Consolidated Financial Statements

Consolidated Balance Sheets

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries
As of March 31, 2018 and 2019

	2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2019
Assets			
Current assets:			
Cash and deposits (Notes 22 and 24)	¥ 45,448	¥ 46,731	$ 424,827
Notes and accounts receivable–trade (Note 24)	7,006	6,138	55,800
Accounts receivable–installment (Notes 7 and 24)	402,030	428,180	3,892,545
Operating loans (Notes 8 and 24)	146,011	137,473	1,249,754
Allowance for doubtful accounts (Note 24)	(11,843)	(13,818)	(125,618)
	543,205	557,974	5,072,490
Inventories	7,489	5,196	47,236
Other	26,522	30,476	277,054
Total current assets	622,665	640,379	5,821,627
Property and equipment (Note 29):			
Land	103,680	103,044	936,763
Buildings and structures (Note 9)	257,968	247,635	2,251,227
Construction in progress	764	551	5,009
Other (Note 9)	33,363	33,261	302,372
Accumulated depreciation	(218,974)	(209,421)	(1,903,827)
Property and equipment, net	176,803	175,071	1,591,554
Investments and other assets:			
Investment securities (Notes 10, 24 and 25)	14,999	22,172	201,563
Intangible assets	6,388	6,849	62,263
Leasehold and other deposits (Note 23)	32,527	31,895	289,954
Deferred tax assets (Note 27)	9,558	10,589	96,263
Other (Note 11)	2,944	3,238	29,436
Total investments and other assets	66,418	74,745	679,500
Total assets	¥ 865,887	¥ 890,196	$ 8,092,690
Liabilities			
Current liabilities:			
Accounts payable–trade (Note 24)	¥ 12,361	¥ 10,231	$ 93,009
Short-term loans payable and current portion of long-term loans payable (Notes 24 and 34)	75,331	71,632	651,200
Current portion of bonds payable (Notes 24 and 34)	10,000	30,000	272,727
Income taxes payable (Note 24)	5,961	8,211	74,645
Provision for bonuses	3,940	3,516	31,963
Provision for point card certificates	11,445	14,181	128,918
Provision for stock benefits (Note 6)	—	673	6,118
Provision for loss on redemption of gift certificates	156	165	1,500
Other	49,236	57,765	525,136
Total current liabilities	168,431	196,376	1,785,236
Non-current liabilities:			
Bonds payable (Notes 24 and 34)	95,000	85,000	772,727
Long-term loans payable (Notes 24, 26, and 34)	305,000	300,000	2,727,272
Deferred tax liabilities (Note 27)	2,053	3,470	31,545
Provision for loss on interest repayment	6,081	4,957	45,063
Provision for loss on guarantees	203	190	1,727
Provision for stock benefits (Note 6)	363	—	—
Asset retirement obligations (Note 28)	874	2,777	25,245
Other	12,980	12,672	115,200
Total non-current liabilities	422,555	409,067	3,718,790
Total liabilities	590,987	605,443	5,504,027
Contingent liabilities (Note 12)			
Net assets (Note 20)			
Shareholders' equity:			
Capital stock Authorized: 1,400,000,000 shares of common stock Issued: 233,660,417 shares as of March 31, 2018 and 223,660,417 shares as of March 31, 2019	35,920	35,920	326,545
Capital surplus	91,307	91,323	830,209
Retained earnings	168,034	166,858	1,516,890
Treasury stock (Note 33) 13,269,506 shares as of March 31, 2018 and 6,214,767 shares as of March 31, 2019	(22,389)	(12,327)	(112,063)
Total shareholders' equity	272,872	281,774	2,561,581
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	1,563	2,977	27,063
Deferred gains or losses on hedges	(1)	0	0
Total accumulated other comprehensive income	1,561	2,977	27,063
Non-controlling interests	466	—	—
Total net assets	274,900	284,752	2,588,654
Total liabilities and net assets	¥ 865,887	¥ 890,196	$ 8,092,690

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, 2018 and 2019

Consolidated Statements of Income	2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2019
Revenue (Note 29)	¥240,469	¥251,415	$2,285,590
Cost of sales (Notes 13 and 29)	64,593	60,913	553,754
Gross profit	175,875	190,502	1,731,836
Selling, general and administrative expenses (Notes 14 and 29)	139,509	149,317	1,357,427
Operating income	36,365	41,184	374,400
Non-operating income (expenses):			
Dividend income	353	229	2,081
Gain on donation of property and equipment	176	67	609
Gain on sale of property and equipment (Note 15)	1,121	1,754	15,945
Gain on sale of investment securities	429	4	36
Interest expenses	(1,492)	(1,465)	(13,318)
Financing expenses	(224)	(153)	(1,390)
Loss on retirement of property and equipment (Note 16)	(1,643)	(1,337)	(12,154)
Loss on closing of stores (Note 17)	(604)	(2,000)	(18,181)
Impairment loss (Note 18)	(1,184)	(4)	(36)
Loss on sale of investment securities	(1,334)	(253)	(2,300)
Loss on valuation of investment securities	(23)	(435)	(3,954)
Other, net	(49)	(155)	(1,409)
	(4,477)	(3,751)	(34,100)
Income before income taxes	31,888	37,433	340,300
Income taxes (Note 27)			
Income taxes–current	10,765	12,301	111,827
Income taxes–deferred	194	(228)	(2,072)
	10,959	12,072	109,745
Net income	20,929	25,360	230,545
Net income attributable to non-controlling interests	21	18	163
Net income attributable to owners of parent	¥ 20,907	¥ 25,341	$ 230,372

Consolidated Statements of Comprehensive Income	2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2019
Net income	¥20,929	¥25,360	$230,545
Other comprehensive income (Note 19):			
Valuation difference on available-for-sale securities	2,597	1,414	12,854
Deferred gains or losses on hedges	(1)	1	9
Total other comprehensive income	2,596	1,416	12,872
Comprehensive income	¥23,525	¥26,776	$243,418
Comprehensive income attributable to:			
Owners of parent	¥23,504	¥26,757	$243,245
Non-controlling interests	21	18	163

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

Per share data (Note 32)	2018	Yen 2019	U.S. dollars (Note 1) 2019
Net income per share:			
Basic	¥ 93.18	¥ 115.99	$ 1.05
Diluted	93.18	—	—
Cash dividends	38.00	49.00	0.44
Net assets per share	1,245.22	1,309.53	11.90

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, 2018 and 2019

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, 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 April 1, 2018	¥35,920	¥91,307	¥168,034	¥(22,389)	¥272,872	¥ 1,563	¥(1)	¥ 1,561	¥–	¥ 466	¥274,900
Changes of items during period:											
Dividends from surplus			(9,452)		(9,452)						(9,452)
Net income attributable to owners of parent			25,341		25,341						25,341
Purchase of treasury stock				(7,002)	(7,002)						(7,002)
Disposal of treasury stock		0		0	0						0
Retirement of treasury stock		(17,064)		17,064	–						–
Transfer from retained earnings to capital surplus		17,064	(17,064)		–						–
Change in ownership interest of parent due to transactions with non-controlling interests		15			15						15
Net changes of items other than shareholders' equity						1,414	1	1,416	–	(466)	949
Total changes of items during period	–	15	(1,175)	10,062	8,902	1,414	1	1,416	–	(466)	9,852
Balance as of March 31, 2019	¥35,920	¥91,323	¥166,858	¥(12,327)	¥281,774	¥ 2,977	¥ 0	¥ 2,977	¥–	¥ –	¥284,752

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, 2018	$326,545	$ 830,063	$1,527,581	$(203,536)	$2,480,654	$14,209	$(9)	$14,190	$–	$ 4,236	$2,499,090
Changes of items during period:											
Dividends from surplus			(85,927)		(85,927)						(85,927)
Net income attributable to owners of parent			230,372		230,372						230,372
Purchase of treasury stock				(63,654)	(63,654)						(63,654)
Disposal of treasury stock		0		0	0						0
Retirement of treasury stock		(155,127)		155,127	–						–
Transfer from retained earnings to capital surplus		155,127	(155,127)		–						–
Change in ownership interest of parent due to transactions with non-controlling interests		136			136						136
Net changes of items other than shareholders' equity						12,854	9	12,872	–	(4,236)	8,627
Total changes of items during period	–	136	(10,681)	91,472	80,927	12,854	9	12,872	–	(4,236)	89,563
Balance as of March 31, 2019	$326,545	$ 830,209	$1,516,890	$(112,063)	$2,561,581	$27,063	$ 0	$27,063	$–	$ –	$2,588,654

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, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Cash flows from operating activities:			
Income before income taxes	¥ 31,888	¥ 37,433	$ 340,300
Depreciation and amortization	10,274	9,911	90,100
Impairment loss	1,184	4	36
Increase (decrease) in provision for point card certificates	2,264	2,736	24,872
Increase (decrease) in provision for allowance for doubtful accounts	2,491	1,975	17,954
Increase (decrease) in provision for loss on interest repayment	(5,406)	(1,123)	(10,209)
Increase (decrease) in provision for bonuses	269	(424)	(3,854)
Interest and dividend income	(399)	(269)	(2,445)
Interest expenses	1,492	1,465	13,318
Loss (gain) on retirement of property and equipment	780	304	2,763
Loss (gain) on sale of property and equipment	(1,121)	(1,754)	(15,945)
Loss (gain) on sale of investment securities	904	249	2,263
Loss (gain) on valuation of investment securities	30	476	4,327
Decrease (increase) in notes and accounts receivable–trade	(2,166)	868	7,890
Decrease (increase) in accounts receivable–installment	(53,838)	(26,150)	(237,727)
Decrease (increase) in operating loans	(5,442)	8,537	77,609
Decrease (increase) in inventories	2,193	2,098	19,072
Increase (decrease) in accounts payable–trade	(3,489)	(2,129)	(19,354)
Other, net	10,792	4,735	43,045
Subtotal	(7,297)	38,944	354,036
Interest and dividend income received	365	237	2,154
Interest expenses paid	(1,518)	(1,460)	(13,272)
Income taxes paid	(10,880)	(11,344)	(103,127)
Income taxes refund	0	18	163
Net cash provided by (used in) operating activities	(19,329)	26,396	239,963
Cash flows from investing activities:			
Purchase of property and equipment	(9,607)	(8,788)	(79,890)
Proceeds from sale of property and equipment	1,328	2,702	24,563
Purchase of investment securities	(1,793)	(2,765)	(25,136)
Proceeds from sale of investment securities	8,562	113	1,027
Payments for leasehold and other deposits	(161)	(324)	(2,945)
Proceeds from collection of leasehold and other deposits	1,134	2,159	19,627
Other, net	1,285	(529)	(4,809)
Net cash provided by (used in) investing activities	747	(7,432)	(67,563)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	3,503	(14,698)	(133,618)
Net increase (decrease) in commercial paper	(5,000)	—	—
Proceeds from long-term loans payable	62,500	37,000	336,363
Repayments of long-term loans payable	(10,000)	(31,000)	(281,818)
Proceeds from issuance of bonds	19,897	19,899	180,900
Redemption of bonds	(20,000)	(10,000)	(90,909)
Purchase of treasury stock	(15,016)	(7,009)	(63,718)
Cash dividends paid (Note 21)	(7,953)	(9,452)	(85,927)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(2,263)	(20,572)
Other, net	(158)	(156)	(1,418)
Net cash provided by (used in) financing activities	27,773	(17,680)	(160,727)
Net increase (decrease) in cash and cash equivalents	9,191	1,283	11,663
Cash and cash equivalents at beginning of period	36,245	45,437	413,063
Cash and cash equivalents at end of period (Note 22)	¥ 45,437	¥ 46,720	$ 424,727

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, 2018 and 2019

1. BASIS OF PRESENTATION

MARUI GROUP CO., LTD. ("the Company") and its consolidated subsidiaries (collectively, "the Group") prepare the consolidated financial statements in accordance with the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976). These consolidated financial statements are audited by KPMG AZSA LLC based on the provisions set forth in Article 193-2, Paragraph (1) of the Financial Instruments and Exchange Act in Japan, then filed and issued domestically as the Security Report by sending to the Director-General of the Kanto Finance Bureau.

The accompanying consolidated financial statements of the Group have been prepared by making certain reclassifications and rearrangements to the aforementioned 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 2018 consolidated financial statements to conform to the classifications used in 2019. These accompanying consolidated financial statements are also audited by KPMG AZSA LLC on a voluntary basis.

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 ¥110 = $1, the approximate rate of exchange at March 31, 2019, 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, 2018 and 2019, 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, 2018 and 2019, 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) 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.

Investments in investment limited partnerships are stated at the net amount equivalent to the Company's ownership interest based on the latest financial statements available as of the reporting date stipulated in the partnership agreement.

(3) Inventories

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

(4) 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.

(5) 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").

(6) Provision for bonuses

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

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(14) 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.

(15) Consumption taxes

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

3. CHANGE IN ACCOUNTING POLICY

Change in the Accounting Policy for Gain on Bad Debts Recovered

In the FinTech segment, the amounts of cash collected from customers after being written off as uncollectible operating receivables (accounts receivable–installment and operating loans) were previously accounted for as "Gain on bad debts recovered" under non-operating income after netting against collection expenses. Effective from the beginning of the fiscal year ended March 31, 2019, the Company has changed its accounting policy so that said amounts of cash collected are accounted for as revenue and said collection expenses are accounted for as selling, general and administrative expenses.

Due to changes in the Group's business structure, revenue of the FinTech segment has increased to the same level as that of the Retailing segment, and as a result, the FinTech segment became more important in the Group's business activities. Reviewing the scope of revenue from the Group's business activities as a whole, the Company has adopted this treatment to disclose the results of operations in a more appropriate manner.

Since this change in accounting policy was adopted retroactively, the figures for the fiscal year ended March 31, 2018, were adjusted to conform to the current year's presentation.

As a result of these retroactive adjustments, the figures in the accompanying consolidated statement of income for the fiscal year ended March 31, 2018, show the following: "Revenue" increased by ¥1,469 million, "Selling, general and administrative expenses" increased by ¥347 million, and "Operating income" increased by ¥1,122 million, whereas "Non-operating income (expenses)" decreased by ¥1,122 million. However, there was no impact on "Income before income taxes" and per share information as a result of the change in accounting policy.

Please see Note 30 for the impact on segment information.

4. ACCOUNTING STANDARD ISSUED BUT NOT YET APPLIED

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(s)
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract(s)
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 this new standard and guidance on the consolidated financial statements.

5. CHANGE IN PRESENTATION

Consolidated Statements of Income

The account "Interest income," which was previously shown as a separate line item under "Non-operating income (expenses)," was included in "Other, net" in the fiscal year ended March 31, 2019, as the monetary impact on the consolidated financial statements was no longer significant. The account "Gain on donation of property and equipment," which was previously included in "Other, net" under "Non-operating income (expenses)," was shown as a separate line item in the fiscal year ended March 31, 2019, as the amount exceeded 10% of the total of non-operating income. The reclassification was made to the consolidated financial statements as of March 31, 2018, to conform to the current presentation. As a result, in the consolidated statement of income for the fiscal year ended March 31, 2018, the amounts of ¥46 million presented as "Interest income" and ¥391 million presented as "Other, net" under "Non-operating income (expenses)" were reclassified as "Gain on donation of property and equipment" and "Other, net" in the amounts of ¥176 million and ¥260 million, respectively.

Changes in Connection with the Application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting"

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, issued on February 16, 2018) effective from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under non-current liabilities.

As a result, ¥6,065 million out of ¥7,328 million of "Deferred tax assets" under "Current assets" on the previously disclosed balance sheet as of March 31, 2018, is included in ¥9,558 million of "Deferred tax assets" under "Investments and other assets" on the accompanying consolidated balance sheet as of March 31, 2018. The remaining balance of ¥1,262 million of "Deferred tax assets" is net against deferred tax liabilities related to income taxes levied by the same tax authority and is thus included in ¥2,053 million of "Deferred tax liabilities" under "Non-current liabilities" on the accompanying consolidated balance sheet as of March 31, 2018.

6. ADDITIONAL INFORMATION

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 ($1,972 thousand) and the number of shares is 161,500 shares as of March 31, 2018 and 2019.

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 ($4,354 thousand), and the number of shares is 340,800 shares as of March 31, 2018 and 2019.

MATTERS RELATED TO CONSOLIDATED BALANCE SHEETS (Notes 7 to 12)

7. ACCOUNTS RECEIVABLE–INSTALLMENT

The following balances for receivables are securitized and are therefore excluded from the consolidated balance sheets as of March 31, 2018 and 2019:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Card shopping:			
Lump sums receivable	¥69,973	¥79,920	$726,545
Revolving receivable	2,776	26,164	237,854
Cash advance:			
Revolving receivable	—	13,179	119,809

8. 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)
	2018	2019	2019
Total loan limits	¥1,188,248	¥1,255,552	$11,414,109
Amount executed as loans	146,011	150,652	1,369,563
Unused balance	¥1,042,237	¥1,104,900	$10,044,545

The figures include amounts of receivables subject to securitization. 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.

9. REDUCTION ENTRY AMOUNT

As a result of the acceptance of national subsidies, the following reduction entry amount was deducted from the acquisition cost of property and equipment.

Millions of yen		Thousands of U.S. dollars (Note 1)
2018	2019	2019
¥66	¥66	$600

10. 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)
	2018	2019	2019
Stocks of unconsolidated subsidiaries and affiliates	¥840	¥4,059	$36,900

11. INVESTMENTS IN CAPITAL OF UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Capital of unconsolidated subsidiaries and affiliates	¥132	¥132	$1,200

12. CONTINGENT LIABILITIES

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

As of March 31, 2018 and 2019, the amounts of the Group's guarantee obligations were ¥24,616 million and ¥22,217 million ($201,972 thousand), respectively.

MATTERS RELATED TO CONSOLIDATED STATEMENTS OF INCOME (Notes 13 to 18)

13. COST OF SALES

For the fiscal years ended March 31, 2018 and 2019, cost of sales included the revaluation loss on inventories in the amounts of ¥24 million and ¥23 million ($209 thousand), respectively.

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2018 and 2019, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Advertisement	¥ 12,168	¥ 12,298	$ 111,800
Provision for point card certificates	11,445	14,181	128,918
Provision for allowance for doubtful accounts	12,344	14,364	130,581
Salaries and allowances	31,537	30,869	280,627
Provision for bonuses	3,615	3,223	29,300
Rent	15,897	15,501	140,918
Depreciation and amortization	8,915	8,614	78,309
Other	43,584	50,264	456,945
Total	¥139,509	¥149,317	$1,357,427

15. GAIN ON SALE OF PROPERTY AND EQUIPMENT

Gain on sale of property and equipment for the fiscal years ended March 31, 2018 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Land, etc.	¥1,121	¥1,754	$15,945
Total	¥1,121	¥1,754	$15,945

16. LOSS ON RETIREMENT OF PROPERTY AND EQUIPMENT

Loss on retirement of property and equipment for the fiscal years ended March 31, 2018 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Buildings and structures	¥ 535	¥ 192	$ 1,745
Furniture and fixtures, etc.	1,108	1,145	10,409
Total	¥1,643	¥1,337	$12,154

17. LOSS ON CLOSING OF STORES

Loss on closing of stores for the fiscal years ended March 31, 2018 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Restoration costs, etc.	¥604	¥2,000	$18,181
Total	¥604	¥2,000	$18,181

18. IMPAIRMENT LOSS

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

Use	Location	Type of assets	Millions of yen
Stores	Mito store Mito, Ibaraki, etc.	Land	¥ 738
		Other	446
		Total	¥1,184

The impairment loss recognized for the fiscal year ended March 31, 2019, is as follows:

Use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars (Note 1)
Stores	Kyoto Marui Kyoto, Kyoto	Buildings	¥4	$36
		Total	¥4	$36

The Group has categorized 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.

19. MATTERS RELATED TO CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Valuation difference on available-for-sale securities:			
Amounts incurred for the year	¥ 2,847	¥1,778	$16,163
Reclassification adjustments	904	250	2,272
Before tax effect adjustment	3,751	2,028	18,436
Tax effect	(1,154)	(614)	(5,581)
Valuation difference on available-for-sale securities	2,597	1,414	12,854
Deferred gains or losses on hedges:			
Amounts incurred for the year	(2)	2	18
Tax effect	0	(0)	(0)
Deferred gains or losses on hedges	(1)	1	9
Total other comprehensive income	¥ 2,596	¥1,416	$12,872

MATTERS RELATED TO CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (Notes 20 to 21)
20. CLASS & NUMBER OF SHARES ISSUED AND OUTSTANDING AND TREASURY STOCK

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

	Number of shares	
	2018	2019
Common stock, issued and outstanding:		
At the beginning of the year	233,660,417	233,660,417
Decrease due to retirement of treasury stock	—	(10,000,000)
At the end of the year	233,660,417	223,660,417
Treasury stock:		
At the beginning of the year	4,704,750	13,269,506
Increase due to purchase of treasury stock in the stock market	8,564,700	2,944,300
Increase due to purchase of odd lot shares	1,473	962
Decrease due to retirement of treasury stock	—	(10,000,000)
Decrease due to exercise of stock options	(1,400)	—
Decrease due to sale of stock to odd lot shareholders	(17)	(1)
At the end of the year	13,269,506	6,214,767

21. DIVIDENDS

The following tables summarize the dividends paid for the fiscal years ended March 31, 2018 and 2019:

2018

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 26, 2017	Common stock	¥3,900	¥17	March 31, 2017	June 27, 2017
Board of Directors' meeting held on November 9, 2017	Common stock	4,052	18	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 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 of dividends for the BIP Trust and ESOP Trust.

2019

Resolution	Class of share	Total amount of dividends (Millions of yen)	Total amount of dividends (Thousands of U.S. dollars) (Note 1)	Dividends per share (Yen)	Dividends per share (U.S. dollars) (Note 1)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 25, 2018	Common stock	¥4,417	$40,154	¥20	$0.18	March 31, 2018	June 26, 2018
Board of Directors' meeting held on November 8, 2018	Common stock	5,034	45,763	23	0.20	September 30, 2018	December 4, 2018

Note 1: The amount of dividends resolved at the Ordinary General Meeting of Shareholders held on June 25, 2018, includes ¥10 million ($90 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 8, 2018, includes ¥11 million ($100 thousand) of dividends for the BIP Trust and ESOP Trust.

Dividends with a record date during the fiscal year ended March 31, 2019, but with an effective date subsequent to the fiscal year ended March 31, 2019, are as follows:

Resolution	Class of share	Total amount of dividends (Millions of yen)	Total amount of dividends (Thousands of U.S. dollars) (Note 1)	Source	Dividends per share (Yen)	Dividends per share (U.S. dollars) (Note 1)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 20, 2019	Common stock	¥5,666	$51,509	Retained earnings	¥26	$0.23	March 31, 2019	June 21, 2019

Note: The amount of dividends resolved at the Ordinary General Meeting of Shareholders held on June 20, 2019, includes ¥13 million ($118 thousand) of dividends for the BIP Trust and ESOP Trust.

22. MATTERS RELATED TO CONSOLIDATED STATEMENTS OF CASH FLOWS

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, 2018 and 2019, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Cash and deposits	¥45,448	¥46,731	$424,827
Time deposits with maturity in excess of three months	(11)	(11)	(100)
Cash and cash equivalents	¥45,437	¥46,720	$424,727

23. 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)
	2018	2019	2019
Within one year	¥ 3,728	¥ 3,328	$ 30,254
Over one year	17,818	14,543	132,209
Total	¥21,546	¥17,872	$162,472

(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)
	2018	2019	2019
Within one year	¥10,038	¥ 7,303	$ 66,390
Over one year	6,554	4,907	44,609
Total	¥16,592	¥12,211	$111,009

24. 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, 2018 and 2019, are summarized below. Financial instruments for which the fair value is extremely difficult to determine are excluded from the following table (See Note 2 below).

Millions of yen

	2018			2019		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1) Cash and deposits	¥ 45,448	¥ 45,448	¥ —	¥ 46,731	¥ 46,731	¥ —
(2) Notes and accounts receivable–trade	7,006	7,006	—	6,138	6,138	—
(3) Accounts receivable–installment	402,030			428,180		
Allowance for doubtful accounts*1	(8,024)			(9,565)		
	394,005	434,942	40,937	418,615	469,541	50,925
(4) Operating loans	146,011			137,473		
Allowance for doubtful accounts*2	(2,771)			(3,058)		
	143,239	162,550	19,310	134,414	152,121	17,706
(5) Investment securities:						
Available-for-sale securities	12,954	12,954	—	14,630	14,630	—
(6) Leasehold and other deposits	6,173	6,236	62	5,334	5,388	54
Assets, total	¥608,829	¥669,139	¥60,310	¥625,865	¥694,552	¥68,686
(1) Accounts payable–trade	¥ 12,361	¥ 12,361	¥ —	¥ 10,231	¥ 10,231	¥ —
(2) Short-term loans payable and current portion of long-term loans payable	75,331	75,331	—	71,632	71,632	—
(3) Current portion of bonds payable	10,000	10,000	—	30,000	30,000	—
(4) Income taxes payable	5,961	5,961	—	8,211	8,211	—
(5) Bonds payable	95,000	95,140	140	85,000	85,230	230
(6) Long-term loans payable	305,000	304,597	(402)	300,000	299,745	(254)
Liabilities, total	¥503,654	¥503,392	¥ (261)	¥505,075	¥505,051	¥ (24)

*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)

	2019		
	Carrying value	Fair value	Difference
(1) Cash and deposits	$ 424,827	$ 424,827	$ —
(2) Notes and accounts receivable–trade	55,800	55,800	—
(3) Accounts receivable–installment	3,892,545		
Allowance for doubtful accounts	(86,954)		
	3,805,590	4,268,554	462,954
(4) Operating loans	1,249,754		
Allowance for doubtful accounts	(27,800)		
	1,221,945	1,382,918	160,963
(5) Investment securities:			
Available-for-sale securities	133,000	133,000	—
(6) Leasehold and other deposits	48,490	48,981	490
Assets, total	$5,689,681	$6,314,109	$624,418
(1) Accounts payable–trade	$ 93,009	$ 93,009	$ —
(2) Short-term loans payable and current portion of long-term loans payable	651,200	651,200	—
(3) Current portion of bonds payable	272,727	272,727	—
(4) Income taxes payable	74,645	74,645	—
(5) Bonds payable	772,727	774,818	2,090
(6) Long-term loans payable	2,727,272	2,724,954	(2,309)
Liabilities, total	$4,591,590	$4,591,372	$ (218)

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, and (4) Income taxes payable
The fair value approximates their carrying value because of their short maturities.

(5) 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.

(6) 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 26, "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)
	2018	2019	2019
Unlisted stocks	¥ 1,788	¥ 5,805	$ 52,772
Contributions to investment limited partnerships	256	1,735	15,772
Part of security deposits	28,225	27,263	247,845

The items above are not included in (5) Investment securities or (6) Leasehold and other deposits in the table on page 120-121, 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			
	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

	Millions of yen			
	2019			
	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	¥ 46,731	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	6,138	—	—	—
Accounts receivable–installment	258,355	105,417	35,520	28,886
Operating loans	72,991	64,336	97	48
Leasehold and other deposits	684	2,667	1,083	899
Total	¥384,901	¥172,421	¥36,701	¥29,834

	Thousands of U.S. dollars (Note 1)			
	2019			
	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	$ 424,827	$ —	$ —	$ —
Notes and accounts receivable–trade	55,800	—	—	—
Accounts receivable–installment	2,348,681	958,336	322,909	262,600
Operating loans	663,554	584,872	881	436
Leasehold and other deposits	6,218	24,245	9,845	8,172
Total	$3,499,100	$1,567,463	$333,645	$271,218

See Note 34, "SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT," for the schedule of aggregate annual maturities of long-term loans payable and long-term debt.

25. INVESTMENT SECURITIES

(1) Information on available-for-sale securities as of March 31, 2018 and 2019, is as follows:

	Millions of yen					
	2018			2019		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Carrying value exceeding acquisition cost:						
Stocks	¥12,555	¥10,149	¥2,406	¥13,154	¥ 8,632	¥4,522
Subtotal	12,555	10,149	2,406	13,154	8,632	4,522
Carrying value not exceeding acquisition cost:						
Stocks	398	564	(165)	1,476	1,703	(226)
Subtotal	398	564	(165)	1,476	1,703	(226)
Total	¥12,954	¥10,713	¥2,241	¥14,630	¥10,335	¥4,295

	Thousands of U.S. dollars (Note 1)		
	2019		
	Carrying value	Acquisition cost	Difference
Carrying value exceeding acquisition cost:			
Stocks	$119,581	$78,472	$41,109
Subtotal	119,581	78,472	41,109
Carrying value not exceeding acquisition cost:			
Stocks	13,418	15,481	(2,054)
Subtotal	13,418	15,481	(2,054)
Total	$133,000	$93,954	$39,045

Unlisted stocks in the amount of ¥948 million and ¥1,746 million ($15,872 thousand) as of March 31, 2018 and 2019, respectively, and contributions to investment limited partnerships in the amount of ¥256 million and ¥1,735 million ($15,772 thousand) as of March 31, 2018 and 2019, 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, 2018 and 2019, is as follows:

	Millions of yen					
	2018			2019		
	Proceeds from sales	Gains	Losses	Proceeds from sales	Gains	Losses
Stocks	¥8,562	¥429	¥1,334	¥104	¥4	¥253
Total	¥8,562	¥429	¥1,334	¥104	¥4	¥253

	Thousands of U.S. dollars (Note 1)		
	2019		
	Proceeds from sales	Gains	Losses
Stocks	$945	$36	$2,300
Total	$945	$36	$2,300

(3) For the fiscal years ended March 31, 2018 and 2019, the disclosure of impairment loss on investment securities was omitted due to insignificance of the amount. 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.

26. DERIVATIVE TRANSACTIONS

For the fiscal years ended March 31, 2018 and 2019, 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)		
2018			2019			2019		
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
¥17,000	¥10,000	*	¥10,000	¥—	*	$90,909	$—	*

* 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.

27. DEFERRED TAX ACCOUNTING

Major components of deferred tax assets and deferred tax liabilities as of March 31, 2018 and 2019, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Deferred tax assets:			
Depreciation	¥ 5,597	¥ 5,257	$ 47,790
Impairment loss	5,384	3,196	29,054
Provision for loss on interest repayment	1,860	1,516	13,781
Provision for point card certificates	3,286	4,164	37,854
Net unrealized loss on non-current assets	1,191	1,048	9,527
Provision for bonuses	1,240	1,088	9,890
Net operating loss carried forward	523	1,051	9,554
Other	5,593	8,110	73,727
Subtotal	24,678	25,433	231,209
Valuation allowance	(5,630)	(5,815)	(52,863)
Total deferred tax assets	¥19,047	¥19,617	$178,336
Deferred tax liabilities:			
Reserve for special account for advanced depreciation of non-current assets	¥11,259	¥10,891	$ 99,009
Valuation difference on available-for-sale securities	61	1,314	11,945
Other	221	293	2,663
Total deferred tax liabilities	¥11,542	¥12,498	$113,618
Deferred tax assets, net	¥ 7,505	¥ 7,119	$ 64,718

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

	2018	2019
Statutory tax rate	30.9%	30.6%
Adjustments:		
Permanent differences such as entertainment expenses, etc.	0.2	0.2
Permanent differences such as dividends, etc.	(0.1)	(0.0)
Change in valuation allowance	(4.2)	0.5
Inhabitants' tax	0.5	0.4
Difference in tax rates of consolidated subsidiaries	3.3	0.2
Adjustments to deferred tax assets in connection with application of pro forma standard taxation*	3.5	—
Other	0.3	0.4
Effective tax rate	34.4%	32.3%

* 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.

28. 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%.

For the fiscal year ended March 31, 2019, the Company recognized an additional ¥1,600 million ($14,545 thousand) of the asset retirement obligation due to a change in estimate since the amount of costs required at the time of retirement of certain assets became determinable.

Asset retirement obligations as of March 31, 2018 and 2019, consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Beginning balance	¥892	¥ 897	$ 8,154
Increase due to acquisition of property and equipment	—	301	2,736
Increase due to change in estimate	—	1,600	14,545
Adjustments due to passage of time	4	4	36
Decrease due to fulfillment of obligation	—	(24)	(218)
Ending balance	¥897	¥2,779	$25,263

(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.

29. 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, 2018 and 2019, was ¥17,509 million and ¥18,168 million ($165,163 thousand), respectively. 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)
	2018	2019	2019
Carrying value*1:			
Beginning balance	¥ 86,249	¥103,928	$ 944,800
Changes during the year*2	17,679	12,205	110,954
Ending balance	¥103,928	¥116,134	$1,055,763
Fair value*3	¥215,080	¥251,003	$2,281,845

*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 ¥18,530 million and ¥12,897 million ($117,245 thousand) for the fiscal years ended March 31, 2018 and 2019, respectively.
*3 Fair value is based on the appraised value provided by third-party real estate appraisers.

30. 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, space production, advertising, apparel distribution, and management of buildings and other facilities. The FinTech segment engages in the credit card services, the consumer loans, and the rent 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.

As stated in Note 3, "CHANGE IN ACCOUNTING POLICY," effective from the beginning of the fiscal year ended March 31, 2019, the amounts of cash collected from customers after being written off as uncollectible operating receivables are accounted for as revenue, and collection expenses are accounted for as selling, general and administrative expenses. This change in accounting policy was adopted retroactively.

As a result of this change in accounting policy, and the associated retroactive adjustments, "Revenue from outside customers" increased by ¥1,469 million and "Segment income" increased by ¥1,122 million in the FinTech segment for the fiscal year ended March 31, 2018.

Millions of yen

	2018				
	Reportable segment			Adjustment*1	Consolidated*2
	Retailing	FinTech	Total		
Revenue:					
Outside customers	¥132,241	¥108,227	¥240,469	¥ —	¥240,469
Intersegment	5,839	2,187	8,026	(8,026)	—
Total	¥138,081	¥110,415	¥248,496	¥ (8,026)	¥240,469
Segment income	¥ 8,826	¥ 31,433	¥ 40,259	¥ (3,894)	¥ 36,365
Segment assets	¥295,936	¥595,844	¥891,781	¥(25,893)	¥865,887
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

*1 Adjustment to segment income consists of intersegment elimination of ¥2,534 million and corporate expenses of ¥(6,428) million that are not allocated to each reportable segment. Adjustment to segment assets mainly consists of intersegment elimination of ¥(416,031) million and corporate assets of ¥390,674 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

	2019				
	Reportable segment			Adjustment*1	Consolidated*2
	Retailing	FinTech	Total		
Revenue:					
Outside customers	¥125,410	¥126,005	¥251,415	¥ —	¥251,415
Intersegment	6,270	2,296	8,567	(8,567)	—
Total	¥131,681	¥128,301	¥259,982	¥ (8,567)	¥251,415
Segment income	¥ 11,421	¥ 35,018	¥ 46,439	¥ (5,255)	¥ 41,184
Segment assets	¥301,520	¥622,712	¥924,232	¥(34,035)	¥890,196
Other items:					
Depreciation and amortization	¥ 7,701	¥ 1,765	¥ 9,466	¥ 444	¥ 9,911
Increase in property and equipment and intangible assets	6,882	3,025	9,908	(813)	9,094

Thousands of U.S. dollars (Note 1)

	2019				
	Reportable segment			Adjustment*1	Consolidated*2
	Retailing	FinTech	Total		
Revenue:					
Outside customers	$1,140,090	$1,145,500	$2,285,590	$ —	$2,285,590
Intersegment	57,000	20,872	77,881	(77,881)	—
Total	$1,197,100	$1,166,372	$2,363,472	$ (77,881)	$2,285,590
Segment income	$ 103,827	$ 318,345	$ 422,172	$ (47,772)	$ 374,400
Segment assets	$2,741,090	$5,661,018	$8,402,109	$(309,409)	$8,092,690
Other items:					
Depreciation and amortization	$ 70,009	$ 16,045	$ 86,054	$ 4,036	$ 90,100
Increase in property and equipment and intangible assets	62,563	27,500	90,072	(7,390)	82,672

*1 Adjustment to segment income consists of intersegment elimination of ¥2,278 million ($20,709 thousand) and corporate expenses of ¥(7,533) million ($(68,481) thousand) that are not allocated to each reportable segment. Adjustment to segment assets mainly consists of intersegment elimination of ¥(432,711) million ($(3,933,736) thousand) and corporate assets of ¥399,889 million ($3,635,354 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.

For the fiscal years ended March 31, 2018 and 2019, an impairment loss of ¥1,184 million and ¥4 million ($36 thousand), respectively, was reported by the Retailing segment.

31. RELATED PARTY INFORMATION

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

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	Real estate rental	Direct 1.0%	Property rental Concurrent position as director	Property rental	¥45	Leasehold and other deposits	¥41
								Other current liabilities	1
Seiwa Kogyo Co., Ltd.	Shinjuku, Tokyo	10	Real estate rental	Direct 0.8%	Property rental Concurrent position as director	Property rental	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.

2019									
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 ($90 thousand)	Real estate rental	Direct 1.1%	Property rental Concurrent position as director	Property rental	¥47 ($427 thousand)	Leasehold and other deposits	¥41 ($372 thousand)
								Other current liabilities	1 ($9 thousand)
Seiwa Kogyo Co., Ltd.	Shinjuku, Tokyo	10 ($90 thousand)	Real estate rental	Direct 0.8%	Property rental Concurrent position as director	Property rental	32 ($290 thousand)	Leasehold and other deposits	191 ($1,736 thousand)

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

32. PER SHARE INFORMATION

Net income per share, both basic and diluted, for the fiscal years ended March 31, 2018 and 2019, is as follows:

	Yen		U.S. dollars (Note 1)
	2018	2019	2019
Net income per share	¥93.18	¥115.99	$1.05
Diluted net income per share	93.18	—	—

	Thousands of shares	
	2018	2019
Weighted-average number of outstanding shares	224,381	218,488
Diluted shares:		
Assumed exercise of stock options	0	—

Diluted net income per share for the fiscal year ended March 31, 2019, is not disclosed since there are no diluted shares.

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 (502 thousand shares and 502 thousand shares for the fiscal years ended March 31, 2018 and 2019, respectively).

33. SUBSEQUENT EVENT

At the Board of Directors' meeting held on May 14, 2019, the Company resolved to acquire treasury stock in accordance with Article 156 of the Companies Act as applied with relevant changes in interpretation pursuant to the provisions of Article 165, paragraph (3).

Reason for acquisition

Based on the medium-term management plan to be completed 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 the core operating cash flow that will be generated in the next five years in order to optimize the capital structure for the business, and it will increase investment growth and shareholder return. As part of the plan, the Company will execute acquisition of treasury stock to improve its corporate value by achieving the following targets: EPS of ¥130, ROE of 10%, and ROIC of 4%.

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

(Acquisition of treasury stock)

(i) Class of shares	Common stock
(ii) Maximum number of shares to acquire	3,900 thousand shares (1.79% of total outstanding shares)
(iii) Maximum amount for acquisition	¥7,000 million ($63,636 thousand)
(iv) Acquisition period	From May 15, 2019 to March 31, 2020

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

Short-term loans payable and current portion of long-term loans payable as of March 31, 2018 and 2019, consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Short-term loans payable	¥44,331	¥29,632	$269,381
Current portion of long-term loans payable	31,000	42,000	381,818
Total	¥75,331	¥71,632	$651,200

Annual weighted-average interest rates of short-term loans payable were 0.28% and 0.27% and those of current portion of long-term loans payable were 0.43% and 0.21% for the fiscal years ended March 31, 2018 and 2019, respectively.

Long-term debt as of March 31, 2018 and 2019, consists of the following:

	Millions of yen 2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2019
0.26% long-term loans from banks and others due through 2029, excluding current portion	¥305,000	¥300,000	$2,727,272
22nd series unsecured 0.850% corporate bond, due 2019	5,000	5,000	45,454
24th series unsecured 0.582% corporate bond, due 2018	10,000	—	—
25th series unsecured 0.344% corporate bond, due 2019	10,000	10,000	90,909
26th series unsecured 0.562% corporate bond, due 2021	10,000	10,000	90,909
27th series unsecured 0.337% corporate bond, due 2020	15,000	15,000	136,363
28th series unsecured 0.543% corporate bond, due 2022	10,000	10,000	90,909
29th series unsecured 0.050% corporate bond, due 2019	15,000	15,000	136,363
30th series unsecured 0.130% corporate bond, due 2021	10,000	10,000	90,909
31st series unsecured 0.190% corporate bond, due 2022	10,000	10,000	90,909
32nd series unsecured 0.300% corporate bond, due 2024	10,000	10,000	90,909
33rd series unsecured 0.040% corporate bond, due 2021	—	10,000	90,909
34th series unsecured 0.190% corporate bond, due 2023 (Green bond)	—	10,000	90,909
Lease obligation	1,570	1,550	14,090
	411,570	416,550	3,786,818
Less: Current portion of corporate bond and lease obligation	10,149	30,175	274,318
Total	¥401,420	¥386,375	$3,512,500

The aggregate annual maturities of long-term debt subsequent to March 31, 2019, are as follows:

Year ending March 31	Millions of yen: Long-term loans payable	Millions of yen: Bonds payable	Millions of yen: Lease obligation	Thousands of U.S. dollars (Note 1): Long-term loans payable	Thousands of U.S. dollars (Note 1): Bonds payable	Thousands of U.S. dollars (Note 1): Lease obligation
2020	¥ 42,000	¥ 30,000	¥ 175	$ 381,818	$ 272,727	$ 1,590
2021	51,000	15,000	177	463,636	136,363	1,609
2022	37,000	30,000	177	336,363	272,727	1,609
2023	35,000	20,000	177	318,181	181,818	1,609
2024 and thereafter	177,000	20,000	844	1,609,090	181,818	7,672
Total	¥342,000	¥115,000	¥1,550	$3,109,090	$1,045,454	$14,090

35. QUARTERLY FINANCIAL INFORMATION

Cumulative period	the 1st quarter	the 2nd quarter	the 3rd quarter	Year-End
Revenue (million yen)	¥58,172	¥123,255	¥186,532	¥251,415
Income before income taxes (million yen)	8,448	18,578	28,636	37,433
Net income attributable to owners of parent (million yen)	5,730	12,477	19,333	25,341
Net income per share (yen)	26.03	56.86	88.35	115.99

Each quarter	the 1st quarter	the 2nd quarter	the 3rd quarter	the 4th quarter
Net income per share (yen)	¥26.03	¥30.84	¥31.51	¥27.63

KPMG

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 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 30, 2019
Tokyo, Japan