies fewer than on December 31, 2015), and the total value of these shares on the consolidated balance sheets was ¥13.9 billion (down ¥10.6 billion from December 31, 2015).

Total Value of Cross-Shareholdings on the Consolidated Balance Sheets



Cross-shareholdings in an additional two companies, valued at ¥5.0 million, are held for the purpose of gathering information on industry trends and other topics.

Revision of Officer Compensation Systems to Facilitate Sustainability Management

Compensation for directors (excluding external directors) comprises 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. From the fiscal year ending March 31, 2020, officer compensation systems were revised to increase the portion of performance-linked compensation and employ new performance indicators in response to issues identified in evaluations of the Board of Directors' effectiveness. The range of adjustment for performance-linked bonuses functioning as a short-term incentive was changed from 90%–110% to 0%–200% and the performance indicator used for calculating bonuses was changed from consolidated operating income to earnings per share (EPS). For performance-linked stock-based compensation functioning as a medium-to-long-term incentive, ESG indicators were

introduced alongside the prior performance indicators of return on equity (ROE), return on invested capital (ROIC), and EPS to make for compensation systems that are linked to co-creation sustainability management. This revision proposal was formulated based on discussion by the Board of Directors, the Nominating and Compensation Committee, and Management Committee before deliberation and approval at the Ordinary General Meeting of Shareholders held in June 2019.

Ratios of Compensation

Up to the fiscal year ended March 31, 2019	Basic compensation: Performance-linked bonuses: Performance-linked stock-based compensation = 8 : 1 : 1
From the fiscal year ending March 31, 2020	Basic compensation: Performance-linked bonuses: Performance-linked stock-based compensation = 6 : 1 : 3

Change in Target Indicators for Performance-Linked Compensation

Applicable years		Target indicator	Target	Performance	Performance-linked coefficient
Fiscal year ended March 31, 2019	Performance-linked bonuses	Consolidated operating income	¥41.0 billion	¥41.2 billion	98%*1
	Performance-linked stock-based compensation	Financial indicators	EPS	¥115.99	
			ROE	9.1%	
			ROIC	3.7%	

*1 The performance-linked coefficient for the fiscal year ended March 31, 2019, was calculated excluding gain on the transfer of factoring accounts receivable and other extraordinary factors.

Applicable years		Target indicator	Target	Performance-linked coefficient
Fiscal year ending March 31, 2020	Performance-linked bonuses	EPS	¥127.20	0%–200%
Fiscal year ending March 31, 2021	Performance-linked stock-based compensation	Financial indicators	EPS	100% if three targets accomplished 70% if two targets accomplished 30% if one target accomplished 0% if no targets accomplished
			ROE	
			ROIC	
	Non-financial indicator	ESG indicators	Inclusion in DJSI World*2	0% or 10%

*2 Dow Jones Sustainability World Index: An ESG index comprising companies selected through comprehensive evaluation of economic, environmental, and social factors for the perspective of long-term improvements to shareholder value

Officer Compensation in the Fiscal Year Ended March 31, 2019 (Millions of yen)

	Basic compensation	Performance-linked bonuses (Short-term incentive)	Performance-linked stock-based compensation (Medium-to-long-term incentive)	Total compensation
Directors (excluding external directors)	156	17	17	191
President and representative director	84	9	9	103
External directors	33	—	—	33
Audit & Supervisory Board members (excluding external Audit & Supervisory Board members)	35	—	—	35
External Audit & Supervisory Board members	15	—	—	15

Note: 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 ¥100 million, and the upper limit for monthly compensation paid to Audit & Supervisory Board members has been set at ¥6 million.

Appointment of Sustainability Advisors

MARUI GROUP appoints external experts with insight into business strategies and various business areas as advisors. We anticipate that such advisors 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 an ever-diversifying society. Regular bimonthly meetings

of advisors 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.

Furthermore, three ESG specialists were appointed in January 2019 to support MARUI GROUP in conducting co-creation sustainability management while responding to operating environment changes over the long term. One additional advisor was appointed in October 2019.

Sustainability Advisors



Appointed in January 2019

Kazuhiko Toyama

Managing Partner, Industrial Growth Platform, Inc.

Governance Specialist

Reason for appointment: At Industrial Revitalization Corporation of Japan, Mr. Toyama was involved in rehabilitating numerous companies. Today, he is engaged in consulting and corporate rehabilitation at Industrial Growth Platform. Mr. Toyama has an extensive background in corporate governance, having held positions as an external director and a member of the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code. MARUI GROUP anticipates that he will offer valuable suggestions and advice for the enhancement of corporate governance.



Appointed in January 2019

Peter David Pedersen

Co-founder, Next Leaders' Initiative for Sustainability

Environmental Specialist

Reason for appointment: As a corporate consultant, Mr. Pedersen has provided environmental and CSR consulting through various projects with leading Japanese companies, universities, economic organizations, and government agencies and has taken part in international symposiums. MARUI GROUP anticipates that he will offer valuable suggestions and advice for addressing future operating environment changes and improving corporate value based on his world-leading experience and insight in the fields of the environment and sustainability.



Appointed in January 2019

Masayoshi Suzuki

Executive Vice President, BORDERLESS JAPAN CORPORATION

Social Specialist

Reason for appointment: Mr. Suzuki co-founded BORDERLESS JAPAN, one of the few companies in the world that only engages in social businesses, through which this company has addressed social issues pertaining to poverty, discrimination, prejudice, and the environment. MARUI GROUP anticipates that he will offer valuable suggestions and advice for resolving social issues to help create a flourishing and inclusive society.

Advisors



Appointed in October 2019

Yutaka Matsuo

Professor, Department of Technology Management for Innovation; Artifacts, Center for Engineering; Graduate School of Engineering; Tokyo University

AI Specialist

Reason for appointment: Mr. Matsuo possesses a wealth of insight and experience as a leading authority in AI research. In addition, he has devoted his efforts promoting the use of AI and the cultivation of human resources in this field. One such effort was the establishment of the Japan Deep Learning Association, an organization tasked with improving the competitiveness of industry in Japan with deep learning. MARUI GROUP anticipates that he will offer valuable suggestions and advice for utilizing AI to improve corporate value.



Masakazu Masujima

Partner, Mori Hamada & Matsumoto

Appointed in July 2016

As for the development of new FinTech businesses, Mr. Masujima offers proposals of specific growth investment targets, advice and proposals regarding entry into the securities business, and advice on FinTech-related laws and regulations.



Yuji Yamamoto

Physician, Representative Director, MinaCare Co., Ltd.

Appointed in July 2016

Dr. Yamamoto provides correlation analysis and advice with regard to tracking the relationship between health and productivity, offers guidance on how to be included in healthcare management-related indexes, and shares external case studies and formulates related proposals to aid MARUI GROUP in promoting wellness management.



Meyumi Yamada

Director, istyle Inc.

Appointed in July 2017

Ms. Yamada offers information and takes part in discussions on sharing economies, omni-channel retailing, and other social trends to facilitate the Company's sharing and omni-channel retailing strategies.

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 Managing Executive Officer Hirotsugu Kato regularly takes part in exchanges of opinion through 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 operating and administrating 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 2019 Shareholders in attendance: 183 Questions: 13 Ratio of voting rights exercised: 88.3%

Comments from Attendees

I was impressed at how attentive MARUI GROUP officers were in addressing individual shareholders. I look forward to supporting the Company into the future.

I hope that MARUI GROUP will strengthen the investment trust operations of tsumiki Co., Ltd., to help encourage younger generations to invest in order to address pension-related and other issues.

I did not know that MARUI GROUP was included in the Health & Productivity Stock Selection. Hearing that makes me proud to be a shareholder.



Responsible Procurement Together with Business Partners

In 2016, the MARUI GROUP Procurement Policy was established, and we began requesting that business partners producing private brand products as well as the contract manufacturers used by business partners act in accordance with the policy to promote safe and secure procurement and supply of products through co-creation. MARUI GROUP started holding on-site meetings with domestic and overseas factories to which it outsourced manufacturing in 2017 in order to confirm on-site conditions pertaining to human rights, labor, and occupational health and safety, requesting improvement if necessary. Having completed the transition to shopping centers and fixed-term rental contracts in the fiscal year ended March 31, 2019, we will be engaging in co-creation with tenants at stores to contribute to communities and to improvements in human rights protections and labor environments across our supply chain.

Message from an Employee



Futoshi Maeda

Merchandise Section, Women's Shoes Department MARUI CO., LTD.

We have kicked off CSR procurement activities with all business partners in the women's shoes business, and we are presently sharing examples of successful initiatives with business partners, which has contributed to significant changes in perception. Some have even mentioned that the improvements to labor conditions enabled them to secure more talented human resources. Going forward, we will continue to promote responsible procurement with our business partners. I also hope to start practicing eco-friendly manufacturing and developing circular manufacturing systems comprising cycles of production, recovery, and recycling.