Corporate Governance for Co-Creating Corporate Value

MARUI GROUP positions the reinforcement of corporate governance among its most important management tasks, and we aspire to practice sound, highly transparent, profitable, and efficient management. 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; five committees that oversee high-risk areas

pertaining to management; and the Compliance Promotion Board, which oversees these committees.

In May 2019, we established the Sustainability Committee, which is chaired by the president and representative director, as an advisory body to the Board of Directors to facilitate the accomplishment of MARUI GROUP's 2050 Vision. Under the Sustainability Committee, the Environment and CSR Committee was formed as an organization for managing relevant risks and carrying out the instructions of the Sustainability Committee.

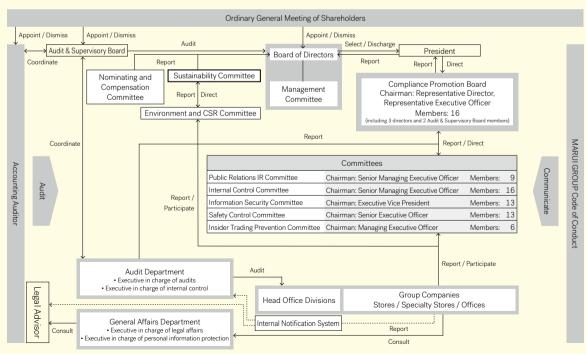
In addition, two new directors, one of whom is a woman, were appointed at the Ordinary General Meeting of Shareholders held in June 2019 to further strengthen the Company's management team.











Committee Membership

www.0101maruigroup.co.jp/pdf/committee_members_en.pdf



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, 2019, 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	Discussion Themes		
First Quarter	Investment projects Performance-linked bonuses for directors Results of evaluations of the effectiveness of the Board of Directors	Revision of MARUI GROUP Corporate Governance Guidelines Establishment of new committees and changes to members Advisors	Retailing strategies Evaluation of the Board of Directors Succession planning Response to trend toward cashless payments Officer compensation systems Future-oriented human resource investment	
Second Quarter	Cross-shareholdings Audit plans for Audit & Supervisory Board Review of Ordinary General Meeting of Shareholders	Organization reforms and relocation of officers and managers New business contest Progress of transition to shopping centers and fixed-term rental contracts		
Third Quarter	Status of tsumiki Co., Ltd. Establishment of Digitization Committee Long-term vision	Strategic alliance with AIM CREATE CO., LTD. Sustainability Advisors Investment projects		
Fourth Quarter	Progress of Co-Creation Management Academy future leader development program Liquidation of receivables	Store renovation investment plans Organization reforms and relocation of officers and managers Fund procurement policies		

Transcript of Board of Directors' Discussion -

The following is an abridged transcript of a discussion by the Board of Directors regarding officer compensation systems prior to it being put to resolution.

Chairman: Through this revision to officer compensation systems, we aim to address the need to increase the portion of total compensation represented by performance-linked compensation identified in the evaluation of the Board of Directors' effectiveness. We also look to raise the level of compensation for senior managing executive officers and lower ranked officers, which is low in comparison to companies of a similar scale in terms of market capitalization.

Taguchi: I am in favor of raising compensation levels. I wonder, however, if there is a need to increase performance-linked compensation so much. It is not as though MARUI GROUP recruits management from outside of the Company.

Muroi: The crafting and disclosure of officer compensation systems is an important theme in discussions pertaining to Japan's Corporate Governance Code. I see a need to increase the portion of medium-to-long-term incentives and to ensure that compensation is effectively linked to performance. When it comes to disclosure, the Company must consider how compensation systems and disclosures will be viewed by investors in Japan and overseas based on trends among other companies. I think the proposed revisions are a good start. If this proposal can be built upon, I believe the Company can create compensation systems that will be well received by society.

Okajima: Recently, the number of questions on officer compensation at the Ordinary General Meeting of Shareholders has been increasing. I therefore think this revision is well timed. Given MARUI GROUP's aspirations, including ESG indicators in the evaluation criteria for medium-to-long-term incentives was a good idea. I do, however, see a need to assess whether the indicators proposed are appropriate. I have seen other companies face difficulty in accomplishing targets stemming from economic downturn or suffer from low motivation among management after stock prices fell. The conditions under

which future revisions to compensation systems will be considered is a topic itself warranting discussion.

Chairman: Around 70% of MARUI GROUP's earnings are generated by the FinTech segment. Meanwhile, the previously volatile profits of the Retailing segment have been stabilized through the transition to shopping centers and fixed-term rental contracts, structurally reducing medium-to-long-term risks. The Company's stock price, meanwhile, is exposed to fluctuation risks given the projections of global recession.

Muroi: You are right that MARUI GROUP's stock price may be more prone to fluctuation due to external factors than to performance. However, no matter what the reason, stock price declines hurt shareholders. Some might see a need for management to share in the pain. Taguchi: It is too late to look at revising compensation systems after the Company's stock price has fallen. The Company must therefore be cautious with the revision at hand.

⇒ Please refer to "Revision of Officer Compensation Systems to Facilitate Sustainability Management" on pages 80–81 for more information.



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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 (stockbased compensation) to total officer compensation and failure to orient compensation systems toward mediumto-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.

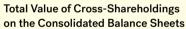
This program is based on open application, and each year 10-20 candidates are selected from among volunteers. Those selected are submitted to a one-year training curriculum developed under the guidance of outside experts and external directors to instill in them a management perspective. This curriculum 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 crossshareholdings 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 crossshareholdings 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).





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 stockbased compensation, which is based on the medium-tolong-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 performancelinked 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 shortterm 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 performancelinked 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 T.		Target in	ndicator	Target	Performance	Performance-linked coefficient
	Fiscal year bonuses		Consolidated operating income		¥41.0 billion	¥41.2 billion ¥40.3 billion (excluding extraordinary factors)*1	98%*1
_	31, 2019		Financial indicators ROE ROIC	EPS	¥100 or more	¥115.99	1000/1611
				8.0% or more	9.1%	100% if three targets accomplished	
				ROIC	3.6% or more	3.7%	decomplianed

^{*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%	
	Performance-linked stock-based compensation	Financial indicators	EPS	¥130 or more	100% if three targets accomplished 70% if two targets accomplished 30% if one target accomplished 0% if no targets accomplished	
			ROE	10.0% or more		
ending March 31, 2021			ROIC	4.0% or more		
		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.

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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



January 2019

Kazuhiko Toyama Managing Partner, Industrial Growth Platform, Inc.

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 gover nance, 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



Peter David Pedersen Co-founder, Next Leaders' Initiative for Sustainability

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

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



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

Reason for appointment: Mr. Matsuo possesses a wealth of insight and experience as a leading authority in Al research. In addition, he has devoted his efforts promoting the use of Al 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.



October 2019

Masakazu Masujima Partner, Mori Hamada & Matsumoto

Appointed in July 2016

As for the development of new FinTech businesses, Mr. Masuiima 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 managementrelated indexes, and shares external case studies and formulates related proposals to aid MARUI GROUP in promoting wellness management.



Mevumi 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%

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 cocreation 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 MARULCO ITD

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.

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