

Let's Join Hands
// この指と一まれ! //

CO-CREATION

with you

Co-Creation Management Report 2019

MARUI GROUP CO., LTD.

Desire Expressed in Message of “Let’s Join Hands”

MARUI GROUP has been publishing co-creation management reports since 2015. The message of *Co-Creation Management Report 2019*, our fifth such report, is “Let’s Join Hands.” MARUI GROUP aspires to expand the intersection between the interests (happiness) of all stakeholders. At the same time, we recognize that we are surrounded by various issues of all sizes. We hope to make MARUI GROUP into a platform from which we can put our heads together with our stakeholders in order to resolve these issues through the framework of business—a platform that supports the growth of people and of the Company. The message of “Let’s Join Hands” is an expression of our strong desire to build such a platform through co-creation.

KEY TOPICS

MARUI GROUP’s Vision of a Platform for Happiness

MARUI GROUP believes that realizing stakeholder happiness will require a venue for the creation of new value, or, in other words, a platform for happiness. We will build this platform from three elements: our mission, our business, and our culture.

⇒ P24 MARUI GROUP’s Corporate Value

Concept of Contracted Future Recurring Revenue Indicating Future Earnings

MARUI GROUP views recurring revenue as an important element of management from a long-term perspective emphasizing lifetime value (LTV). This report puts forth the concept of contracted future recurring revenue, which is a representation of recurring revenue as future earnings.

⇒ P34 Lifetime Value Management Dramatically Transforming Earnings Structures

Creation of a Happier Future through Green Businesses

MARUI GROUP has launched green businesses with the goal of preventing catastrophic damage to our planet due to global warming and preserving the planet for future generations. Supporting the recommendations of the Task Force on Climate-related Financial Disclosures, we have performed analyses based on three scenarios leading up to 2050 while adopting a financial approach of looking at the opportunities and risks associated with climate change.

⇒ P50 Green Businesses

New Initiatives Examining the Personalities, Thoughts, and Diversity of Officers

We conducted a personality test of all 25 of MARUI GROUP’s corporate officers, including external officers, in order to highlight their diversity. Together with the self-introductions included alongside the overview of the Company’s directors, Audit & Supervisory Board members, and executive officers on pages 132 to 140, we also provide a look at the personalities and thoughts of these individuals.

⇒ P142 Personality Types of MARUI GROUP Officers

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Cautionary Notice regarding Forward-Looking Statements

Performance forecasts and other forward-looking statements contained in this report represent the Group's best judgments based on information available at the time of this report's publication and therefore contain a degree of uncertainty. It is possible that actual performance could differ materially from these forecasts due to a variety of factors. Economic conditions, foreign exchange rates, and stock price movements are among the factors that could have a major impact on performance.

The Post-Digital World

Our New Reality

We use computers, smartphones, and a wide range of other electronic devices on a daily basis. The world of today is such that all objects, experiences, and actions are linked via digital technologies, connecting us to the entire world no matter where we are. This post-digital world, our new reality, is a world in which digital connections surround us like air, enveloping the physical world. The digital native generation born into a world permeated by digital terminals enjoys the post-digital world through social media and other venues as natural as they breathe the air around them. To companies, this world represents an increased range of touchpoints with users, making it possible to develop a deeper understanding of our customers and to communicate more closely with them. These changes in the times are pressing us to update how we think, reevaluating our lifestyles, business practices, and how we interface with others.



Online Merges with Offline—Survive in times without offline (Japanese only) by Yasufumi Fujii and Kazuhiro Obara
www.0101maruigroup.co.jp/en/ir/lib/book/002.html

Visiting Yurakucho Marui in June 2019, this young woman was clearly enjoying her day off, proclaiming happily that she was going to the gym next. With smartphone in hand, an emblem of the digital native generation, her steps were cheerful as she left the store.



The photograph to the right shows the famous Shibuya pedestrian scramble taken from Shibuya Modi. The people crossing are of various genders, ages, and nationalities. Their walks of life are varied, from students on their way home from school and fast-paced office workers to tourists lugging suitcases. One cannot help but wonder what each of them is thinking as they walk.

An Inclusive World

Desire for Individuality and Connections

The post-digital world provides easy access to a vast library of information from anywhere in the world via the Internet. This access reveals an extensive range of options for any choice, whether fashion, anime, music, food, or something else. From among these options, we are free to choose the one that suits us best. More than just that, this access removes barriers of time and distance to allow us to connect instantly with people who share our interests and values that we would have never encountered in the physical world, further empowering us to shape our individual lifestyles. In an inclusive society, people of all genders, ages, nationalities, and physical and mental characteristics will be able to exercise their own individuality without reservation, and the concept of a minority will cease to exist as a result. We currently live in a world in which people seek options to live their own individual happiness while also forming connections and having exchanges with people who understand them.



Our Planet

Crossroad for Humanity

Since the industrial revolution, humanity has continued to drive economic growth with energy generated by burning the fossil fuel accumulated within the earth. As we have burned this fuel, greenhouse gases have continued to accumulate in the atmosphere. These gases have increased the average global temperature, triggering droughts and forest fires through record-breaking heat along with widespread damage from concentrated rains, typhoons, and other extreme weather events. If action is not taken, the earth's average temperature is projected to rise to 4°C above pre-industrial levels by the end of the 21st century, which would have catastrophic impacts on the survival of the human race. We are currently placed at a crossroad. The current generation must choose whether to continue to deplete the rich resources and bountiful environment of our beautiful planet for their own benefit or to take immediate action to preserve these benefits for future generations. Once humanity has chosen its path, there will be no turning back.



Operating Manual for Spaceship Earth by Richard Buckminster Fuller
🌐 www.0101maruigroup.co.jp/en/ir/lib/book/001.html

The four-year-old son of a MARUI GROUP employee lifts a globe-styled ball above his head with both hands. He represents the future generations that MARUI GROUP has newly included among its focus groups of stakeholders. As the current generation, we are obligated to ensure a happy future for these generations.





A close-up photograph of a hand reaching upwards, with fingers slightly spread, against a clear blue sky with some light clouds. The hand is positioned on the left side of the frame, and the fingers are pointing towards the top right. The lighting is bright, suggesting a sunny day.

Let's Join Hands

Co-Creation of a Platform for Happiness

MARUI GROUP's mission is to help build a flourishing and inclusive society that offers happiness to all. To guide us in accomplishing this mission, in February 2019 we released our long-term vision (MARUI GROUP's 2050 Vision)—“Harnessing the power of business to build a world that transcends dichotomies.” However, we realize that this mission cannot be accomplished alone: it will require that we co-create a platform for happiness together with future generations and all other stakeholders. Through this platform, we will then need to pool our strengths to generate synergies toward the resolution of social issues. This report's message of “Let's Join Hands” is an invitation for anyone who shares our ideals to join us in the co-creation of this platform for happiness.

“Let's Join Hands” is an invitation to take part in a shared activity. In Japan, this invitation is issued by extending one's finger. Whose finger is at the center of this picture? Turn to page 148 for the answer.

Message from the President

I invite everyone to join hands with us in co-creating value for the future.

Hiroshi Aoi

President and Representative Director
Representative Executive Officer, CEO

Co-Creation Management Report 2019 is our fifth co-creation management report. In this report, we will once again provide a look at MARUI GROUP's path to improved corporate value through financial and pre-financial information. At the same time, I would like to issue an invitation to anyone interested in co-creating this corporate value together with us.

Just like children invite their friends to join hands for playground games, we invite any of our diverse stakeholders who are interested in joining hands with us in co-creating value for the future. This invitation is issued to the customers who help us create better stores and services, the employees who work together with us, those who will join MARUI GROUP in the future, companies with which we engage in open innovation, long-term shareholders and investors, and every other stakeholder of the Company. This invitation inspired the photograph on the cover of this report. We hope that as many interested individuals as possible will join us in the serious but also fun game of co-creating value.

New EPS Record for the First Time in 28 Years

I would like to begin by looking back at the fiscal year ended March 31, 2019. We passed many milestones in this year. One of these milestones was the completion of the transition to shopping centers and fixed-term rental contracts that we started in the fiscal year ended March 31, 2015. Taking five years, the transition from department stores to shopping centers was a massive endeavor that transformed our prior business into something completely new. We were able to complete this undertaking thanks to the passion and dedication of our employees.

Meanwhile, EPOS card transactions exceeded ¥2 trillion for the first time, a notable milestone in the FinTech segment. After the launch of EPOS cards in March 2006, it took nine years before transactions through these cards climbed above ¥1 trillion in the fiscal year ended March 31, 2015; these transactions grew beyond ¥2 trillion a mere four years later. This success was a product of the accelerated growth we achieved through the nationwide deployment of EPOS card application centers and the promotion of Gold card issuance.

In terms of performance, these accomplishments led us to achieve operating income growth for the 10th consecutive year in the fiscal year ended March 31, 2019, and also to post a new record for earnings per share (EPS) for the first time in 28 years. As we grew our business and improved our earnings, we also worked toward

our targeted balance sheet. These efforts helped us achieve return on equity (ROE) of more than 9%, which exceeded cost of equity, resulting in a positive equity spread and enabling us to finally generate corporate value that surpassed the expectations of our shareholders.

With a five-year average annual growth rate of 15.6% for EPS and a policy of targeting ongoing increases in the consolidated payout ratio, we have realized seven consecutive years of higher dividend payments combined with three consecutive years of new records for cash dividends per share. As a result, the Company's total shareholder return has grown by 2.7 times over the past five years, well above the Tokyo Stock Price Index average growth of 1.5 times over this period. Moreover, the average annual growth rate for total shareholder return was 22.0%, 14 percentage points higher than the Tokyo Stock Price Index average rate of 8.0%. Only two years remain in our current five-year medium-term management plan, which is slated to conclude with the fiscal year ending March 31, 2021. We are currently on course with regard to this plan, and we feel that the plan's targets are entirely within our grasp. As seen in these accomplishments, the fiscal year ended March 31, 2019, was a year during which much fruit was borne of our initiatives thus far.



A selection of books, ranging from management guides to comics, recommended by President Aoi, an avid reader, can be found in the tamaru WORK LOUNGE established in MARUI GROUP's head office to help heighten the creativity of employees.

Accelerated Growth in Lifetime Value Stemming from Changes in the Nature of Sales

Next, I would like to review the status of MARUI GROUP's business model, which furnished the foundations on which we achieved this success. In last year's *Co-Creation Management Report 2018*, we described the business model we target as being characterized by transitions from a flow-type business to a stock-type business and from a business emphasizing on-balance sheet assets to one built on off-balance sheet assets (see Figure 1). These transitions are indicated by the two axes in Figure 1. Today, I would like to discuss the transition from a flow-type business to a stock-type business, the horizontal axis of this figure and an area in which we have seen great change over the past five years.

When we say a "flow-type business," we are referring to a business in which the earnings structure is oriented around profits generated within a given fiscal year. In contrast, a "stock-type business" features an earnings structure centered on recurring revenue. Profits generated within a given fiscal year are those profits that are not guaranteed to recur in the following fiscal year. For example, when we operated department stores in the past, we had our regular customers along with a large number of other customers. Just because a customer made one purchase at our store, there was no guarantee that they would make subsequent purchases, meaning that we had to value each individual transaction. Moreover, the earnings of department stores were influenced by external factors, such as weather, trends,

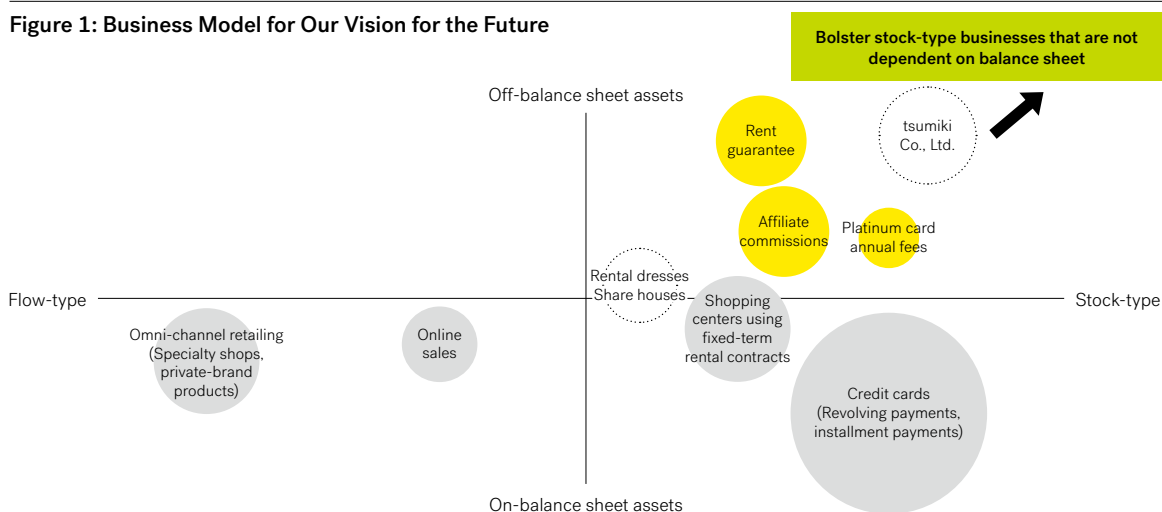
inbound demand, and consumption tax hikes, adding to the inconsistency of this business.

Our decision to transition to shopping centers and fixed-term rental contracts was predicated on our desire to move away from this inconsistent, year-by-year business to build a more consistent business structure. Changing the source of our earnings from sales revenues to rent revenues based on fixed-term rental contracts created a situation in which we can look forward to consistent rent revenues over a period of three to five years that is not influenced by external factors.

In the FinTech segment, meanwhile, the rapid growth in transaction volumes drove increases in consistent recurring revenues. The FinTech segment has always been in a position enabling it to achieve profits that continue beyond single fiscal years, through finance charges on revolving and installment payments. However, we have gone a step further by working to transform the nature of the transactions for which EPOS cards are used. We have thus sought to encourage customers to use their cards to make payments for communication fees, utilities, rent, and other ongoing payments in addition to one-time transactions at affiliates.

These efforts have caused the ratio of recurring revenue to total revenue to rise from around 26% in the fiscal year ended March 31, 2014, to approximately 54% in the fiscal year ended March 31, 2019. Revenue itself has increased for two straight years, but the growth in

Figure 1: Business Model for Our Vision for the Future



overall revenue has been outpaced by the growth in recurring revenue. This change is even more pronounced in regard to gross profit. Recurring gross profit accounted for 34% of total gross profit in the fiscal year ended March 31, 2014, and 63% in the fiscal year ended March 31, 2019. Over the past five years, overall gross profit has grown by 22% while recurring gross profit has risen by 230% (see pages 34–35 for more information on recurring revenue).

In this manner, MARUI GROUP's earnings structure has undergone drastic change over the past five years, manifesting not only in stable growth in top-line revenue but also in the nature of sales. Rapid growth in recurring revenue is contributing to accelerated growth in lifetime value, the total of the present value of future profits (cash flows). As growth in lifetime value is directly linked to higher corporate value, one could thus say the MARUI GROUP's corporate value has improved greatly over the past five years.

MARUI GROUP's SaaS-Resembling Business Model

MARUI GROUP's business model is evolving beyond the prior model of combining, or perhaps synergizing, retailing and finance operations to become something resembling a software as a service (SaaS) model.* Comparing us to a SaaS company may seem like a little bit of a stretch. However, the business model of such companies is actually similar to a model we have been using for quite some time. Let me elaborate. It was apparently common for MARUI GROUP's founder to tell the former president that he should treasure the monthly installment payment business, as it was a lucrative business.

The reason monthly installment payments were lucrative was that they entail ongoing monthly payments after purchases, allowing for longer-term relationships to be forged with customers than would be possible under conventional retailing models in which relations end with single transactions. Also, under the monthly installment payment model, it is common for customers to make subsequent purchases after their payments have been finished. In this manner, MARUI GROUP's business was never a "one-and-done" retailing business, but rather was always a business of building long-term relationships off of single transactions.

I would like to share a recent episode in this regard. We recently asked the president of a certain start-up company to give a lecture. This president was born in Osaka. He called his mother the day before the lecture to tell her about it. At this point, his mother informed him that, when his father worked in Tokyo, he bought his first suit on installment payments from Marui. The president of this company was around 50, meaning that his father most likely bought that suit more than 50 years ago. I was moved to hear that our customers still remembered such interactions with us. The truth, however, is that

there are many customers that have such memories. When I was a kid, I often heard adults speak of how they "had dealings with Marui." I had always wondered why so many people remembered their experiences shopping at Marui and expressed their experiences with the words "had dealings with." I found the answer when MARUI GROUP was grappling with a management crisis. The reason why these experiences remained with people for so long was because of the experience provided by monthly installment payments. Through this payment scheme, the co-creation of creditability with customers—our core value—had enabled us to forge strong, lasting relationships with our customers.

To use today's lexicon, this practice could be said to have been a form of "customer engagement." Such long-term relationships and strong engagement with customers are both characteristics of SaaS businesses.

MARUI GROUP's business takes place in an industry that is completely different from standard SaaS companies. However, the process of trial and error driven by our desire to translate the DNA we have held since our founding into a contemporary business has coincidentally led to a business model that resembles that of SaaS companies. Today, MARUI GROUP is enjoying consistent top-line growth while evolving to employ a new business model that boasts rapid growth in corporate value on par with new companies. At the same time, we recognize that this new business model requires a new method of evaluating corporate value. For this reason, we will look to engage in dialogue with our shareholders and other investors in a manner that goes beyond the conventional industry categories of retailing and finance to co-create corporate value together.

* SaaS business models entail providing software and services through the Internet via cloud servers. Rather than purchasing packaged software, these models allow customers to choose their desired functions and use them on a subscription basis, thereby growing lifetime value through ongoing transactions with customers.

Concept of Stores of the Future—Stores That Do Not Sell

Now, I would like to talk about our vision for the future. I will be explaining this vision from the perspectives of stores, FinTech, and co-creation sustainability management. Beginning with stores, having completed the transition to shopping centers and fixed-term rental contracts, we are now poised to undertake the full-fledged development of the stores of the future. MARUI GROUP's business has evolved, taking us from running department stores to operating shopping centers. In the future, we will look to evolve beyond the boundaries of shopping centers to develop a completely new type of store—stores that do not sell. Delving into our concept of the stores of the future that do not sell reveals various new possibilities.

I will be explaining these possibilities in accordance with the eight operating environment changes described in *Co-Creation Management Report 2017*. The long-term trends pertaining to stores are primarily contained within changes (1)–(5). The concept of stores that do not sell has the potential to transform virtually all the threats associated with these changes into opportunities.

(1) Transition to e-commerce	(2) Shift from goods to experiences	(3) Emergence of a sharing economy	(4) Declining birthrate and aging population
(5) Increase in demand from inbound travelers	(6) Rise of cashless payment methods	(7) Change of focus from saving to investment	(8) End of era of low interest rates

The long-term trend represented by operating environment change (2), the shift from goods to experiences, for example, would have presented a significant threat to MARUI GROUP if we had failed to move beyond department stores. This is because the business model of procuring and selling products utilized by department stores, while excelling at selling goods, is not suited to the provision of food and services. Shopping centers, however, employ a real estate rental model that is ideal for the supply of food, services, and other experiences. Still, both department stores and shopping centers share the same Achilles' heel: they are both focused on sales.

To move past this limitation, we chose to think about our future course while placing selling, previously assumed to be the fundamental role of stores, on the

backburner. This opened the door for the provision of value in the form of experiences and communities. This is incredibly important because, as many have noticed, contemporary consumers desire the value offered by experiences and communities above that provided by goods and services.

This shift in contemporary tastes is even more apparent when it comes to operating environment change (5), the increase in demand from inbound travelers. It was only a few years ago when non-Japanese visitors to Japan would often plan their trips around shopping, purchasing electronics and luxury brand items in mass quantities. Today, such mass purchases are almost nonexistent, and we have seen a rapid shift toward the consumption of experiences, with visitors looking instead to enjoy Japanese cuisine, traditional culture, and anime or the natural splendor throughout the country. This shift mirrors the shift that the Japanese population underwent over the course of decades, only condensed into a few years. This different speed of these trends is itself a highly interesting subject. Back on topic, we cannot deny that Japanese people as well are trending toward the consumption of experiences. This trend can be seen in how the vast majority of photographs posted on Instagram are representative of the consumption of experiences. In response to this trend, we aim to evolve beyond shopping centers to create stores that provide not just goods but also experiences and communities.

If we decide that our stores do not necessarily need to sell, the potential influences of changes (1), the transition to e-commerce and (3), the emergence of a sharing economy will become quite different. Looking first at sharing economies, these economies are the antithesis of consumption and thus represent a threat to stores focused on selling, whether they are selling products or services. Conversely, stores that are not preoccupied with sales are able to synergize with these economies. We are therefore working to recruit partners that develop their businesses around sharing economies, which we expect will experience growth over the long term. In addition to collaborating with these partners in our stores, we will also coordinate to introduce EPOS cardholders to these partners, provide convenient payment methods, and offer other value. This approach has been adopted because we recognize that such sharing facilitation constitutes the type of sustainable businesses we hope to advance going forward.

The same can be said of e-commerce. Stores preoccupied with selling goods will be forced to compete with e-commerce, and brick-and-mortar stores will be placed in a disadvantaged position, as seen in the “Amazon effect” that has transformed the market in the United States. The shift from physical stores to e-commerce is a long-term trend that Japan will not be able to avoid going forward. In other words, the trend toward e-commerce is, quite possibly, the greatest threat to traditional stores.

However, this threat too can be transformed into a massive opportunity by putting sales on the backburner. The new e-commerce trend toward direct-to-consumer (D2C) businesses is emblematic of this opportunity. D2C businesses were conceived when the Internet enabled manufacturers to connect directly to consumers without having to go through the middleman of a wholesale or retail venue. Amazon and other e-commerce sites of the same vein are counted as “retail venues” in this case. D2C businesses may only offer a limited scope of specific products, but their offerings are unique and thus stand unrivaled. They are also able to win exceptional levels of consumer support by offering products not found anywhere else.

What is perhaps most interesting about this trend is how it is common for D2C businesses, a type of

“second-wave” e-commerce business, to set up physical stores shortly after launch. One reason behind this drive to open physical stores is the fact that the fierce competition among e-commerce vendors is driving sharp increases in new customer acquisition costs. More important, however, is the fact that the increased engagement made possible through direct interactions with customers via physical stores contributes to ongoing use by customers and subsequently higher lifetime value. In other words, D2C businesses see physical stores as venues for increasing engagement and promoting high levels of communication with customers. This business approach targeting strong engagement and long-term relationships with customers matches that of MARUI GROUP.

However, there is one obstacle to this approach. Department stores and shopping centers, which are exceptional at drawing customers, are focused on generating sales within stores. These stores are therefore not welcoming of D2C businesses. MARUI GROUP has thus stepped up to remove this obstacle. We hope to work together with a diverse range of D2C businesses that help enrich customer lifestyles. I therefore issue an invitation to such D2C businesses to join hands with us in creating value.

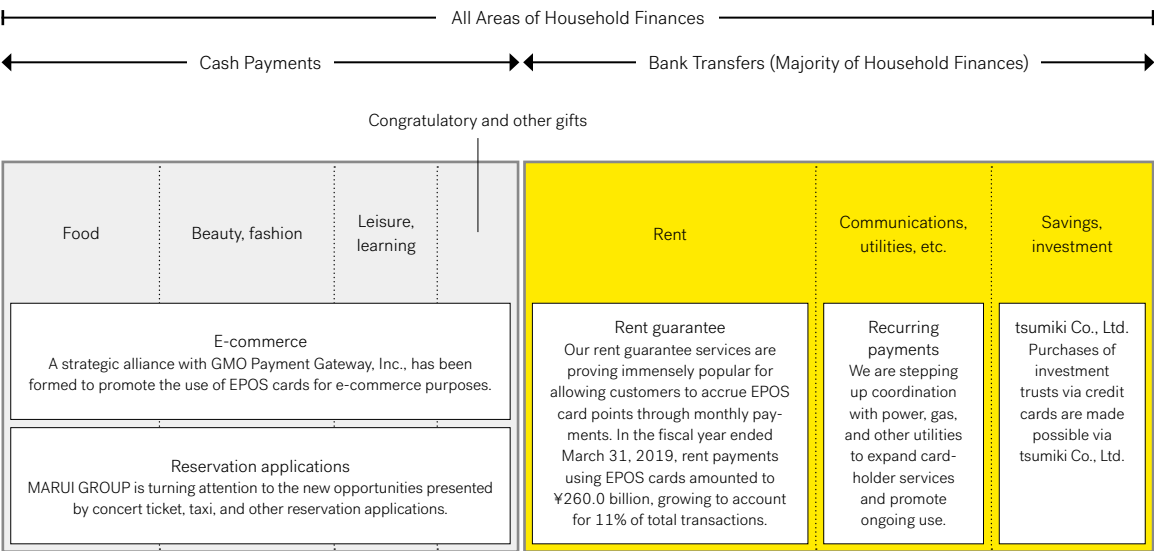
Distinctive Strategy of Maximizing Share of Household Finances

Moving on, we will now look at our future vision from the perspective of FinTech. I would like to take this opportunity to offer an update about our assessment regarding the opportunities and threats associated with operating environment change (6), the rise of cashless payment methods. In 2018, much attention was directed toward the advent of various payment services, which heralded a full-fledged transition to cashless payments. The advent of such services prompted many questions for a wide spectrum of stakeholders asking about the strategies MARUI GROUP would employ to combat new rivals such as IT companies pushing smartphone payment services. The common thread between these questions was the concern for the possibility of MARUI GROUP and its legacy credit card businesses being replaced by the innovative smartphone payment services of IT companies. We engaged in an active dialogue with shareholders, other investors, and employees for the purpose of responding to these questions and to this concern.

Through this process, we were able to clarify the direction needing to be taken in the FinTech’s strategies going forward, thereby deciding the core thrust of these strategies.

This thrust is the maximization of our share of household finances. Specifically, we aim to maximize the share of EPOS card payments in household finances by offering assistance in the various areas that customers use money (see Figure 2). As shown in Figure 2, the household finances of customers can largely be divided into two categories: cash payments and bank transfers. Companies promoting smartphone payments are primarily focused on the cash payments category represented by the left side of this figure. MARUI GROUP, meanwhile, is turning its attention largely toward the bank transfers category on the right side of the figure. This is because the right side primarily represents regular, ongoing payments that can help us generate the recurring revenue we target.

Figure 2: Approach Targeting All Areas of Household Finances



The most representative example of such ongoing payments is communications and utilities payments. We have long been encouraging EPOS cardholders to use their card to make these payments. In this area, we are looking to step up initiatives for promoting the use of credit cards to pay rent, generally the largest outflow as part of household finances. It is normally impossible to make rent payments with credit cards. However, we offer rent guarantee services that allow for credit cards to be used for such payments. These services have proved immensely popular as they offer customers the benefit of accruing EPOS card points each month as they pay their rent.

Furthermore, we advanced into the areas of savings and investment in 2018. Savings and investments are not technically outflows, and credit card payments have therefore not been applicable in these areas in the past. Our initiatives in this field will be advanced by tsumiki

Co., Ltd., going forward (for more information on initiatives related to areas on the right side of Figure 2, please refer to “Progress and Future Strategies in the FinTech Segment,” beginning on page 94).

Also beginning in 2018, we have been implementing initiatives for using EPOS Family Gold cards to convert all members of families into cardholders. Gold cards have substantially higher rates of ongoing use when compared to standard cards and also make large contributions to lifetime value. Given this fact, increases in the number of Gold cardholders will have an effect similar to growth in recurring revenue. As I have explained, our distinctive strategy is completely different from that of companies promoting smartphone payments. By advancing this strategy, we will turn the threats presented by the trend toward cashless payments into opportunities in order to improve corporate value by growing recurring revenue and evolving into a lifetime value-oriented business.

Ethical Responsibility of Securing a Number of Forward Days for Future Generations

Lastly, I would like to talk about the subject of co-creation sustainability management. MARUI GROUP was implementing environmental, social, and governance (ESG) initiatives previously. Seeking to evolve these initiatives to practice co-creation sustainability management, we devoted the year of 2018 to formulating a long-term vision and targets through discussion between employee volunteers and management.

These were compiled into our *VISION BOOK 2050*. This report describes MARUI GROUP's 2050 Vision: "Harnessing the power of business to build a world that transcends dichotomies." *VISION BOOK 2050* also provides information on our three businesses founded on co-creation—inter-generational businesses, co-creative businesses, and financial inclusion—through which we will seek to increase the happiness of all people. Concrete initiative plans will be drafted over the period of 2019, through a process focused on employee volunteers similar to the one for formulating a vision and targets in 2018. In drafting these plans, we will use a backcasting approach.

There are two principles that I feel are important in these initiatives. The first is to practice co-creation with a new group of stakeholders: future generations. Previously, we have focused our activities on the five stakeholder groups of customers, investors, communities and society, business partners, and employees. However, discussions about a long-term vision and targets made me realize that there was one more stakeholder group we needed to consider in order to co-create value for the future.

This stakeholder group was future generations. I became aware of this group when examining environmental issues. One may wonder who are the stakeholders that benefit from environmental preservation. People often talk of "being kind to the earth" or "protecting the environment." However, it seems odd to think of the earth or the environment as stakeholders in the same manner as customers or investors. When pondering this quandary, the idea of future generations popped into my head. From a different standpoint, addressing environmental issues can be seen as preserving a rich and beautiful environment for the sake of children and younger generations. Rather than squandering this bounty, depleting and destroying the natural environment and resources in the process, it is an ethical responsibility to preserve this bounty for future generations.

Richard Buckminster Fuller defined wealth as the number of forward days we are physically prepared to sustain for future generations. Replacing this definition of wealth with corporate value is the core of MARUI GROUP's co-creation sustainability management. To practice this type of management, we will promote the contributions of younger employees and engage in open innovation with entrepreneurs. We also hope to take part in co-creation with junior high and high school students. I would thus like to invite junior high and high school students to join us in thinking about the type of businesses that will create value for the future.

The second important principle is how we will shape our business going forward. In *Co-Creation Management Report 2018*, we declared the goal of MARUI GROUP's new businesses as being to commercialize initiatives for addressing social issues. We have made true on this declaration as all of the new businesses we are currently advancing or developing are oriented toward the resolution of social issues.

Following the example of these new businesses, in the future, I hope to re-orient our existing businesses toward the resolution of social issues as well. One goal of our co-creation sustainability management is to have all of our businesses addressing social issues. Accomplishing this goal will align the meaning of our work with the meaning of our lives, thereby transcending the dichotomy between work and life. The structure of capitalism, which has maintained its hegemony since the industrial revolution, is reaching its limit. As the world is pressed to evolve toward a sustainable society, MARUI GROUP will strive to create value for the future as a frontrunner in co-creation sustainability management.

I look forward to your ongoing support and understanding and to engaging in co-creation with you.

August 2019



Hiroshi Aoi

President and Representative Director
Representative Executive Officer, CEO

Approach to Transcending Dichotomy between ROE and ESG by Harnessing the Power of Business

The following is a discussion between Professor Kunio Ito, who advocates ROESG, a new integrated indicator for achieving high levels of ROE and ESG in the pursuit of sustainable improvements in corporate value, and MARUI GROUP President Aoi on the topic of co-creation sustainability management for transcending dichotomies.

Kunio Ito

Specialty Appointed Professor
Graduate School of Business Administration,
Hitotsubashi University



Hiroshi Aoi

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

Poison Contained in ROE and ESG

Aoi: MARUI GROUP's 2050 Vision is "Harnessing the power of business to build a world that transcends dichotomies." Professor Ito, today, I would like to ask you about how we can transcend the dichotomy between ROE and ESG.

Ito: That is a task that must be addressed through a practical approach at the management level. In 2014, I published the *Ito Report*, which cast light on the low emphasis placed on capital productivity by Japanese companies and encouraged companies to target ROE of at least 8%. Today, the average ROE of all companies listed on the First Section of the Tokyo Stock Exchange is on the cusp of reaching this level. However, the focus on ROE can poison other areas. There are those managers who truly understand the essence of ROE and practice management accordingly. However, this emphasis on ROE threatens to give rise to those managers who focus only on short-term numbers and sometimes look to inappropriately adjust profits based on this limited perspective. An emphasis on ESG also carries such poison in its potential to become an excuse for low capital productivity. I think it is best to harmonize ROE and ESG through a company's core business activities. Dialogue is a powerful tool for overcoming this dichotomy. President Aoi, I understand that you are advocating the power of dialogue to drive

co-creation. Dialogue presumes differences of value, seeking to bridge the gap caused by these differences through extensive and ongoing communication aimed at determining from where these differences arise. With this belief, I find that various parts of the management stance of MARUI GROUP and of you yourself resonate with me.

Dichotomies Arising from Differences in Timeframes

Aoi: MARUI GROUP is generally evaluated by investors from the perspective of the traditional retail sector, resulting in many questioning our actual industry and how we should be evaluated. However, there are in fact many other companies for which the industry is unclear.

Ito: It is currently impossible to box companies into a single industry or sector. Given this reality, companies should stress in dialogue the fact that they have a large staff of talented individuals capable of creating new businesses and business models that do not conform to conventional industry boundaries. Effective dialogue is thus about how best to communicate that, fundamentally, employees are acting as the value creators in their companies.

Aoi: It is common practice for personnel expenses and human resource investments to be recorded as costs instead of as assets for accounting purposes. I think that this practice represents another textbook example



Kunio Ito

Graduating from Hitotsubashi University in 1975, Kunio Ito later became a specially appointed professor at this university. Professor Ito has been chairman of the Ministry of Economy, Trade and Industry's "Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors" project. In addition, the *Ito Report* integrated report published in 2014 garnered a great amount of attention, even overseas, elevating Professor Ito to the position of a leading figure in corporate governance reforms in Japan. He has written various works on topics including management for overcoming crises, new corporate value evaluation methods, and accounting of intangible assets.

Ito Report 2.0 (Japanese only)

www.meti.go.jp/press/2017/10/20171026001/20171026001-1.pdf





It is important to recognize that transcending dichotomies is not the same as compromising. Rather, transcending the dichotomy between Vector A and Vector B requires the establishment of a third Vector C.

Kunio Ito

of a dichotomy. The more investments a company makes, the more it seems that their profits decline. At the same time, the more a company invests, the more it will be able to generate value over the long term.

Ito: Baruch Lev, one of the writers of *The End of Accounting and the Path Forward for Investors and Managers*, criticizes our current accounting practices for how they record R&D expenditures and other investments in intangible assets as expenses, inviting bearish economies by encouraging managers to limit such investments. I believe that differences in time-frames, between short-term and medium-to-long-term perspectives in this case, are a source of dichotomies. There is no clear answer on how to transcend this dichotomy, but I think that a good start lies in being able to effectively explain how one's company is pre-fac-ing management on a medium-to-long-term perspective while doing their utmost to achieve success in the short term.

Selection of Managers as First Step in Effective Corporate Governance

Ito: If a manager who will only hold their position for four years attempts to postulate on their company's medium-to-long-term outlook, investors will perceive it merely as idealism or as an official stance. This is why the first step to effective governance lies in the selection of a company's manager.

Aoi: I think it is crucial for Japan to develop corporate governance frameworks based on timeframes that

enable managers to commit to fulfilling their duties over the long term.

Ito: You are exactly right. To add to this point, managers need to have experienced setbacks in the past if they are to hold their positions over the long term. A person that has never experienced setbacks will crack under pressure should a crisis occur. Of course, governance systems will also need built-in frameworks for dismissing managers that do not exhibit satisfactory performance. What is perhaps most important of all is the degree to which a manager is self-driven. In other words, governance should involve others monitoring the extent to which a manager can exercise a self-driven approach.

Aoi: I am the eldest son of the eldest son of our founder. When I took up the mantle of president, I thus assumed that I would be in this position for around 20 years. This assumed tenure has greatly influenced my actions as president. Faced with a management crisis that had lasted seven years, a commitment to moving forward welled up inside me when I realized that I still had more than a decade to go. Whenever I would visit the founder's grave during this period of adversity, I could not help but think that, if I were to bring about the end of the Company, my ancestors would haunt me. The pressure was enormous.

Ito: When a manager inherits a business from a family member, it is common for them to be able to effectively micromanage, being aware of the subtle inner workings of the company, while also acting based on exceptionally long timeframes. In this manner, these managers are often able to singlehandedly overcome

dichotomies. My research organization is currently performing pilot tests on ROA and ROIC. On average, these metrics peak when managers have a term of 10 to 11 years. If a manager recognizes that they will not be around to reap the benefits of structural reforms, they will simply refrain from those reforms.

Aoi: This is why it is important for presidents to be appointed when they are relatively young. A president appointed in their 30s or 40s will have time to fail when they are still new and to learn from and overcome this failure to succeed.

Ito: A president appointed while younger will have time to build a track record of success that they can take with them to other companies. This will also create an ecosystem in which such individuals are able to become investors that nurture the growth of start-up companies. Conversely, presidents that assumed their positions when older will have limited options for after they leave that position, which may lead them to become complacent. In this manner, age is important. However, this also presents another dichotomy, making it difficult to determine the appropriate weight to place on age in the selection criteria for managers.

ROESG Indicator Integrating ROE and ESG

Aoi: You yourself lauded 2019 as the first year of initiatives based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Hoping to adopt these recommendations, we decided to conduct a scenario analysis based on the TCFD recommendations. Do you think that the TCFD will serve as a catalyst for the integration of financial and non-financial information?

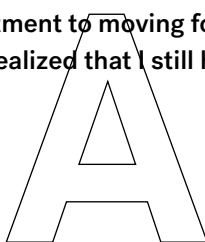
Ito: Scenario analyses based on the TCFD recommendations include both quantitative and qualitative perspectives. As the qualitative perspective pertains to non-financial information, these analyses will naturally lead to information disclosure that incorporates both financial and non-financial information. I am currently researching management based on ROESG, an indicator that integrates ROE and ESG. However, even if we understand this concept, it will be a difficult and unprecedented undertaking to actually incorporate this concept into management. It is important to recognize that transcending dichotomies is not the same as compromising. Rather, transcending the dichotomy between Vector A and Vector B requires the establishment of a third Vector C.

Aoi: That is why sustainability is a field that allows us to exercise the greatest creativity and is therefore among the most motivating and interesting fields.

Ito: The underlying principle of sustainability is a desire to evolve, whereas being a going concern only means continuing to exist. These two concepts are therefore completely different. Japan places too much importance on the simple continuation of companies. Sustainability, meanwhile, entails continuing to existing while evolving, and it is corporate governance that underpins this pursuit.

This assumed tenure has greatly influenced my actions as president. Faced with a management crisis that had lasted seven years, a commitment to moving forward welled up inside me when I realized that I still had more than a decade to go.

Hiroshi Aoi

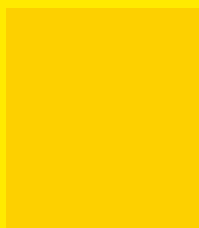




Business Model

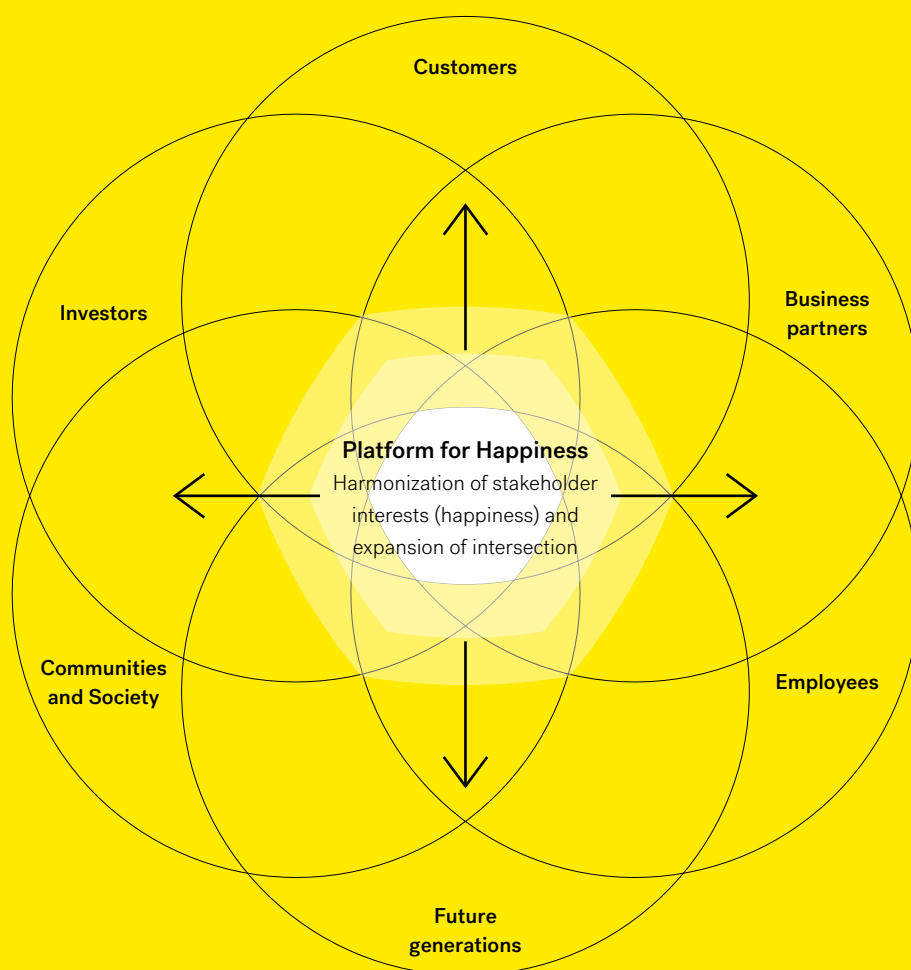
Section 02

Co-Creation Sustainability Business Model



This page features a collection of photographs of customers enjoying shopping, eating, and other activities at Marui stores, which are always bustling with smiling customers and staff. We thank everyone who let us photograph them.

MARUI GROUP's Corporate Value



Platform for Happiness

The concept of a “platform” is crucial to creating new value. MARUI GROUP is a company that provides a platform for promoting harmony and the expansion of the intersection between the interests (happiness) of six groups of stakeholders as well as for supporting the growth of the people who use this platform. As such a platform holder, we seek to contribute to the happiness of all stakeholders.

1. MISSION

MARUI GROUP's corporate mission is clearly described within its co-creation philosophy. Even the most refined business model and corporate culture will be lost without a clear vision to serve as the compass for its daily business activities.

⇒ P26 MARUI GROUP's Co-Creation Philosophy

Three Elements of Platform for Happiness

2. BUSINESS

It is MARUI GROUP's business that gives form to its mission. Leveraging its core value—the co-creation of credibility—together with the strengths it has cultivated since its founding, MARUI GROUP will innovate and evolve its platform for supporting the happiness of all stakeholders.

⇒ P32 Business Model Built on Co-Creation of Credibility

3. CULTURE

A company's employees are responsible for fulfilling its clear mission and operating its business model.

MARUI GROUP has fostered a corporate culture of voluntary participation and provides a platform through which employees are able to grow and acquire knowledge. The understanding and interactions born out of this platform drive the growth of the Company.

⇒ P60 Translation of Individual Strengths into Organizational Capabilities via Understanding and Interaction

MARUI GROUP's Co-Creation Philosophy

Our Aspirations

MISSION

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

MARUI GROUP's mission is its reason for existence. The corporate and business activities of MARUI GROUP are the practice of fulfilling this mission. This mission is meant to provide all members of MARUI GROUP with a guide, inspiring them to reflect on whether their actions and decisions are contributing to the fulfillment of the mission, even in times of uncertainty.

2050 VISION

Harnessing the power of business to build a world
that transcends dichotomies

MARUI GROUP's 2050 Vision is a roadmap for the accomplishment of the Company's mission. It puts forth directives for the concerted efforts to be advanced by all Group members as they ascertain changes in the operating environment. We believe that a vision and long-term targets are essential for a company to remain true to its mission and values as, no matter how righteous a mission or values may be, they will still need a guide to clarify priorities for advancing business strategies.

In conjunction with the establishment of a long-term vision for 2050, we at MARUI GROUP reshaped our co-creation philosophy based on our aspirations and our principles, clarifying the intent of these ideals so that they may guide us in our daily business activities.

Revised in February 2019

Our Principles

PHILOSOPHY

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

MARUI GROUP's philosophy is an essential compass for fulfilling its mission. The desire to "continue evolving to better aid our customers" compels everyone at MARUI GROUP to work for the benefit of stakeholders by exercising their capacity for empathy to adopt the viewpoints of various stakeholders in order to understand their thinking and their pain. The ongoing evolution of this capacity for empathy gives rise to the propensity for innovation that drives the resolution of the issues faced by customers, society, and the environment. The commitment to "equate the development of our people with the development of our company" is founded on the belief that MARUI GROUP's growth is achieved when our people realize self-actualization through empathy and innovation.

VALUES

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

MARUI GROUP's values are the unique principles of the Company that differentiate it from all others, the precious founding spirit that will perpetually permeate our organization. The concept of co-creation of creditability—based on the belief of MARUI GROUP's founder that "creditability should be built together with customers," rather than assigned to them—is the belief that credit should be forged through trust over long-term relationships by working together with and being empathetic toward customers. The founder also advocated a "pioneer spirit of creating opportunities." This value represents MARUI GROUP's spirit of innovation and evolution, which propels us forward as we transform our business and create new demand and markets in response to changes in customer happiness or in society.

Evolution from Monthly Installment Sales System Dating Back to Edo Period to Credit Cards

Born in Toyama Prefecture, MARUI GROUP founder Chuji Aoi sensed immense potential in the installment payment system used by the merchants of Ehime Prefecture. However, he did not blindly embrace this model. Breaking away from established traditions, he commenced a unique monthly installment payment business, later evolving this business to issue Japan's first credit cards in 1960. This was the start of MARUI GROUP's history of innovation and evolution.

Advance into Fashion and Credit as Peers Moved Away from Retailing

The post-war Japanese economic miracle placed furniture and other durable goods, previously the main targets of consumption, in the hands of consumers, causing demand for sales on credit to decline in the 1980s. Faced with this industry-wide crisis, many of MARUI GROUP's peers moved away from retailing to focus on financial operations. MARUI GROUP, however, remained in retailing, turning its attention to fashion and to stimulating new credit demand among younger generations and other customers.

Innovation

and

Evolution

of Business Model

Post-War Japanese Economic Miracle

Accumulation of physical goods

Japanese Asset Price Bubble

First Great Innovation

Customers	New families
Products	Furniture, consumer electronics, and other durable goods
Credit cards	Japan's first credit card
Stores	Monthly installment payment stores
Manager	Chuji Aoi (1931-1972)

Second Great Innovation

Customers	Younger generations
Products	Fashion
Credit cards	Akai Card (Red Card) in-house credit card
Stores	Department stores
Manager	Tadao Aoi (1972-2005)

1960
Issued first credit card in Japan

1966
Introduced industry's first computer

FY1991
Achieved peak performance
EPS: ¥103.2

FY2006
Began issuing EPOS cards
EPS: ¥70.4

Earnings per share (EPS)

1931 Founding

Fiscal year ended
January 31, 1980

Fiscal year ended
January 31, 1990

Fiscal year ended
January 31, 2000

Losses on Two Occasions and Reexamination of Point of Origin to Overcome Management Crisis

With performance peaking in 1991, MARUI GROUP entered a protracted period of stagnancy as the collapse of Japan's asset price bubble caused a sharp decline in fashion demand. The anticipation for performance after the 2006 launch of the EPOS card was quickly betrayed as the Company was impacted first by the revision of the Money Lending Business Act and then by the 2008 financial crisis, causing it to record losses on two occasions. Faced with this management crisis, we reexamined the point of origin of our business, leading us to break away from previous successes to pursue new business model innovation.

Platform for Happiness of Future Generations and Everyone Else

MARUI GROUP's history of innovation and evolution can be seen in its transition from department stores to shopping centers and then to digital native stores to accommodate the future spread of e-commerce. Leveraging our core value—the co-creation of creditability—along with our propensity for innovation, we have now turned our eyes to the future of 2050. We thus are aspiring to become a platform holder that provides a platform for the happiness of all stakeholders, including future generations.

MARUI GROUP's founding spirit, which is based on the belief that creditability should be built together with customers and the principle of a pioneer spirit of creating opportunities, is an expression of MARUI GROUP's ability to innovate and evolve its business model. Throughout our history, we have continued to emphasize the importance of working together with and understanding our customers and of building trust through long-term relationships with customers. Should there be changes in the happiness sought by customers or in society, we will innovate and evolve our business to match such developments.

Age of Declining Birthrates and Aging Populations

Pursuit of more-fulfilling lifestyles and market maturity

FY2007
Revision of
Money Lending
Business Act
EPS: ¥12.9

**Third Great
Innovation**

Customers	All ages (everyone)
Products	Lifestyle proposals
Credit cards	Multipurpose EPOS card
Stores	Shopping centers
Manager	Hiroshi Aoi (2005-)

FY2009
Recorded first loss due in
part to financial crisis of 2008
EPS: -¥31.9

FY2011
Recorded second loss
Commenced massive
business restructuring
EPS: -¥86.4

FY2018
EPS: ¥93.2

FY2015
Stabilized earnings
structures of stores
EPS: ¥58.9

FY2020
Transition to digital native stores
EPS: ¥127.2 (target)

FY2021
Promotion of financial inclusion
EPS: ¥130 or more (target)

FY2019
Entry into securities
business
EPS: ¥116.0
(First record high
in 28 years)

Fiscal year ended March 31, 2019 Fiscal year ending March 31, 2021

Co-Creation of Creditability

The co-creation of creditability is a concept based on the belief of MARUI GROUP's founder that creditability should be built together with customers, rather than assigned to them. One principle encapsulated in our founding spirit is our focus on building trust over long-term relationships, rather than focusing on relationships that end with a single transaction. This is our unique core value, the value that differs from all other companies, the value that defines MARUI GROUP and that, if removed, would cause the Company to cease to be itself.

⇒ P32 Business Model Built on Co-Creation of Creditability

Pioneer Spirit of Creating Opportunities

MARUI GROUP's founder also advocated a pioneer spirit of creating opportunities. This spirit is indicative of the Company's commitment to innovation and evolution, which drives it to evolve how it does business to create new demand or markets should there be changes in the happiness sought by customers or in society. In the face of our past management crisis, we responded by breaking away from past successes to build a new business model. However, we remained true to our core value as we undertook this transformation. We firmly believe that it is innovation that evolves a company.

⇒ P28 Innovation and Evolution of Business Model

Strengths

Fostered over 88 Years

The core strength of MARUI GROUP, its competitive edge over other companies, is its ability to generate synergies through a philosophy of differentiating itself from rivals by fostering a corporate culture for enacting its founding spirit.

Among MARUI GROUP's strengths are its diverse touchpoints with customers and its credit expertise, both of which were born out of synergies between retailing and finance. Although external stakeholders often attempt to evaluate us by viewing our retailing and finance operations separately, MARUI GROUP's business is actually a fusion of retailing and finance that entails generating unique synergies by maximizing the intersection between these two areas. It is thus impossible to speak of MARUI GROUP without touching on both of these areas.

⇒ P44 IT Capabilities Generating Synergies

Synergies between Retailing and Finance

Diverse Touchpoints with Customers

Our greatest strength from the perspective of retailing is our physical stores, which see visits from an aggregate total of 210 million customers a year, positioned in major cities and other locations across Japan that see large amounts of people traffic. Other touchpoints include the EPOS card application centers positioned within MARUI GROUP facilities, other commercial facilities, and partner companies as well as our directly operated Internet shopping sites and the external sites with which we have allied. Our diverse range of touchpoints with customers is growing with each coming year.

⇒ P36 Diverse Touchpoints with Customers

since Founding

Credit Expertise

MARUI GROUP's credit standards are a clear point of differentiation as they have produced the industry's lowest ratio of delinquent debt. These standards are an extension of the credit philosophy espoused by the principle of the co-creation of creditability that we have embraced since our founding. Based on these standards, credit card applications are not judged on the basis of a customer's age, profession, or income. Rather, we initially set low credit limits to make it possible to issue cards to as many customers as possible. We then proceed to build trusting relations with customers as we raise their credit limit based on their usage frequencies and payment histories. This is the reason that there are many cardholders for which the EPOS card was their first credit card or is currently their main credit card.

⇒ P40 Co-Creation Credit Expertise

Undertaking a new endeavor or creating something completely new can place a great burden on employees. However, employees are able to grow when they can overcome these challenges. The motivation to prevail is much stronger when an employee has chosen to tackle such a challenge of their own volition. MARUI GROUP therefore emphasizes the importance of motivating and empowering its employees, fostering a corporate culture in which employees are invited to voluntarily join hands with us to participate in our initiatives.

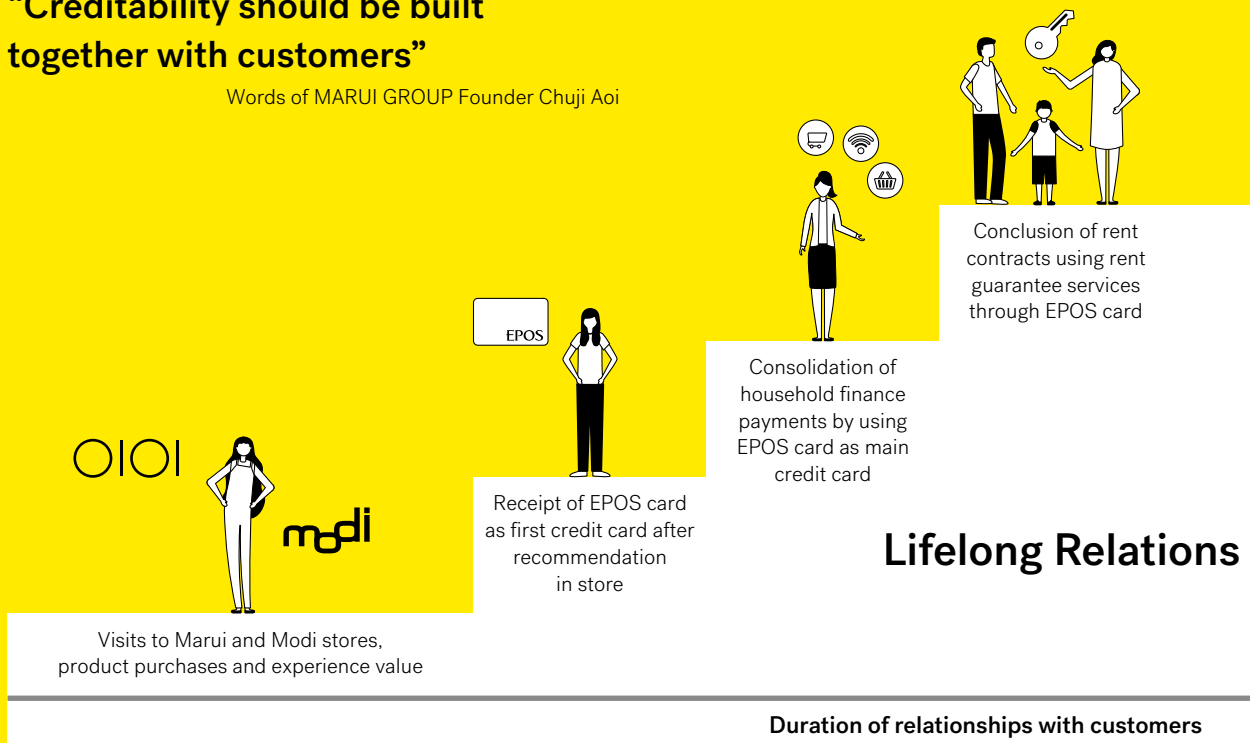
⇒ P60 Translation of Individual Strengths into Organizational Capabilities via Understanding and Interaction

Corporate
Culture of
Voluntary
Participation

Business Model Built on Co-Creation of Creditability

“Creditability should be built together with customers”

Words of MARUI GROUP Founder Chuji Aoi



Ongoing Relationships as Opposed to One-Time Transactions

Rather than one-time interactions that end with a single transaction, we seek to foster ongoing relationships with customers by providing experience value and diverse services in stores.

These long-term relationships enable us to practice the co-creation of creditability.

Spirit Continuing from Installment Payments at Time of Founding Seen in Co-Creation of Creditability

MARUI GROUP's business initially involved selling furniture through monthly installment payments. Furniture in those days was exceptionally expensive. We helped customers make such expensive purchases by loaning money for the purchase to customers, which they would repay in monthly installments. Compared to business models based on cash payments, which often resulted in relationships ending after a single interaction, installment payments were effective in fostering

long-term relationships with customers as they proceeded to repay their debts in 10, 12, or 24 installments after purchases. So long as customers made payments on time, they would continue to build creditability the more they borrowed and the longer the period over which they borrowed. The services we offer customers have changed with the times. Regardless, we have continued to practice the co-creation of creditability throughout the years by mutually building creditability with customers based on their usage histories.



Provision of options enabling all people to be themselves and experience happiness



Investment starting at young age to alleviate concerns regarding resources for the future

Conversion to renewable energy for household electricity to support the future of the earth

Touchpoints with customers

with Customers

Green Businesses

Asset Building Services

Rent Guarantee Services

Subscription Services

EPOS Cards

Marui and Modi Stores

Lifelong Relations

MARUI GROUP joins hands with customers that resonate with a sustainable mind-set, thinking of one's future self and of future generations, to co-create a happier society.

Customer Success Imperative to Long-Term Relationships

MARUI GROUP is increasing its diverse lineup of services centered on EPOS cards as well as subscription services that are not dependent on selling goods in order to foster even longer-term relationships with customers. Rent guarantee and asset formation services, for example, entail recurring transactions with customers over the course of long-term relationships that can last 5, 10, or even 20 or more years. These services thereby

encourage customers to use EPOS cards as their main cards and contribute to increases in Gold and Platinum cardholders. In these relationships, the concept of customer success is imperative. We focus on addressing the concerns and issues of customers in order to contribute to their happiness. This approach leads to increased customer satisfaction as well as to the enhancement of our services, the creation of new businesses, and ultimately the growth of MARUI GROUP's earnings over the medium-to-long term.

LTV

Lifetime Value Management Dramatically Transforming Earnings Structures

The recent transformations in the earnings structure of MARUI GROUP have caused recurring revenue to grow and surpass one-time revenue from product sales. As this recurring revenue is generated on an ongoing basis in accordance with contracts, it can be recognized as contracted recurring revenue to account for the amount of revenue to be generated in a given fiscal year as well as in future fiscal years. The concept of recurring revenue includes the future earnings to be generated by new businesses. As such, recurring revenue is a crucial element of management that focuses on lifetime value (LTV) from a long-term perspective.

Transition in Earnings Structure from One-Time Revenue to Recurring Revenue from Recurring Payments —

MARUI GROUP is endeavoring to forge even longer-term relationships with its customers and business partners through the transformation of its business model.

In our retailing operations, the transition to shopping centers and fixed-term rental contracts has made it possible to generate consistent recurring revenues over periods of between three and five years. Meanwhile, increased use of EPOS cards for the purposes of making rent and other recurring payments have enabled us to continue relationships with customers over 10 or even 20 or more years. The profits generated over the course of these relationships are recurring revenue.

In the fiscal year ended March 31, 2019, recurring gross profit amounted to ¥122.7 billion, approximately 2.3 times higher than five years ago, making for an average annual growth rate of 18%. In addition, we have recently been seeing growth in revenue from rent

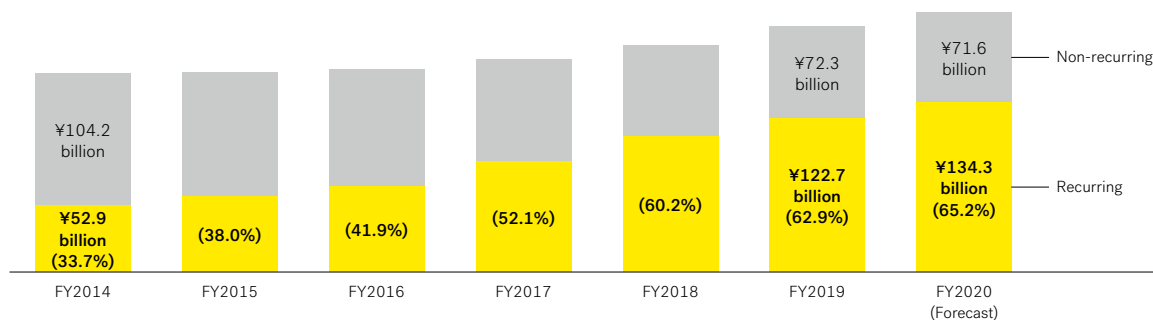
guarantee and asset building services. The markets for these services are expected to continue to expand going forward, and we therefore anticipate strong ongoing growth in recurring revenue in the future.

This earnings structure centered on recurring revenue indicates that MARUI GROUP's business model is similar to that of a SaaS company. These companies are known for producing high levels of LTV with their recurring revenue-oriented earnings structures as well as their distinctive products and services, frameworks for close coordination with customers and business partners, and large total addressable markets.*1 These strengths are thus all areas warranting attention as MARUI GROUP practices LTV management going forward.

*1 See "(Reference) Estimate of Total Addressable Market Scale for MARUI GROUP's Rent Guarantee Business" on page 43 for more information.

Ratio of Recurring Gross Profit to Total Gross Profit*2

Ratio of recurring gross profit to total gross profit anticipated to continue growing to exceed 65% in the fiscal year ending March 31, 2020



*2 Calculated as the ratio of a figure combining gross profit and selling, general and administrative expenses paid by business partners

Recurring Revenue Recognized in the Future

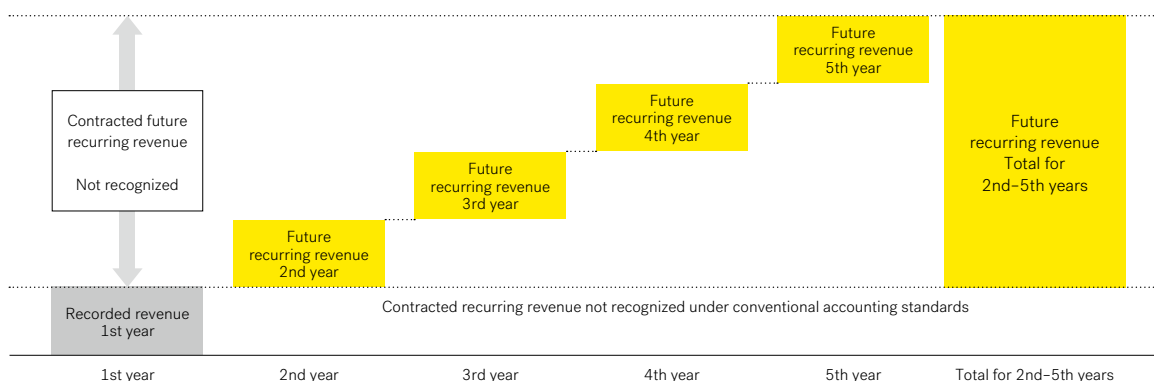
Recurring revenue represents revenues that will continue to be generated well into the future. However, the true value of these revenues is difficult to communicate through the consolidated statements of income due to these statements being limited to one year in scope. For example, if a customer were to conclude a five-year contract in a given fiscal year, the conventional method of recognizing earnings would only see us posting the revenue recorded for the first year of this contract in the fiscal year in question. The remaining four years' worth of outstanding value would not be accounted for.

However, this outstanding value is incredibly likely to be recognized in the future. The concept of contracted future recurring revenue is a tool for quantitatively

recognizing this outstanding value. On April 1, 2019, the amount of outstanding contracted future recurring revenue that will translate to revenue in the future was approximately ¥360.0 billion, roughly 1.4 times higher than the consolidated revenue posted in the fiscal year ended March 31, 2019. The view of contracted future recurring revenue gleaned from MARUI GROUP's new business model helps cast light on the fact that earnings previously recorded on a single fiscal year basis were actually a component of LTV, which continues from the past into the present and on to the future. In this concept, we see the underlying principles of MARUI GROUP's long-term LTV management approach.

⇒ P100 Tracking of LTV

Concept of Contracted Future Recurring Revenue Underlying Long-Term LTV Management



Message from an Employee



Nahoko Kutsukake
Investor Relations
IR Department
MARUI GROUP CO., LTD.

Illustration of LTV Management through Engagement with Investors

MARUI GROUP has a unique business model that merges retailing and finance. We understand that this can make it difficult to evaluate the Company, and this recognition has shaped our ongoing engagement activities with shareholders. In these activities, I was made aware of the fact that future earnings scale is an important standard for decisions by investors and that there is a great deal of interest regarding the ratio and growth rate of recurring revenue. This inspired me to research companies deemed to have high LTV. I found that these companies often disclosed information on their anticipated future earnings, including information on market scales, customer bases, sales, and growth rates. In addition to recurring revenue, these companies also presented the concepts of contracted future recurring revenue and total addressable market. I believe that combining such data will make it easier to illustrate MARUI GROUP's approach to LTV management. In the future, we will seek to realize consistent improvements in LTV while also engaging in constant dialogue with investors to facilitate disclosure that accurately portrays MARUI GROUP's market value based on LTV.

Diverse Touchpoints with Customers

MARUI GROUP's idea of retailing entails relationships that do not end with the sale of a product in a store. Rather, we aspire to create a diverse range of touchpoints with customers and foster long-term relationships by providing experience value along with services that help resolve customer concerns and issues. To this end, we are joining hands with companies, commercial facilities, collaboration card partner facilities, and digital native brands that share our aspirations to expand the scope of our co-creation initiatives by reshaping our customers' touchpoints to exceed the boundaries of a physical store-oriented approach to achieve a form that is suited to the post-digital world.

Physical Stores in Prime Locations

MARUI GROUP boasts a network of 25 Marui and Modi stores positioned in prime locations in major cities and other locations across Japan that see large amounts of people traffic. These stores receive visits from an aggregate total of 210 million customers a year. Such direct touchpoints with customers enable us to identify changes in customer needs while also providing a platform through which customers may gather.

EPOS Collaboration Card Partner Facilities

MARUI GROUP has established EPOS card application centers at collaboration card partner facilities across Japan, including those in regions where there are no Marui or Modi stores. Inviting to EPOS cardholders and non-cardholders alike, these application centers are staffed by MARUI GROUP employees. The number of partner facilities with EPOS card application centers has risen to 25.

Directly Operated and External Partner Internet Shopping Sites

MARUI GROUP's directly operated "marui web channel" Internet shopping site is a marriage of Internet and physical venues, allowing customers to pick up or return items purchased through the site at physical Marui and Modi stores. In addition, we post our products on KDDI CORPORATION's "au Wowma!" Internet shopping site as well as on Rakuten and Amazon as part of our efforts to expand customer touchpoints.



Shinjuku Marui Main Building



Yurakucho Marui



Shibuya Modi



Hakata Marui



EPOS card application center

01

Transition for Retailing Focused on Sales of Goods to Digital Native Stores

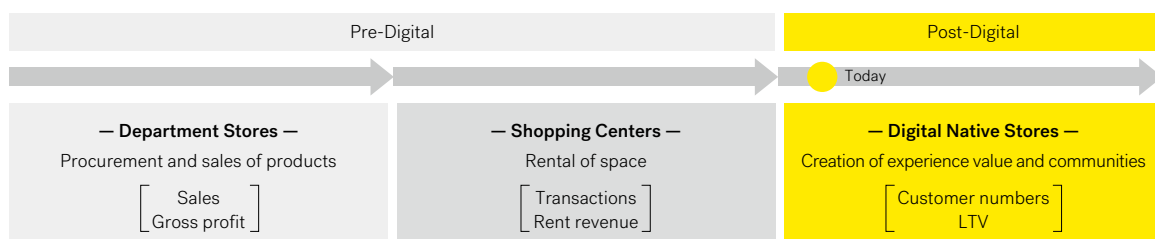
Our physical world is linked to a wealth of information and activities via digital technologies accessed through our smartphones and other terminals. The younger generations of today, who grew up in an environment permeated by IT technologies and products, are referred to as “digital natives” in reflection of their natural affinity for the Internet and social media. To address the lifestyle changes that digital natives herald, MARUI GROUP is targeting a transition to digital native stores as the next step of its evolution.

Digital Native Stores

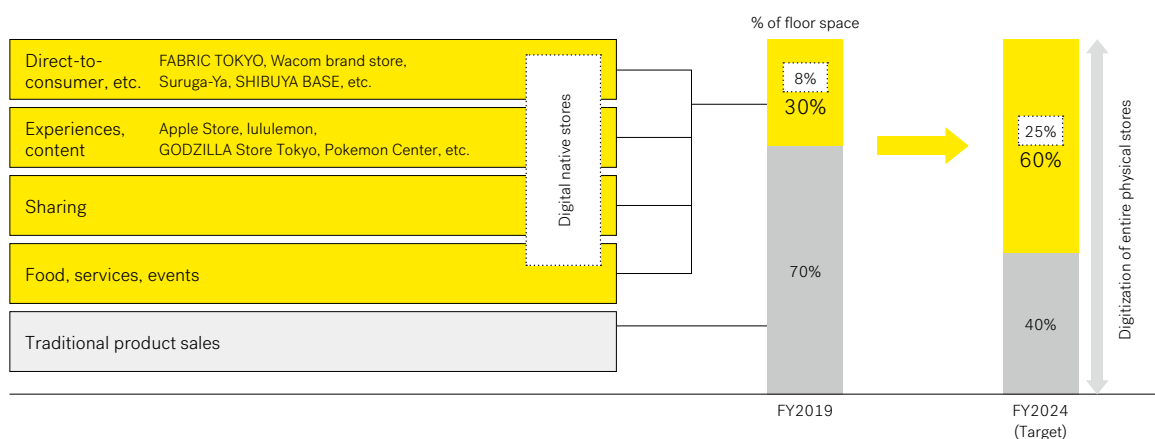
In the past, our operations have focused on physical stores, with digital venues serving a complementary function. In today's post-digital world, however, physical stores have already been incorporated into digital spaces, and the relationship between physical and digital touchpoints has been inverted. If physical stores only sell goods, they will be unable to compete with the convenience of digital stores. There is thus no need for physical stores of this nature. Rather, it is important for physical stores to be used to create the type of experience value and communities that cannot be replicated by digital venues.

For this reason, MARUI GROUP will continue its efforts to expand food vendors and service providers. We will also work to encourage store openings by the direct-to-consumer, sharing, and subscription business digital native brands that primarily develop their operations through e-commerce venues and that have been appearing around the world. Through these efforts, we will transform our physical stores into venues for encounters of the type unique to such physical venues.

Change in Focus Indicators in Conjunction with Evolution of Stores



“Digitization” of Stores to Raise Ratio of Digital Native Stores to 25%



02

Venues for Providing Experience Value and New Encounters

Some e-commerce-oriented brands employ approaches in which they use physical stores purely as venues for providing experiences to customers to encourage them to purchase their products via Internet shopping sites. For this reason, these brands often have trouble negotiating to open stores in commercial facilities as they do not produce sales in the store. MARUI GROUP, meanwhile, views the mission of its physical stores to be providing medium-to-long-term benefits to business partners, which includes offering venues for promoting e-commerce sales and engaging with customers. In addition to inviting brands that do not make in-store sales, we are also welcoming brands with no experience in operating physical stores. For the latter, contract operation services are available in which MARUI GROUP staff will operate stores on the brand's behalf. We are thereby working to supply digital native brands with value distinct to physical stores.

**FABRIC TOKYO**

FABRIC TOKYO Inc. offers a brand of business wear that seeks to fit its customers' lifestyles and values. Its store in Shinjuku Marui Main Building allows customers to have their measurements taken so that this size data can be used to purchase suits that fit them online. Everything from production to sales is performed by partner factories. (MARUI GROUP has concluded a capital and business alliance with FABRIC TOKYO.)

**BASE**

BASE, Inc. offers a free-to-use Internet shopping site production service that is used by 800,000 shops, including fashion, accessory, handmade item, and food product providers. In response to requests from shop owners for support in showcasing their items in physical stores, BASE opened a location in Shibuya Marui that allows owners to set up shop for as little as three days. (MARUI GROUP has concluded a capital and business alliance with BASE.)

**Suruga-Ya**

Suruga-Ya is a major Internet shopping site for secondhand hobby items that primarily offers plastic models, figures, and other anime goods. Its location in Shinjuku Marui Annex boasts a higher ratio of female customers than its Internet shopping site and its other physical stores, meaning that this location is functioning as a touchpoint with a different group of customers.

**Message from an Employee****Satoshi Hirano**

Wacom Brand Store
Shinjuku
Events
Shinjuku Marui Annex
MARUI CO., LTD.

MARUI GROUP employees have developed an acute level of responsiveness during the process of transforming our stores. This responsiveness is an important element of our ability to cater to the desires of business partners. I suspect that we have proved to Wacom that contracting MARUI GROUP employees to perform customer service, which is outside of this company's wheelhouse, will resolve any issues in this regard. At the Wacom brand shop, I go about my daily work while thinking about how I can help increase the number of Wacom fans and provide customers with more enjoyable experiences.

**Wacom**

Wacom Co., Ltd., is a leading pen tablet company. Seeking to establish a venue at which customers can sit down and try its products, Wacom opened a location in Shinjuku Marui Annex, the flagship store for our anime business, in recognition of the overlap between its customer base and that of this store. The Wacom brand store has no inventories, serving only as a venue for customers to experience products. (MARUI GROUP is contracted to operate this store.)

**DRENI**

DRENI is a store that allows customers to rent dresses, purses, and accessories, all items for which opportunities to use are rare. This new rental service is friendly to both the environment and to customers' wallets. Not only does it help free up closet space in customers' homes, this service has won praise for allowing customers to try dresses of designs and colors that they would be hesitant to purchase. A DRENI showroom has been opened in Yurakucho Marui. (DRENI stores are operated directly by MARUI GROUP.)

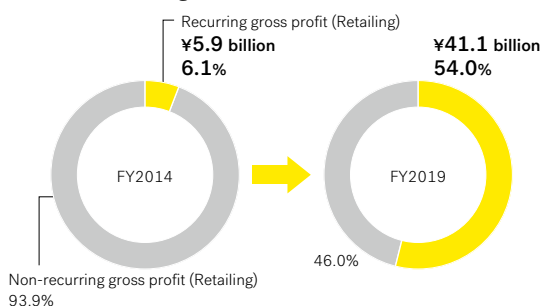
LTV Vision for Retailing Operations

The business model transition from department stores to shopping centers resulted in massive growth in recurring revenue in our retailing operations. Looking ahead, MARUI GROUP will promote digital native stores in order to increase LTV by providing venues for engagement to high-LTV digital native stores.

Growth in Recurring Revenue through Transition to Shopping Centers and Fixed-Term Rental Contracts

In the fiscal year ended March 31, 2015, MARUI GROUP embarked on a transition to shopping centers and fixed-term rental contracts, which was completed in the fiscal year ended March 31, 2019. This transition entailed a switch in the main revenue source from product sales, which are recorded on a single fiscal year basis, to rent revenues, which generate recurring revenue over a period of three to five years, and thus resulted in massive growth in recurring revenue. Recurring gross profit in the fiscal year ended March 31, 2019, amounted to ¥41.1 billion, which represented more than 50% of total gross profit and was

Ratio of Recurring Gross Profit to Total Gross Profit*



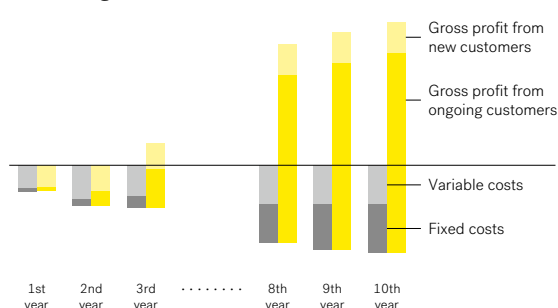
* Calculated as the ratio of a figure combining gross profit and selling, general and administrative expenses paid by business partners

around seven times higher than the level before the transition to shopping centers and fixed-term rental contracts.

LTV Associated with Digital Native Brands

Many digital native brands view physical stores as venues for connecting with new customers and increasing customer engagement. Possessing both physical and digital touchpoints contributes to higher customer retention rates and increased sales. For these brands, the costs of opening a physical location exceeds the associated revenues for several years. However, revenues will eventually grow to surpass costs as a brand expands its base of ongoing customers, and profits will continue to rise thereafter.

LTV of Digital Native Brands



Message from a Business Partner



Yuichiro Mori
CEO/Founder
FABRIC TOKYO Inc.

Shaping of Trends Together as Partners

Many take a dualist view of e-commerce and stores. For this reason, MARUI GROUP's concept of digital native stores and their commitment to respecting customer value made me interested in partnering with the Company. At MARUI GROUP, wherever you look, you will see everyone, from senior management to employees, exercising a robust pioneer spirit and a drive to action. I thus feel that there is a lot we can learn from MARUI GROUP. After opening our physical location, sales per customer doubled and the ratio of repeat purchases jumped significantly. While about 80% of repeat purchases are made online, we see several customers revisit the physical location to check out our fabrics and consult with our coordinators. The synergies between physical and online venues are undeniable. Whether in retailing or in other fields, I have no doubt that we have reached an era in which business must be prefaced on the digital. It can be expected that digital native stores will become commonplace three years from now. At this time, the trailblazers in this field will find themselves at a great advantage. FABRIC TOKYO hopes to stand at the forefront of retail. I therefore look forward to sharing frank feedback with MARUI GROUP as we shape trends together as partners.

Co-Creation Credit Expertise

MARUI GROUP's concept of finance is not the limited financial services that have traditionally been provided almost exclusively to the wealthy. Rather, we advocate financial inclusion with the goal of providing everyone with the financial services they need when they need them, regardless of income or age. This goal has been the driving force behind our promotion of the co-creation of creditability since our founding. The co-creation of creditability entails helping people who would be deemed to have no financial creditability in Japan, such as students and younger individuals with little or no income, to build this creditability. Through this approach to finance from the customer's perspective, we have achieved the industry's lowest ratio of delinquent debt of 1.80%.

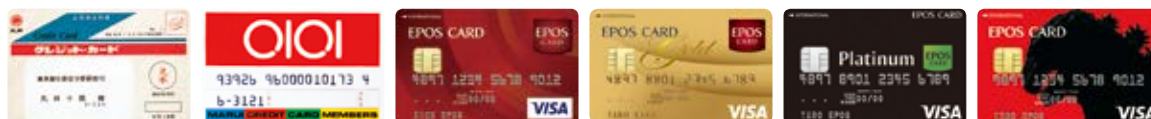
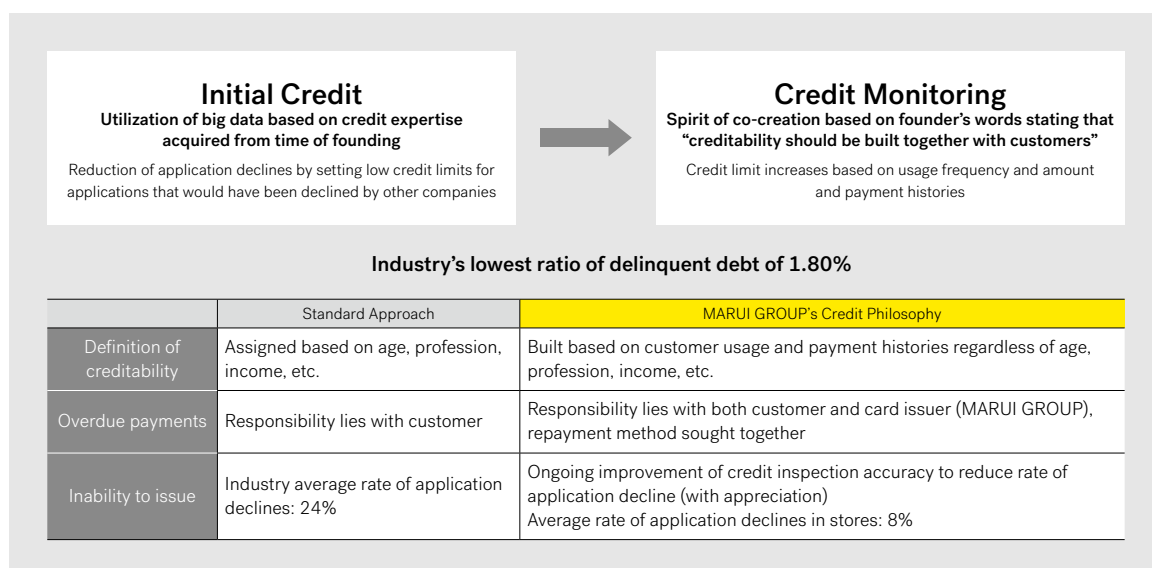
Cardholder Base Largely Comprising Younger Generations and Women

Utilizing the unique credit expertise of Epos Card Co., Ltd., our cardholder base has come to largely comprise university students and minors without credit card experience, adults aged 18 to 39, and women. Furthermore, 30% of these individuals received their first ever credit card from MARUI GROUP.*

* Source: Epos Card Co., Ltd.

Credit Philosophy Continuing from Founding

MARUI GROUP's basic credit philosophy is that creditability should be built together with customers. Accordingly, Epos Card sets credit limits for customers that are within their means and gradually increases this limit based on their usage history.



TM & © TOHO CO., LTD.

Maximization of Share of Household Finances throughout Customer Lifestyles

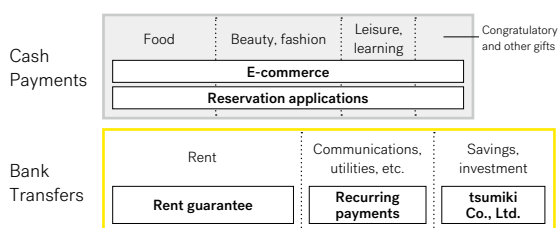
Various companies are launching smartphone payment services, resulting in intensifying competition in the cashless payment market. Many of these companies have adopted strategies that focus on gathering data through smartphone payment services that can be used for deploying financial services in the future. Conversely, MARUI GROUP's strategy is to use EPOS cards to deliver unique payment services targeting all areas of household finances in order to maximize the share of EPOS card payments in household finances throughout customer lifestyles.

STRATEGY 1

Target Rent, Utilities, and All Other Areas of Household Finances

MARUI GROUP's primary target is the areas of household finances represented by payments made via bank transfers. In this area, we will step up efforts to encourage customers to use their credit cards to make recurring payments while also enabling customers to pay their rent with their card via our rent guarantee services. In addition, securities company tsumiki Co., Ltd., is supplying cumulative investment services that can be used via credit cards in the investment and savings field. We thereby seek to increase the share of EPOS card payments in all areas of household finances.

Approach Targeting All Areas of Household Finances



STRATEGY 2

Conversion of All Family Members to Cardholders with EPOS Family Gold Cards

Gold and Platinum cardholders have high loyalty, usage rates exceeding 90%, and low turnover rates. In June 2018, we launched the EPOS Family Gold card, a Gold card with no annual fees that can be used by family members of Gold and Platinum cardholders. In the fiscal year ended March 31, 2019, the number of households using EPOS Family Gold cards rose to 50,000 as 50,000 Gold cardholders introduced these cards to 60,000 family members. When all members of a household have Gold cards, the average share of EPOS card payments in household finances rises

from 14% to 23% on average. Going forward, we will look to cultivate a cardholder base of more than 1,000,000 individuals in 500,000 households by the fiscal year ending March 31, 2024.

Usage Statistics by EPOS Card Type

	Standard	Gold	Platinum	Total
Usage rates (%)	54	92	100	66
Card user numbers (thousands of people)	2,530	1,930	70	4,530

- Shift in emphasis from cardholder numbers (card numbers) to LTV
- Improvement in ratio of Gold cardholders by stepping up initiatives pertaining to rent, other recurring payments, and e-commerce

STRATEGY 3

Broadening Range of Uses for Money Realized through EPOS Card Application

In the area of household finances represented by cash payments, reservation applications are garnering attention for the new opportunities they represent. By coordinating with reservation applications through the EPOS card application, we will seek to increase use of EPOS cards and thereby contribute to the spread of cashless payments.



Message from an Employee



Saho Tsunematsu

CS Promotion Division
Member Services Department
Epos Card Co., Ltd.

Epos Card is focused on increasing the use of EPOS cards for recurring payments, which in turn will expand its share of household payments. There are no other credit card companies that allow for points to be accumulated by paying monthly utility bills. I hope to maximize the share of EPOS card payments among household finances by incorporating feedback from customers.

Subscription-Type Businesses Based on Recurring Transactions

Areas in which initiatives will be accelerated going forward include those for encouraging the payment of rent, the largest outflow among household finances, with EPOS cards as well as asset building services offered through tsumiki Co., Ltd., enabling investment trusts to be purchased via credit card. Encouraging customers to use their EPOS card to make recurring transactions will lead to the creation of subscription-type businesses that contribute to ongoing growth in LTV.

ROOM iD Advance-Payment Rent Guarantee Service

The ROOM iD advance-payment rent guarantee service combines a rent guarantee service, which eliminates the need for a guarantor when renting an apartment, with the ability to make rent payments via credit cards. Rent is the largest outflow among household finances. Although it is not normally possible to pay rent with a credit card, our rent guarantee service allows for such payments to be made. Revenue from this service is growing smoothly thanks to its strengths, including the ability to accrue points by making rent payments, a unique characteristic, as well as the backing provided by MARUI GROUP's creditability. Future initiatives with regard to this service will be

aimed at increasing users through both internal efforts and external partnerships. To this end, we will step up coordination with prominent partners, such as Sumitomo Forestry Residential Co., Ltd., and ABLE INC. In addition, we will advertise to cardholders buildings at which ROOM iD can be used through our proprietary website.

Services of tsumiki Co., Ltd., for Younger and Inexperienced Investors

Established in August 2018, tsumiki Co., Ltd., is a securities company specializing in cumulative investments, a form of investment that is highly accessible even to inexperienced investors. On March 31, 2019, a mere seven months after it started service, tsumiki Co., Ltd., had already received applications from approximately 16,000 customers. The easy-to-use online application form, high convenience of credit card payments, and an easy-to-understand user interface have helped users feel more familiar with asset building, winning great praise from many younger and inexperienced investors.

Strengths of MARUI GROUP

	EPOS Cards	Competitors
Points accrued for rent payments	Accrued	Not accrued
Operations	Integrated with credit card operations	Stand-alone operations
Systems	Custom-made systems developed in-house	Built-to-specification systems (Outsourced)
Reliability	MARUI GROUP's creditability	Small to medium sized (Only four listed dedicated rent guarantee companies)



Message from an Employee



Chizuko Umehara

Sales Section 2, Home Business Division 1,
Home Business Department
Epos Card Co., Ltd.

Provision of Inclusive Products and Services Matched to Diversifying Living Options

A large portion of the users of our ROOM iD advance-payment rent guarantee service are younger, and men and women both represent about half of our user base. Given that the vast majority of EPOS cardholders are women, I feel that ROOM iD is helping us form connections with new customers. Our rivals do not offer services that allow points to be accrued by making rent payments, and our service has thus won strong support from customers, with some stating that they hope to use ROOM iD again as they move to new apartments. Among the strengths we have to offer are the sense of reliability and creditability attached to Marui and Modi stores, the unique services and customer base of Epos Card, and our ability to respond to system-related needs. The 20-year-old customers living in rental housing today will be 50 in 30 years. I expect that the range of living options available will grow more diverse over this time. For this reason, it will be necessary for us to revise our screening processes going forward. We will also need to coordinate our services with other housing-related services, including monitoring services, emergency dispatch services, household chore proxies, cleaning services, and furniture and appliance rentals. Our goal is to continue evolving to assist real estate management companies, tenants, and property owners by providing inclusive products and services, including those that accommodate non-Japanese individuals.

03

LTV Vision for Finance Operations

Usage amounts and retention rates will be crucial to improving the LTV of EPOS cards. Accordingly, we will seek to bolster subscription revenues to contribute to increases in these areas and thereby improve LTV.

Improvement of LTV by Bolstering Subscription Revenues

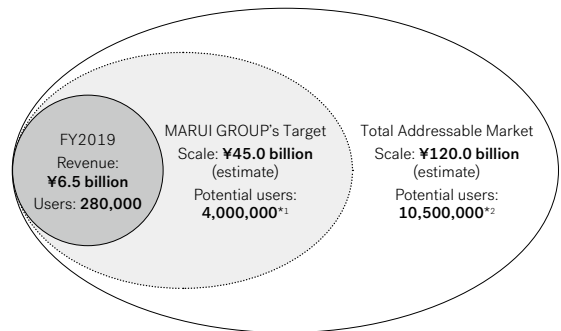
The LTV of credit cards is measured as the difference between the revenues generated from a user over the period from application to cancellation of their card and the costs incurred over this period. The initial cost of issuing an EPOS card is quite large, meaning that LTV is almost always in the negative over the first year after application. However, costs are lower in subsequent years. As such, if usage frequency increases, we can recover the initial costs and begin generating profits over the next few years. Consistent profits will be produced thereafter.

Going forward, we will continue to reinforce rent guarantee and other subscription-type services. As subscriptions entail recurring payments, these services will contribute to increased usage amounts and higher retention rates. In this manner, we will seek to improve the LTV of our credit cards by bolstering subscription revenues.

(Reference) Estimate of Total Addressable Market Scale for MARUI GROUP's Rent Guarantee Business

In the fiscal year ended March 31, 2019, revenue from the rent guarantee business amounted to ¥6.5 billion, and the average annual growth rate of the past five years was 30%. The scale of the total addressable market for the rent guarantee business can be estimated to be around ¥120.0 billion through a preliminary calculation. Accordingly, we see the potential for ongoing growth in this business.

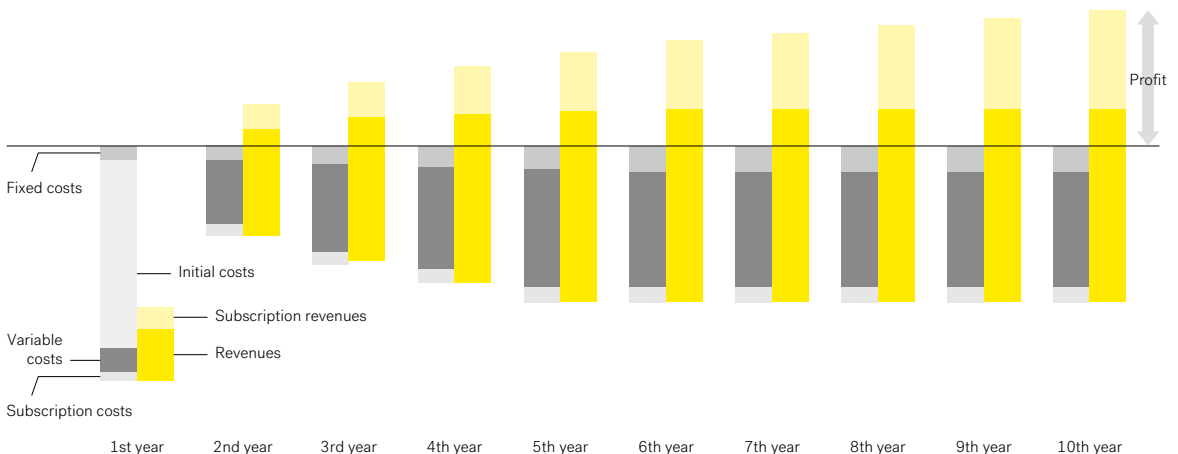
Estimate of Total Addressable Market Scale for Rent Guarantee Business in 2025



*1 Rental housing residents with EPOS cards + (Rental housing residents without EPOS cards × Market share) (as of March 31, 2024)

*2 Estimated rental housing units + Number of users of rent guarantee services (as of March 31, 2021)

Credit Card LTV after Application



IT Capabilities Generating Synergies

MARUI GROUP views IT as a tool for maximizing synergies between its areas of strength, namely retailing and finance. IT is a crucial element of MARUI GROUP's foundation without which all of its businesses would cease to function. Although those outside the Company may evaluate MARUI GROUP's retailing and finance operations separately, we instead view these two areas as linked. We thus seek to merge our strengths through IT in these areas to maximize the intersection between them and generate unique synergies.

"Synergy is the only word in our language that means behavior of whole systems unpredicted by the separately observed behaviors of any of the system's separate parts or any subassembly of the system's parts."

Operating Manual for Spaceship Earth, Richard Buckminster Fuller

Unique Big Data Amassed through the Co-Creation of Creditability

Guided by its principle of the co-creation of creditability, MARUI GROUP has continued to provide financial services through credit cards to younger generations and a wide range of other customers. We have thereby amassed a unique collection of big data on credit cards and on the purchasing behavior of these wide-ranging customers. By utilizing this big data via IT, we are improving the accuracy of our unique credit expertise.

On-the-Spot In-Store Credit Card Issuance Supported by Big Data and IT

MARUI GROUP encourages the customers that use its stores to apply for EPOS cards. To ensure that these customers do not have to wait longer than necessary and to offer our credit card services to a wide range of customers, we capitalize on IT and the big data we have accumulated thus far to realize on-the-spot issuance of IC-chipped-equipped Visa cards in stores in as little as 20 minutes. These cards can be used on the day they are issued, contributing to higher usage rates.



Message from the CDO



Takeshi Ebihara

Executive Officer and CDO
Director and General Manager, Digital
Transformation Promotion Department,
M & C SYSTEMS CO., LTD.
Director, Epos Card Co., Ltd.

Realization of a Flourishing and Inclusive Society with Digital Technologies

The advancement of digital technologies is driving the spread of IoT technologies aimed at the realization of a flourishing and inclusive society. This trend has made the smartphone an indispensable part of our lives while producing other noteworthy changes in the environment surrounding us. In the midst of these trends, MARUI GROUP aspires to deliver new value and continue to grow. Accomplishing these goals will require that we accelerate business structure reforms by promoting digitization and technological innovation.

Through its business model integrating retailing, finance, and IT, MARUI GROUP has cultivated strength in the form of its information systems, distribution platforms, and human resources that understand customer needs. I believe that we can install digital technologies into our existing businesses while also creating new businesses that resolve social issues by fully capitalizing on these management resources in our promotion of digitization.

By accelerating digitization initiatives through a concerted Groupwide effort, we will harness the power of digital technologies to help build a flourishing and inclusive society that offers happiness to all.

01

Hybrid In-House System Development

MARUI GROUP manages and develops the systems for maximizing synergies between retailing and financing in-house, and we have a robust history of IT-driven innovation, as seen in our introduction of the industry's first computer and of Internet infrastructure for stores. Today, M & C SYSTEMS CO., LTD., established in 1984, is performing system and software development and information management tasks for Group companies through hybrid operation with business partners.

Co-Creation with Business Partners in Developing 230 Systems a Year

As we practice integrated Group management through a pure holding system, M & C SYSTEMS is less of a separate Group company and more like an IT arm of MARUI GROUP. Moreover, we do not develop systems completely in-house, but rather engage in hybrid in-house development of systems through a unique scheme of co-creation between MARUI GROUP's development team of approximately 140 staff and the roughly 100 employees of business partners that are positioned within the Company. This scheme allows for teams to be formed between MARUI GROUP employees, who are

well versed in internal operations and frameworks, and business partners with which strong ties have been formed over the course of long-term relationships. These teams develop around 230 systems of various sizes each year through short-term projects advanced side-by-side based on business policies. Our business partners have stated that this scheme allows for development that is 50% faster than traditional development projects that entail complete outsourcing of systems development. This hybrid in-house development scheme has thus been deemed ideal for MARUI GROUP's business model integrating retailing, finance, and IT in terms of speed, expenses, skills, and flexibility.

Characteristics of Hybrid In-House Development Scheme

		Completely Outsourced	Completely In-House	MARUI GROUP
Overview		All aspects outsourced to business partners	All aspects performed by in-house employees	System design and programming outsourced
Characteristics	Speed	Time required to understand work processes	Quick starts and speedy responses possible	Quick starts and speedy responses possible
	Expenses	Outsourcing expenses incurred for entirety of systems development projects	Costs fixed in form of personnel expenses for development staff	Outsourcing expenses incurred only for design and programming Limited outsourcing expenses due to performing overall management and concept design in-house
	Skills	No skills accumulated in-house	Specialized skills accumulated in-house	Basic skills accumulated in-house
	Flexibility	Dependence on availability of business partners	Difficulty in maintaining necessary staff due to inconsistent workloads	Ability to receive priority staff allocation due to long-term relationships

Division of Development Process Workload



Approximately 90% of IT Staff with Customer-Oriented Perspectives from Liberal Arts Backgrounds

M & C SYSTEMS, MARUI GROUP's IT arm, has a staff of approximately 290 employees, approximately 90% of whom are from liberal arts backgrounds. Each year, around 70 employees with customer-oriented perspectives that thrive on change are transferred to M & C SYSTEMS through our intra-Group profession change system. These employees are assigned actual IT work after undergoing the necessary training. Some may wonder why we conduct such frequent rotations of IT personnel, who are generally thought to require specialized skills. The reason is because we believe that this approach has three major benefits.

BENEFIT 1

Customer-Oriented Perspective Fostered in Stores

It is likely difficult for systems development staff to fully understand the needs of stores and customers under normal circumstances. At MARUI GROUP, however, we assign employees to our IT arm that have the experience of addressing customer needs through customer service at stores or at EPOS card centers. For this reason, our systems development staff are accustomed to thinking from the customer's perspective.

BENEFIT 2

Speed Achieved by Leveraging Business Experience

All employees that are assigned to our IT arm have experience in stores, credit card services, or other Group businesses. As such, there is no need to provide these employees with detailed explanations on the services and the businesses for which they will be developing systems. This fact expedites the process of understanding the purpose of systems and defining the necessary conditions, increasing development speed.

BENEFIT 3

Intra-Group Coordination between Divisions

The active utilization of MARUI GROUP's profession change system creates cross-divisional connections between employees across the Group. Based on their shared desire to serve customers, employees from the Group company requesting the system and from the IT arm actively discuss how best to maximize synergies between retailing and finance in order to develop the optimal system.



Message from an Employee



Ayami Torihata

Group Process Innovation
R&D Center, Digital Transformation
Promotion Department
M & C SYSTEMS CO., LTD.

Promotion of Swift Digitization from Customer's Perspective

It was in my third year at MARUI GROUP when I transferred to M & C Systems, a company that promotes swift digitization from the customer's perspective. My first three months were devoted to IT training from new transfers, after which I was able to go about my duties without issue, despite being from a liberal arts background. One day, I received a request from a Group company looking to adopt robotic process automation (RPA) for its work processes. I examined this possibility from various perspectives, including whether RPA was truly the best option and whether there was a need to revise work processes. Digital technologies are, at the end of the day, a tool. For this reason, our duty is to assess the current situation from an overarching perspective while remaining conscious of the ultimate goal, improvements to productivity or corporate value, for example. A key strength of M & C SYSTEMS is that its employees share the same set of values as those in the Retailing and FinTech segments. At this company, my duties are completely different from when I was in sales. What remains the same is that the underlying standard for my judgments is whether my actions will benefit customers. This shared desire unites the Group and enables us to pursue swift digitization.

03

Aggressive IT Management through Upgrades to Legacy Systems

In 2019, MARUI GROUP was included for the first time in the Competitive IT Strategy Company Stock Selection organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. This selection compiles, by industry, listed companies that are aggressively using IT to reform management, improve profitability, or boost productivity from the perspectives of medium-to-long-term increases in corporate value and enhanced competitiveness. One factor behind the Company's selection was its quick upgrades to its legacy systems.

Swift Decision Enabling Issuance of EPOS Cards

MARUI GROUP has been transitioning to open systems for its mainframes since 2002 to accommodate the commencement of new businesses and address the so-called "2007 issue,"*1 kicking off a gradual process of upgrading our prior retailing and credit card systems. It was these quick upgrades to our legacy systems that enabled us to begin issuing EPOS cards in 2006 and then to concentrate investments on the development of frameworks and new initiatives for accommodating the spread of the Internet. We were also thereby able to overcome the "2025 cliff"*2 issue relatively early.

In October 2017, a chief digital officer (CDO) was appointed to further enhance our aggressive IT management approach through the use of digital technologies. MARUI GROUP's IT management goes beyond the common

goals of improving and reforming work processes to focus on resolving social issues and creating new value. At the same time, the role of the Group's IT arm is to expand the intersection between retailing and finance.

MARUI GROUP is committed to promoting digital transformations from the customer's perspective in both new businesses and in structural reforms to existing businesses.



*1 The "2007 issue" refers to the issue that will arise when Japan's baby boomer generation, which includes the primary individual maintaining the mainframe computers supporting core processes at financial and other institutions, retires leaving no one else with the knowledge needed to maintain these computers. This issue threatens to halt such processes and could thereby have a catastrophic impact on the economy.

*2 The "2025 cliff" refers to the possibility for economic losses of up to ¥12 trillion to occur after 2025 if companies are not able to address the potential diminishment of the competitiveness of their legacy systems, which have become somewhat of one-of-a-kind black boxes.

Process of Upgrading Legacy Systems

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Upgrades to store retail systems									Completion of transition to open systems
	Upgrades to credit card systems								
						Upgrades to e-commerce systems			



Aggressive IT investment made possible by swift upgrades to legacy systems

MARUI GROUP Information Security Policy
www.0101maruigroup.co.jp/en/security/index.html



Please refer to page 40 of VISION BOOK 2050 for more information on MARUI GROUP's organizational structure for promoting digitization.

www.0101maruigroup.co.jp/en/sustainability/pdf/s_report/2018/s_report2018_a3.pdf



Focus on the Interests of Future Generations

MARUI GROUP's 2050 Vision is "Harnessing the power of business to build a world that transcends dichotomies." We have defined the following three businesses founded on co-creation that will form the basis for our efforts to realize this vision. Each of these businesses is designed to provide options for increasing the intangible value that is happiness. Of these businesses, this report will look at our progress with regard to inter-generational businesses.

MARUI GROUP's 2050 Vision

Harnessing the power of business to build a world that transcends dichotomies

Three Businesses Founded on Co-Creation



By expanding the intersection between these three businesses and thereby generating happiness for all people, MARUI GROUP's 2050 Vision can be realized.



Inter-Generational Businesses

MARUI GROUP has subdivided its inter-generational businesses* into green businesses and human businesses. Green businesses, in particular, have been given a central position among inter-generational businesses out of recognition of the fact that addressing environmental issues requires immediate consideration for future generations. Meanwhile, the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) are garnering a great deal of attention, and interest in the efforts of companies to address climate change is on the rise (see pages 50–55).

Against this backdrop, MARUI GROUP will maintain an emphasis on the stakeholder group that is future generations while viewing climate change as both a source of risks and a source of opportunities for creating new businesses. Human businesses have a role in supporting green businesses by fostering the employees that will advance us forward on this mission.

* For more information on inter-generational businesses, please refer to "Meaning of Wealth as Encapsulated in Richard Buckminster Fuller's 'Spaceship Earth' Model" (a discussion between MARUI GROUP Sustainability Advisor Peter David Pedersen and President Hiroshi Aoi) on pages 56–59.



1. Green Businesses

Options for Coexistence with the Global Environment

For its green businesses, MARUI GROUP has defined the indicators of environmental efficiency and ratio of circular revenue. In addition, we have received certification from the Science Based Targets initiative in March 2018 for our targets for reducing emissions of CO₂ and other greenhouse gases throughout the Group. The Company also became a member of RE100 in July 2018, declaring its target of sourcing 100% of its electricity from renewable energy by 2030 (along with a medium-term target of sourcing 70% by 2025). For more information on MARUI GROUP's initiatives pertaining to the TCFD, please refer to pages 50–55.

Long-Term Targets	Medium-Term Targets (5 years in the future)	Long-Term Targets (10 years in the future)	Ultralong-Term Targets (30 years in the future)
Environmental efficiency* ¹	10.2	15 or more	20 or more
Greenhouse gas emissions (Scope 1 & 2)* ²	20% reduction	80% reduction	90% reduction
Greenhouse gas emissions (Scope 3)* ²	—	35% reduction	—
Ratio of electricity sourced from renewable energy	70%	100%	—
Resource recycling rate	60%	70%	100%
Ratio of circular revenue* ³	30% or more	40% or more	50% or more

*¹ Environmental efficiency = Operating income ÷ CO₂ emissions

*² Scope 1 & 2 represent greenhouse gas emissions from the Group. Scope 3 represents greenhouse gas emissions from areas including raw material procurement, transportation, and use by customers.

*³ Ratio of circular revenue = Circular sales / Transactions ÷ Total Retailing segment transactions



2. Human Businesses

Options for Coexistence with Future Generations

It is stated in MARUI GROUP's philosophy that we should "equate the development of our people with the development of our company." Accordingly, we see a company as being a platform for supporting the growth of its people. MARUI GROUP is thus only able to grow when it effectively operates this platform. Conversely, MARUI GROUP will not be able to grow if its employees do not also grow. At MARUI GROUP, we endeavor to supply our employees with opportunities to develop the capacity for empathy needed to build creditability together with customers as well as a corporate culture that fosters the propensity for innovation necessary for exercising a pioneer spirit of creating opportunities. MARUI GROUP's long-term targets provide a wide range of options for coexistence with future generations through co-creation with external entities, which will be conducted alongside human resource investment and the cultivation of a corporate culture that fosters a propensity for innovation founded on co-creation.

Long-Term Targets	Medium-Term Targets (5 years in the future)	Long-Term Targets (10 years in the future)	Ultralong-Term Targets (30 years in the future)
Annual human resource investments	¥1 billion or more (continued over the long term)		
Voluntary participation by employees (aggregate)	10,000 employees or more each year (continued over the long term)		
Future MARUI GROUP leaders cultivated (aggregate)		120 or more	
Individuals capable of creating future value cultivated (aggregate)		4,000 or more	10,000 or more
Financial and sustainability education	Conducted in Japan (continued over the long term)		Conducted overseas

Green Businesses

Green Businesses Based on TCFD Recommendations Designed to Create Happiness for the Future

If we do not take action, the average global temperature is projected to rise to 4°C above pre-industrial levels by the turn of the century, which would be devastating to the global environment. A global movement to prevent this catastrophic outcome by limiting the rise in the average global temperature to 2°C above pre-industrial levels was kicked off in 2015 with the adoption of the Paris Agreement.* Accordingly, combating climate change is becoming particularly important among environmental, social, and governance (ESG) issues. This situation prompted MARUI GROUP to declare its support for the recommendations of the TCFD and to begin taking concrete action.

* An international agreement for combating climate change adopted at the 2015 United Nations Climate Change Conference held near Paris, France



Future-Oriented Action

In August 2018, Greta Ernman Thunberg, a then-15-year-old girl from Sweden, held up a sign urging students around the world to take part in a school strike to promote the fight against climate change. Later taking to the stage at the World Economic Forum in January 2019, Ms. Thunberg delivered a speech calling for action among younger generations worldwide, stating "Since the climate crisis has never once been treated as a crisis, people are simply not aware of the full consequences on our everyday life... I want you to act as you would in a crisis. I want you to act as if our house is on fire. Because it is." This speech inspired people of her generation across the globe to take part in a series of simultaneous "Fridays for Future" demonstrations, spreading support for her cause.



Ms. Thunberg passionately asserting that it is her generation who will be most threatened by the climate crisis

Photograph provided by CTK NEWS; Kyodo News Images Inc.

One of simultaneous "Fridays for Future" demonstrations held in over 2,000 locations in 125 countries with more than 1.6 million participants

Photograph provided by Deutsche Presse-Agentur; Kyodo News Images Inc.



Declaration of Support for Recommendations of TCFD

Following the adoption of the Paris Agreement in December 2015, there was a rise in institutional investors evaluating the potential impacts of climate change on the assets of investees.

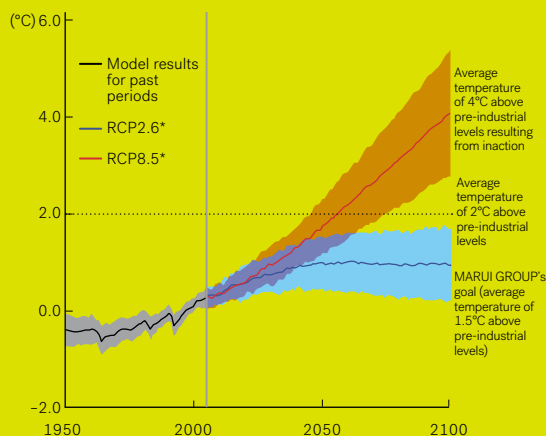
Amid this trend, the TCFD was established by the Financial Stability Board based on the intentions of the G20. The goal of this task force was to encourage companies to disclose financial information pertaining to

climate change in order to facilitate ESG-minded institutional investors in making appropriate investment decisions. The final TCFD report, *Recommendations of the Task Force on Climate-related Financial Disclosures*, was released in June 2017.

In November 2018, MARUI GROUP became the first Japanese retailer to declare its support for the recommendations of the TCFD. This move was meant to allow for accurate assessments and verification of financial impacts on our green businesses. As of August 31, 2019, more than 800 institutions had announced support for these recommendations, including the Government Pension Investment Fund, which manages the world's largest portfolio of pension funds, and the Ministry of the Environment in Japan as well as financial, non-financial, government, international, and public-sector organizations in 50 countries across the globe. Concern regarding climate change is notably high in Japan, as seen in the establishment of the TCFD Consortium.



Global Warming Leading Up to the End of the 21st Century



* Please refer to Figure 1 on page 52 for more information on the RCP2.6 and RCP8.5 scenarios.

Source: Prepared by MARUI GROUP CO., LTD., based on Summary for Policymakers of the Working Group I of IPCC Fifth Assessment Report released by Intergovernmental Panel on Climate Change (official Japanese-language translation provided by the Japanese Meteorological Agency)

Climate Change-Related Risks and Opportunities

MARUI GROUP has identified and organized the climate change-related risks and opportunities faced in its green businesses, which are a central part of its inter-generational businesses, based on the four recommended thematic areas for disclosures of the TCFD. In identifying these risks and opportunities, we used the multiple scenario analysis methodology recommended by the TCFD to analyze three potential scenarios leading up to 2050 in order to measure the financial impact on our green businesses in 2050.

⇒ For more information on the four recommended thematic areas for disclosures of the TCFD, please refer to “TCFD Management” on page 54.

Enhancement of Efforts Targeting 1.5°C Scenario Based on Scenario Analysis

The TCFD encourages all companies to identify the future climate change-related risks and opportunities they may face and to evaluate their financial impact. It also recommends disclosures based on the four thematic areas of governance, strategy, risk management, and metrics and targets.

Based on these recommendations, MARUI GROUP performed scenario analyses using three scenarios for 2050: (1) the world with average temperatures 4°C above pre-industrial levels described by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA), (2) a world with average temperatures 2°C above pre-industrial levels based on the Paris Agreement, and (3) the world illustrated in the IPCC special report on the impacts of global warming of 1.5°C above pre-industrial levels.

Recognizing how damaging climate change would be in a world with average temperatures 4°C above pre-industrial levels, we realized the importance of contributing to a global movement for keeping average

temperatures below 1.5°C above pre-industrial levels. (see Figure 1).

Risks and Financial Impacts of 1.5°C Scenario

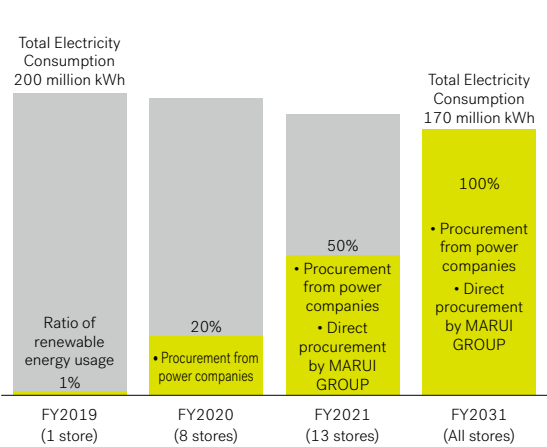
Risks associated with climate change include damages to assets from extreme climate events and other physical risks as well as transition risks brought about by changes in government policies and regulations. In the 1.5°C scenario, transition risks will be higher than physical risks, especially when compared to the 2°C and 4°C scenarios. MARUI GROUP has defined those risks associated with the 1.5°C scenario that may have a particularly high impact on the Company. These risks primarily fall into two categories: (1) increases in renewable energy costs and (2) the introduction of a carbon tax in Japan.

MARUI GROUP has put forth a target of sourcing 100% of the electricity used in its business activities from renewable sources by the fiscal year ending March 31, 2031, along with two intermediary goals. Accordingly, increases in renewable energy costs will have a significant financial impact (see Figure 2). Our climate change scenario estimates that the price of renewable energy will peak around

Figure 1: Analyses of Three Scenarios and Projected Risks

	End of 21st Century	Scenario Employed
<div>High physical risks High impact on the environment</div> <div>↑</div> <div>High transition risks High impact from regulations</div>	4°C Scenario Average global temperature 4°C above pre-industrial levels	RCP8.5, IPCC (High warming scenario) IPCC scenario based on maximum greenhouse gas emissions
	2°C Scenario Average global temperature 2°C above pre-industrial levels as consented to under Paris Agreement	RCP2.6, IPCC (Low stability scenario) IPCC scenario based on target of keeping warming below 2°C above pre-industrial levels Sustainable Development Scenario, IEA Sustainable IEA scenario based on the Paris Agreement
	1.5°C Scenario Average global temperature below 1.5°C above pre-industrial levels	SR1.5, IPCC Scenario based on IPCC special report

Figure 2: Roadmap toward Goal of Using 100% Renewable Energy



2030 and will reach levels as high as ¥4 per kWh. Calculated based on the Company's current annual electricity consumption level of 200 million kWh, such prices would result in a total increase in costs of approximately ¥0.8 billion. Meanwhile, the introduction of a carbon tax in Japan could have an impact on MARUI GROUP amounting to around ¥2.2 billion (see Figure 3).

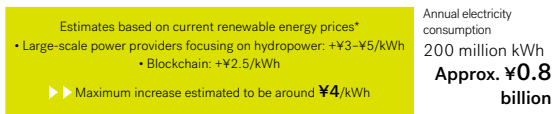
Benefits of 1.5°C Scenario

MARUI GROUP is encouraging EPOS cardholders to switch to renewable energy. This switch would increase the number of cardholders using their EPOS card to make recurring payments along with the number of Gold cardholders, thereby contributing to higher LTV for credit cards and consequently an increase in profit of approximately ¥2.0 billion.

In addition, if we achieve our goal of sourcing 100% of our electricity from renewable sources by 2030, we would not be impacted by potential carbon taxes, reducing costs by around ¥2.2 billion. We also expect to be

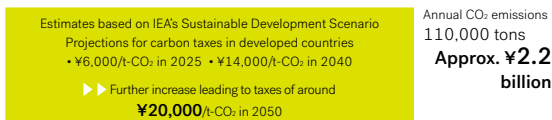
Figure 3: Financial Impacts of Risks

Increases in renewable energy costs: Approx. ¥0.8 billion



* Estimates use projections for peak-hour usage around 2030

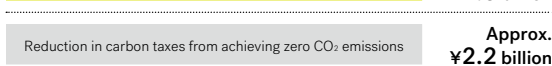
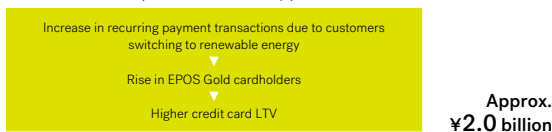
Introduction of carbon taxes: Approx. ¥2.2 billion



Total: ¥3.0 billion

Figure 4: Financial Benefits from Opportunities

Co-creation with power retailers: Approx. ¥4.2 billion



Entry into power retailing business: Approx. ¥0.3 billion



Total: ¥4.5 billion

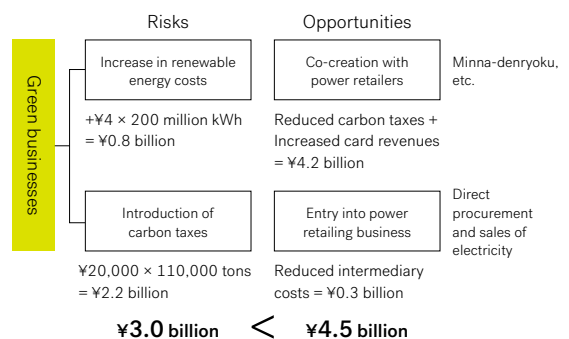
able to lower costs by approximately ¥0.3 billion by entering into the power retail business. The combined financial benefits of these opportunities would amount to ¥4.5 billion (see Figure 4).

Furthermore, we are examining the possibility of introducing large-scale storage batteries at stores that could be charged at night to reduce electricity bills. The estimated benefit would be a reduction of around 7% in annual per store electricity bills.

Opportunities of Green Businesses Exceeding Risks

As explained, the financial benefits of opportunities for green businesses under the 1.5°C scenario will amount to ¥4.5 billion, exceeding the financial impacts of ¥3.0 billion from risks (see Figure 5).

Figure 5: Risks and Opportunities in Green Businesses



Message from an Employee



Hideyuki Inami

RE Development Section
Eco Management Division,
Planning Department
MARUI FACILITIES Co., Ltd.

The RE Development Section was established after we introduced renewable energy, and this section has been garnering attention within the Company. The rise in environmental awareness among employees has led to an increase in the number of people wanting to work in the RE Development Section. On a personal note, my son once came home boastful that he had won a commendation in his junior high school speech competition by talking about how his dad's job is contributing to the environment through renewable energy. I didn't expect this position to elevate my position in my own family.

Green Businesses

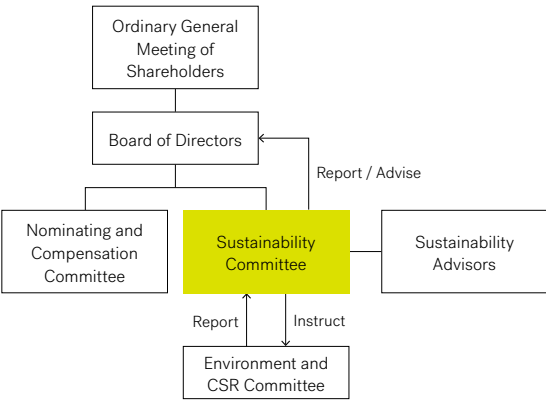
TCFD Management

The four thematic areas recommended for disclosures by the TCFD are governance, strategy, risk management, and metrics and targets. Based on these recommendations, MARUI GROUP is enhancing the information it discloses through a variety of media, including its annual securities reports, co-creation management reports, co-creation sustainability reports, ESG data books, and corporate website. In addition, the TCFD recommendations are used as a benchmark for assessing the appropriateness of MARUI GROUP's climate change response activities.

Governance

The Sustainability Committee was established in May 2019 as an advisory body to the Board of Directors tasked with examining and deliberating on basic policies and important items regarding climate change. This committee is chaired by the president and representative director and features members including executive officers and the chairman of the Central Executive Committee of MARUI GROUP UNION. 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. The members of this committee include officers from Group companies (retailing, facility operation, distribution, building management, etc.) and from MARUI GROUP UNION. Through this framework, we are strengthening governance of climate change-related activities by making business strategy and investment and financing decisions based on comprehensive deliberations taking into account the MARUI GROUP Environmental Policy and important items pertaining to climate change.

Newly Established Sustainability Committee



Strategy

MARUI GROUP is enhancing its efforts to realize the 1.5°C scenario for climate change. To this end, the Company tracks the impacts of climate change-related risks and opportunities on its business activities and formulates and discloses strategies accordingly. In addition, analyses of various trends will be performed periodically in the future in order to revise assessments and disclose information on risks and opportunities related to other areas.

Risk Management

MARUI GROUP performs scenario analyses to track and access the impacts of climate change on its business and identify climate change-related risks and opportunities. The identified risks and opportunities are managed in terms of strategy formulation and individual business operations through a promotion system centered on the Sustainability Committee. In addition, the results of discussions at the Environment and CSR Committee are periodically reported to the Sustainability Committee, which deliberates on this information. Reports and advice are provided to the Board of Directors as necessary for specific items. Going forward, strategies and measures will be examined based on a myriad of factors. External factors on which information will be shared include climate change and other trends that may impact corporate strategies as well as legal and regulatory revisions. Internal factors examined will include progress in the measures of Group companies and future risks and opportunities.

Metrics and Targets

MARUI GROUP has set medium-term, long-term, and ultralong-term targets for its green businesses.

⇒ For more information, please refer to "1. Green Businesses—Options for Coexistence with the Global Environment" on page 49.

Committee Membership
🌐 www.0101maruigroup.co.jp/pdf/committee_members_en.pdf



MARUI GROUP Environmental Policy
🌐 www.0101maruigroup.co.jp/en/sustainability/theme03/environment_01.html#environment1



Renewable Energy with Visibility of Producers

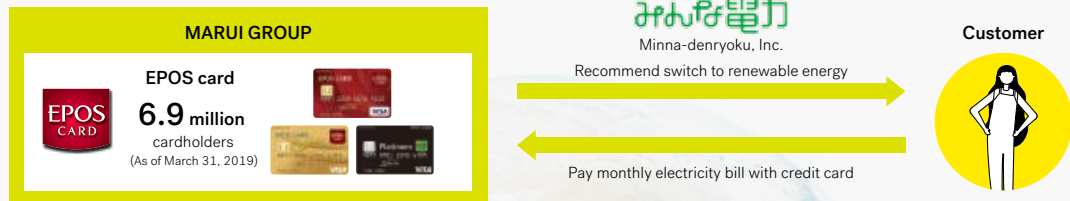
In its green businesses, MARUI GROUP has set a target of sourcing 100% of the electricity it uses from renewable sources by the fiscal year ending March 31, 2031. To accomplish this mission, we have begun switching to renewable energy at all Marui and Modi stores across Japan, beginning with Shinjuku Marui Main Building. Furthermore, MARUI GROUP concluded a business and capital alliance with Minna-denryoku, Inc., the first company in the world to realize the traceability of electricity with its proprietary blockchain technology, in December 2018. We have thereby created a framework for procuring renewable energy in a consistent and prioritized manner.

The future is projected to see society as a whole embracing decarbonization. MARUI GROUP will

contribute to this trend by using renewable energy itself and also by encouraging the 6.9 million EPOS cardholders nationwide to switch to renewable energy. These efforts will be complemented by a scheme that allows customers to pay their monthly electricity bills with their EPOS card. In addition to the benefit for customers of accruing EPOS card points when they pay their monthly power bills, this scheme also makes it possible for them to learn exactly from which producer the renewable energy they use each month is procured, making the producers visible. In this manner, we are providing sustainable options for coexistence with the global environment while simultaneously investing in support for local power producers.

Provision of Sustainable Options

Referral of customers considering switching to renewable energy through MARUI GROUP



Message from a Business Partner



Eiji Oishi
CEO
Minna-denryoku, Inc.

Realization of Lifestyles with Visibility of Producers

With its proprietary blockchain technology, Minna-denryoku was the first company in the world to commercialize an electricity traceability system, thereby giving visibility to power producers. In other words, we created new value in the form of connections between the producers and consumers of electricity. However, there were not many that realized the value of our efforts. MARUI GROUP was the first to recognize this value, promptly switching to our renewable energy with the visibility of producers at Shinjuku Marui Main Building. That store is now linked to various power producers. I hope to work together with MARUI GROUP to create sustainable businesses in the future. Efforts in this regard could include planning power producer tours for store customers or encouraging EPOS cardholders to use our renewable energy with the visibility of producers.

Furthermore, I aim to evolve this scheme to achieve traceability of food, clothing, and other products to realize lifestyles with the visibility of producers in order to contribute to a society in which the work and commitment of producers is properly recognized.

A photograph of two men in a modern office setting. The man on the left, Peter David Pedersen, is wearing a light grey blazer and glasses, gesturing with his hands as he speaks. The man on the right, Hiroshi Aoi, is wearing a dark blue blazer and glasses, listening attentively. They are standing behind a long, light-colored wooden table. In the background, there are large windows and modern office furniture. Three large, black, dome-shaped pendant lights hang from the ceiling.

Meaning of Wealth as Encapsulated in Richard Buckminster Fuller's “Spaceship Earth” Model

In 1968, four years before the Club of Rome released *The Limits to Growth* simulation, which articulated an existential crisis for humanity, leading 20th-century engineer Richard Buckminster Fuller published a book entitled *Operating Manual for Spaceship Earth*. The following is a discussion between MARUI GROUP Sustainability Advisor Peter David Pedersen and President Hiroshi Aoi on how to transmit the ideas put forth by Fuller half a century ago to future generations.

Peter David Pedersen

Co-founder, Next Leaders' Initiative for Sustainability
Sustainability Advisor, MARUI GROUP CO., LTD.



Hiroshi Aoi

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

Wealth as the Number of Forward Days We Are Physically Prepared to Sustain for Future Generations

Aoi: When I work with you, Mr. Pedersen, Richard Buckminster Fuller often comes up. I always had great interest in the ideas Fuller advocated as well as in his concepts of synergies and critical paths. Rereading Fuller's works was an enlightening experience. How were you first introduced to Fuller?

Pedersen: I think my first exposure to Fuller was a mention by my father when I was researching alternative communities in Northern Europe. I was struck by Fuller's idea of wealth.

Aoi: I too was struck by this idea, and I have memorized that section of his book.

Pedersen: In section 6, synergy of *Operating Manual for Spaceship Earth*, Fuller writes, "Now we can account wealth more precisely as the number of forward days for a specific number of people we are physically prepared to sustain at a physically stated time and space liberating level of metabolic and metaphysical regeneration." Let us say, for example, that the earth will have a population of 10 billion in 2050. The duty of those of us alive today would then be to create a situation in which water, food, resources, and energy can be regenerated in order to remove factors that may place constraints on the lives of these 10 billion future denizens of earth. The number of days we can continue to use the earth's resources—there is no greater definition of wealth.

Aoi: This idea inspired me as well. I was very glad when I heard that your concept of inter-generational perspective was based on this idea.

Pedersen: Sustainable development means to meet the needs of current generations while not robbing future

generations of the potential to meet their needs. The sustainable businesses that will be required going forward are those that protect the possibility of regenerating resources, as opposed to those destroying our chances of regeneration in the future.

Aoi: Even if a parent leaves assets for their children, it means nothing if these assets are destroyed by war or by natural disasters. The concept of wealth changes greatly if we inject an inter-generational perspective.

Pedersen: I like to reference the concept of "small self" versus "big self." The small self only needs to think about themselves. It lives through trade-offs, sacrificing the future, others, and the environment for its own interests. The big self, on the other hand, thinks simultaneously in the now and in the future. It lives based on raising value for oneself and others, i.e., considering others in addition to itself. Everyone must make the decision for themselves whether to shrink down and live as their small self or to connect with the world or the future as their big self. However, choosing the life of raising value is not an easy option. After all, the history of humanity has been one of trade-offs over the more than two centuries that followed the Industrial Revolution.

Aoi: We began seeing the limits of capitalism during the latter half of the 20th century. These limits were apparent in the rise of the hippie movement and other counter-culture groups in the 1960s and the ideals of ecology that emerged around that time.

Pedersen: I have been working in Japan since 1995. The mission that brought me to this country was to teach Japanese managers about ecology. Japan differs from Europe and North America in that it has a spiritual culture of respecting nature. Considering also that the country had just seen its bubble economy collapse, I had thus anticipated that it would be ready to head down a new

Peter David Pedersen

Co-founder, Next Leaders' Initiative for Sustainability
Sustainability Advisor, MARUI GROUP CO., LTD.

Born in Denmark in 1967, Peter David Pedersen graduated from the Institute of Cultural Anthropology at Copenhagen University. He first came to Japan in 1984. Mr. Pedersen co-founded E-Square Inc. in 2000, becoming its CEO at this time and then assuming the title of co-founder in 2011. Mr. Pedersen became executive director of The Academy for Corporate Leadership (TACL), a part of TRANSAGENT Co., Ltd., in 2014. In 2015, he became co-founder and representative director of Next Leaders' Initiative for Sustainability (NELIS). Mr. Pedersen assumed the position of sustainability advisor at MARUI GROUP CO., LTD., in 2019.



In his book *Operating Manual for Spaceship Earth*, Fuller likens the earth to a spaceship without an operating manual. This stimulating metaphor hints at solutions for the global issues facing humans. It also gave rise to ecological movements and Internet-like thinking. Often referred to as the "da Vinci of the modern era," Fuller transformed the thinking of the passengers of Spaceship Earth with his message and catalyzed the development of new thought processes.

Operating Manual for Spaceship Earth (Japanese-language version),
Richard Buckminster Fuller (translated by Takashi Serizawa),
Chikumashobo Ltd.
www.0101maruigroup.co.jp/en/ir/lib/book/001.html





Everyone must make the decision for themselves whether to shrink down and live as their small self or to connect with the world or the future as their big self.

P. D. Pedersen

path so long as it was shown the way. Unfortunately, there was a strong drive to return Japan to the past, which I fear may have caused it to lose about 20 years.

Innovation is Born from Businesses with a Purpose

Aoi: In the past, there was a part of me that rejected the idea of “synergies” in business. Fuller, however, spoke of how synergies are the strength of businesses, their very essence. I drew courage from these words. We are often asked whether MARUI GROUP is a retailer or a finance company. I respond to these queries by saying that we are a unique entity that is kind of like a *Euglena*, which is neither fully a plant nor an animal and that therefore cannot be classified as either.

Pedersen: Synergies are a wellspring of value. To cite an example used by Fuller, a piece of equipment that drills for oil only has value defined as a set dollar amount, but the value that can be generated by the equipment is much greater. Synergies are an instrument for measuring this value. Creating greater value requires different elements to be combined. Today, the word “synergy” may be in the process of being reimagined as “co-creation.”

Aoi: At the same time, Fuller mentioned how divisions of labor and specialization impede the process of creating true wealth. Dividing a business into segments has become a common convention. However, the performance of a company is the product of its business in its entirety. What is important is how the different elements of this business communicate and collaborate and the

value they create through this process.

Pedersen: You are right about that. Many major companies carve up their organizations, effectively shutting down communication. This situation prevents these organizations from uniting in the pursuit of a shared greater good. Visionaries like Soichiro Honda and Konosuke Matsushita worked toward the shared greater good of their ambitious dream of making then-poor Japan into the No. 1 country in the world by combining a number of different elements. To borrow the terminology of Silicon Valley, they had a massive transformative purpose.

Aoi: I am reminded of the words of an employee in charge of power supply work. In 2018, we became a member of RE100, announcing our goal of sourcing 100% of our electricity from renewable energy by 2030. This move radically transformed the nature of power supply work. Previously, when asked about his job by his kids, this power supply worker would say that it was his job to purchase electricity at a low price. However, this answer did not garner much interest from his kids. After telling them about how he is now working with renewable energy, his kids were impressed with how cool his job is. This change in how his family views his job has given him renewed pride in his work. I can remember how excited he was recounting this story.

Pedersen: It is not as simple as saying “a sense of purpose changes everything.” However, a shared greater good that contributes to the resolution of issues facing humanity will no doubt be a significant source of motivation for employees. This motivation will in turn help foster

innovation and consequently value. There is practically no other way to create innovation. It would be quite beneficial if there were a means of gauging employees based on their degree of self-driven motivation.

Aoi: Going forward, MARUI GROUP will pursue its long-term vision of having all of its businesses, both new and existing, contribute to the resolution of social issues. After advancing a short way down this path, we realized that our success in this venture was predicated on our efficient operational expertise, technologies, and a sense of purpose we have cultivated thus far.

Pedersen: If we only pursue advancements in technologies and improvements in efficiency, we will lose sight of the human elements of business, leading to degeneration. However, if our driving force is created by marrying our purpose to a view of the future and to the pursuit of sustainability, advancements in technologies and improvements in efficiency will follow.

Companies as “Spaces” for Co-Creation and Collaboration between Older Generations and Junior High and High School Students

Pedersen: With growing populations and rising consumption, the global market is still a growth market. It may therefore be difficult to realize a drastic change in the current capitalistic system. The best we can do at the moment is to add the perspective of sustainability alongside the conventional criteria for competitiveness, such as price, quality, and market share. Under the current system, it may be possible to achieve a position with no competitors by creating a one-of-a-kind business that increases value for the future.

Aoi: Competition exists because of the presence of industries. Like people, companies also have their own individual personalities. Similarly, the more a company chooses to embrace its big self, rather than shrinking into its small self, the more co-creation partners it will be able to find. Going forward, I expect that the definition of a company will change from being a “vessel,” like a building or a store, to being a “space” for co-creation that draws large numbers of people. In the future, I hope that those of us belonging to older generations will be able to draw upon the ideas of junior high and high school students and integrate these ideas into our business. I am confident that reaching outside of the Company to collaborate with junior high and high school students will allow us to create something great.

Pedersen: That is an interesting idea. By creating a single field and experimenting in this field, it is possible to drive a shift from individualism to an inter-generational perspective, from trade-offs to raising value, from small self to big self. In terms of organization, this shift would be from a focus on technology and efficiency to an emphasis on purpose and sustainability. The companies of the future may take the form of fields for testing such transitions.

Aoi: Fuller, who became the central theme of today’s talk, was truly a genius. I think there is great meaning in our picking up where Fuller left off to continue on the quest that he could not complete due to the limitations of his time. The current era is one in which younger generations share Fuller’s vision, and we have the technologies and expertise necessary to realize this vision. The first step should be for us to ask people to join us in this quest. And hopefully, our efforts will spread as a result.



In the past, there was a part of me that rejected the idea of “synergies” in business. Fuller, however, spoke of how synergies are the strength of businesses, their very essence. I drew courage from these words.

H. Aoi

Translation of Individual Strengths into Organizational Capabilities via Understanding and Interaction

MARUI GROUP has established a framework for translating the human capital represented by the individual strengths of its employees into organizational capital. This framework is the integrated Group management achieved through the shared Groupwide human resource systems made possible by the transition to a pure holding company. Individual strengths are merely tacit knowledge. It is when these strengths are focused through the lens of co-creation with customers or other stakeholders or through MARUI GROUP's unique corporate culture that they are able to form new, greater capabilities. The resulting organizational capabilities underpin the co-creation of value through our business model integrating retailing, finance, and IT.

Unique Pure Holding Company System

MARUI GROUP's pure holding company system is unique in that all Group employees are hired through the Company and that, even if an employee is appointed to an operating company, they will still have access to the same shared human resource systems available at the Company. MARUI GROUP employees are provided with a range of opportunities, including the intra-Group profession change system that enables them to hone their individual specialized skills and expertise, the Groupwide project teams that allow for discussions that exceed the boundaries of age or position, and chances for engagement with stakeholders and secondment to start-up companies. By merging the capabilities of our employees through these opportunities, we translate the human capital represented by their expertise and knowledge into organizational capital for the Group.



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



Employees foster a capacity for empathy by engaging with customer needs at MARUI CO., LTD., and other positions.



All employees first join MARUI GROUP CO., LTD.

Development of our people

Capacity for Empathy

Ability to comprehend the position of others and build shared understanding to be more sympathetic to them

- Love of people and bringing joy to them
- Drive to understand the thoughts and pain of others
- Desire to work for the benefit of others



Human resources with a capacity for empathy and a propensity for innovation enact proposals that are not bound by preconceptions.

The concentration of individual strengths gives form to the corporate philosophy calling on us to "equate the development of our people with the development of our company" and makes both sustainability and earnings growth possible.

Development of our company

MARUI GROUP

Organizational Capabilities (Organizational Capital)

Entrenchment of expertise and knowledge of individual employees into the organization through its business model and corporate culture

Unification

Forward-looking mind-sets are cultivated among employees through discussions of management issues across age and position lines in Groupwide project teams.

Innovation

Co-creation of new businesses based on the perspective of inclusion is practiced with start-up companies and other partners.

Exchanges

Employees are invited to escape preconceptions through intra-Group company profession changes.

Empathy

All employees experience work in stores after joining to foster business processes founded on co-creation with customers.

Individual Strengths (Human Capital)

Individual expertise and knowledge can be personal and difficult to transmit.

Propensity for Innovation

Drive to autonomous thought and action

- Ambition to continue growing by setting goals and learning
- Aspiration of creating new businesses

Ability to find joy in changes and differences

- Positivity required to detect changes in society and the environment and to change oneself in response
- Receptiveness toward diverse perspectives and opinions

Human Businesses

Shared Groupwide Human Resource Systems Offered through Unique Pure Holding Company System

We adopted a pure holding company system in 2007, granting our more than 5,000 employees access to shared Groupwide human resource systems. This move made it possible to realize such unique systems as intra-Group company profession changes and Groupwide project teams open to voluntary participation. MARUI GROUP's corporate philosophy of striving to "continue evolving to better aid our customers" and "equate the development of our people with the development of our company" inspires us to view companies as a platform for the growth of their employees. We are therefore fostering a corporate culture in which all employees are accepting toward one another, regardless of their age, gender, lifestyle, or sexual preference, and that is conducive to the cultivation of human resources who can support our business model of co-creating happiness.

Intra-Group Company Profession Change System for Fostering Empathy and Innovation

MARUI GROUP's profession change system is a unique human resource system that is shared throughout the Group and that allows for relocations between the Company and 11 Group companies. This system enables employees to experience a wide range of businesses, including retail at stores, IT, logistics, and credit card services through a program that is almost like changing one's profession. We have been promoting this system since April 2013, and approximately 2,400 employees, or 52% of our entire employee base, had undergone profession changes as of April 1, 2019. A survey of employees that had undergone profession changes conducted in November 2016 revealed that 86% of such employees felt they had experienced personal growth after the

change, indicating that this system is contributing to the cultivation of highly resilient employees.

The longer one works in the same position, the more they will be susceptible to being trapped in the preconceptions of that position. Being placed in a new profession, however, can enable employees to escape preconceptions. Such transitions thus contribute to the growth of the employees undergoing profession changes as well as to transformations in the new workplaces in which they are placed. Moreover, cross-Group locations form connections throughout the Group, contributing to the enhancement of integrated Group management. Through this profession change system, we aim to cultivate employees that embody a customer-first mentality and are adept at responding to change in order to make the Group a more fertile ground for innovation.

Number of Employees Changing Positions between Group Companies

	FY2015	FY2016	FY2017	FY2018	FY2019
Number of employees changing positions (annual)	383	552	404	431	343
Number of employees changing positions (aggregate)	670	1,222	1,626	2,057	2,400
Ratio of employees changing positions (aggregate)	18%	25%	34%	43%	52%

Note: Figures use the total of employees changing positions in April and October of each year (excluding officers and managers).

Groupwide Platform Supporting Profession Changes



Post-Professional Change Monitoring

Self-declaration system allowing employees to declare the professions and divisions in which they are interested in working (twice a year)

Opportunities for discovery for employees who have changed their profession as well as their new colleagues through meetings and on-the-job training

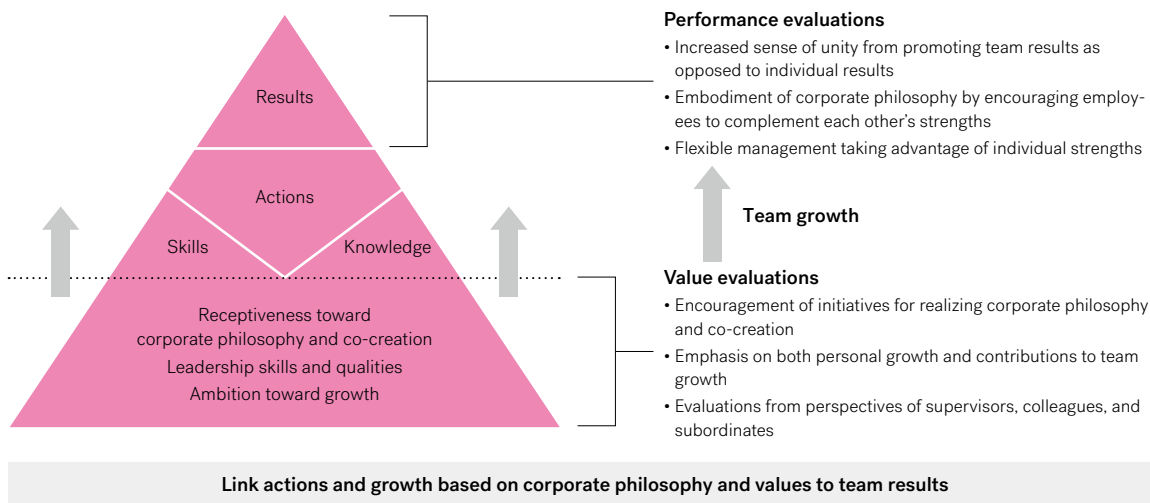
Personnel Evaluation Systems Revised Based on Discussion among Employees

MARUI GROUP's prior personnel evaluation systems evaluated employees based on the results that they produced and therefore made it difficult to assess the qualities and latent talents of individual employees. Moreover, the approach of evaluating results and processes on a quarterly basis encouraged employees to act based on a short-term perspective while also saddling those employees that underwent profession changes with lower evaluations.

However, sustainable growth requires an ability to evaluate and cultivate human resources from a medium-to-long-term perspective. For this reason, we initiated a revision process in December 2015 with the establishment of a Groupwide committee tasked with examining the possibilities for new human resource and evaluation

systems. This committee has held discussions on the implementation of these systems and their quantitative and qualitative targets with an aggregate total of approximately 3,200 employees. As a result of this process, MARUI GROUP launched new personnel evaluation systems in October 2017 that assess employees based on value evaluations and performance evaluations. These new systems contribute to the promotion of new employees, the cultivation of a team-oriented mentality, and the fostering of a corporate culture of voluntary participation. However, there are still obstacles needing to be removed to facilitate appropriate understanding of value evaluations, and ongoing improvement is necessary in this regard. We will be engaging in ongoing discussion in the future with the aim of evolving evaluation systems to better facilitate growth.

Personnel Evaluation Systems



Message from an Employee



Yuko Sueda

Leasing Department
Corporate Solutions Group
AIM CREATE CO., LTD.

Team-Oriented Mentality Fostered through Personnel Evaluation Systems

Undergoing a profession change helped me broaden the scope of work I could perform, contributing to my growth. After working in sales and customer service in stores, I was placed in charge of merchandizing for women's clothing. Hoping to further expand my capabilities, I requested a transfer to my current position. Leasing was completely new to me, and I struggled at first. However, this process also helped me better understand my strengths and shortcomings, and I now feel motivated in this position. Under the prior personnel evaluation systems, my personal accomplishments were directly tied to my evaluation, which often caused me to act on my own and sometimes impeded smooth teamwork. The new systems made me more conscious of improving team results, fostering a culture of teamwork. AIM CREATE is in the process of broadening the scope of its operations outside of commercial facilities. For example, we have partnered with Sumitomo Forestry Co., Ltd., to branch out into planning and internal renovation of long-term care and child daycare facilities, making it possible for us to include a wider range of people in our business. In the future, I hope to contribute to the realization of a society that offers happiness to all through my work.

Human Businesses

Groupwide Platform for Creating Innovation

Groupwide Project Teams Engaged in Deep, Forward-Looking Discussion

Promoting diversity has been defined as one of the strategies of the medium-term management plan launched in the fiscal year ended March 31, 2015, and we are therefore pursuing diversity with regard to individual talents, gender, and age. One facet of our diversity initiatives is our official project teams, which are open to voluntary participation by employees from throughout the Group.

In Groupwide project teams, members are selected based on essays, rather than division, age, or position, and these members discuss various themes that are

important to Group management. MARUI GROUP has established Group project teams based on three themes that are related to the Company or society as a whole from a medium-to-long-term perspective. After participating, members utilize the knowledge and ideas they gained to formulate and implement action plans for incorporating this insight into the business, procedures, or other aspects of their workplace. Project members are changed on an annual basis, producing a new set of autonomous employees with increased knowledge and awareness each year.

Three Groupwide Project Teams



Diversity & Inclusion Project Team

Launched in 2011, the Diversity & Inclusion Project Team's activities are aimed at fostering respect and contributing to the happiness of all people, including members of the LGBT community and people with disabilities, by encouraging receptiveness for the diversity of all stakeholders.



Wellness Management Project Team

Established in 2016, the Wellness Management Project Team believes it is important to go beyond the basic approach of preventing illness to foster more energized and happy employees. It is thus promoting wellness management that combines these approaches inside and outside of the Company.



Sustainability Project Team

Created in 2018, the Sustainability Project Team was responsible for illustrating a scenario for 2050 and discussing the future vision for MARUI GROUP; it met again to prepare for the announcement of our long-term vision in February 2019. This team is currently examining means of creating forward-looking businesses.



Message from an Employee



Takayuki Sakai

Sustainability Project Team Member
Marui City Yokohama
MARUI CO., LTD.
(Joined in April 2019)

Desire to Learn About Business through Project Team to Create Financial Services for Younger Generations

We engage in group work during Sustainability Project Team assemblies. Everyone is always receptive toward others' opinions, even my own, despite my being new to the Company. The process of reshaping my ideas into something better with the help of more experienced colleagues and external lecturers fills me with confidence by indicating that my underlying idea was not bad. At project team assemblies, I am introduced to examples of sustainable businesses and activities from around the world, broadening my perspective. By examining how those businesses generate profit, I am learning the basics of business. I feel that members of younger generations, myself included, do not spend a lot, rather choosing to save for the future. I want to encourage such individuals to live based on the idea of using money while increasing it. To accomplish this goal, I hope to provide financial services that can be used with peace of mind by younger generations through MARUI GROUP. I believe that this would resolve social issues while helping us explore new markets.

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

The Medium-Term Management Visionary Committee is a forum for discussing various topics that will be important to the future of Group management, which are selected from a long-term perspective. While this committee was

previously only open to members of Group management, in January 2016 we made the committee open to any interested employee, and meetings have been held regularly since. Active discussion is conducted among the roughly 300 members that are selected from the 1,000–1,500 applications received from employees of various ranks and divisions for each iteration.

Topics Discussed by Medium-Term Management Visionary Committee

Committee Meeting Discussion Topics in 2018

Corporate Strategies for Realizing a Sustainable Society
—Lecture by Peter David Pedersen, co-founder of Next Leaders' Initiative for Sustainability and sustainability advisor of MARUI GROUP

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

Singularity and Exponential Thinking: Characteristics of Companies and People That Can Survive in Volatile Times

—Lecture by Kazunori Saito, representative director of Exponential Japan

Long-Term Operating Environment and Impact on MARUI GROUP

—Lecture by Peter David Pedersen, co-founder of Next Leaders' Initiative for Sustainability and sustainability advisor of MARUI GROUP

Joy Brought to Customers through Cumulative Investment

—Lecture by Ken Shibusawa, chairman of Commons Asset Management, Inc., Haruhiro Nakano, president and representative director of Saison Asset Management Co., Ltd., and Hideto Fujino, president and representative director of Rheos Capital Works Inc.

Activity report by ultralong-term management research committee

Advent of After Digital World: Essence of Digitization

—Lecture by Naoki Endo, CEO of beBit, Inc.

Sustainability × Business: Companies Only Engaged in Social Businesses

—Masayoshi Suzuki, executive vice president of BORDERLESS JAPAN CORPORATION and sustainability advisor of MARUI GROUP

Committee Meeting Discussion Topics in 2019

Happiness × AI

—Lecture by Dr. Kazuo Yano, fellow and director and happiness project leader of Future Investment Division of Hitachi, Ltd.

Seven Paradigm Shifts as the World Undergoes Digital Convergence

—Lecture by Soichi Tajima, CEO and general partner of Genesis Ventures, Inc.

Insurance and Financial Inclusion

—Lecture by Tooru Ushiroda, representative of Office Baton Insurance Consultation Office

Background for Direct-to-Consumer Brands, Physical Stores in a Digital Society, and Retail as a Service

—Lecture by Yuichiro Mori, CEO/Founder of FABRIC TOKYO Inc.

Japan's First Employee-Driven Effort to Source 100% of Electricity from Renewable Power with Visibility of Producers: Familiarity with the SDGs through the Outlet via World's First Venture Combining Power and Blockchain

—Eiji Oishi, CEO of Minna-denryoku, Inc.



Human Businesses

Wellness Management for Energizing Employees

MARUI GROUP believes it is important to go beyond the basic approach of preventing illness in order to foster more energized and happy employees. We have therefore been promoting wellness management that combines these approaches inside and outside of the Company. Wellness management has been positioned as an important element of our strategies under the medium-term management plan and is thus being practiced on a Groupwide scale through coordination between the Health Management Division and MARUI GROUP's health insurance union.

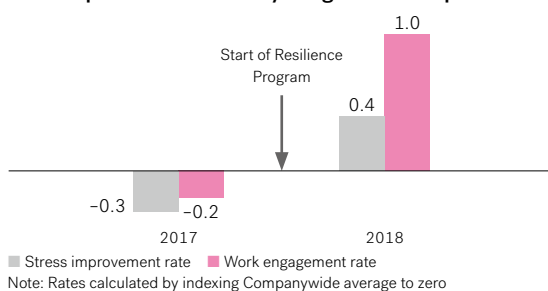
Reduction in Overtime of 70% through Work Style Reforms

MARUI GROUP began implementing work style reforms in 2008, and the Company now boasts one of the lowest levels of overtime in Japan as a result. The first step of these reforms was to set overtime reduction targets by division. In addition, approximately 50 shift patterns were established for stores to facilitate systematic shift planning. At the same time, processes related to delivering and returning products and other back-office procedures at stores are handled by Group companies to optimize work processes on a Groupwide basis. As a result, average monthly overtime hours per person were down to 3.5 in the fiscal year ended March 31, 2019, while average annual overtime hours decreased to 42.

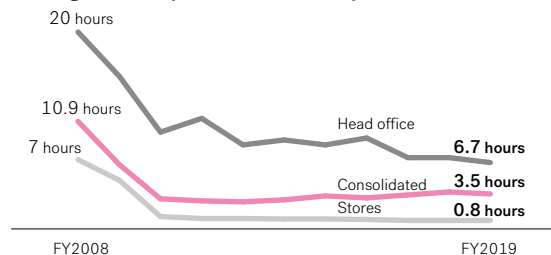
Resilience Program for Improving Awareness Beginning with Senior Management

The Resilience Program is a one-year program that targets officers and managers. In this program, members of senior management learn habits that energize themselves and those around them to realize overall higher levels of energy, have a positive influence of those around them, and energize their entire organization. The organizations overseen by managers that participated in the program have witnessed improvements in workplace energy, demonstrating that initiatives based on the knowledge and habits gained through the program are having a positive influence on those surrounding participants.

Stress Improvement and Work Engagement Rates at Workplaces Overseen by Program Participants



Average Monthly Overtime Hours per Person



Overtime Reduction and Benefits

	FY2008	FY2019	Benefit
Average annual overtime hours per person	130 hours	42 hours	-88 hours
Total overtime payments	¥3.4 billion	¥0.8 billion	-¥2.6 billion
Employee turnover rate (excluding mandatory retirement)	6.8%	2.5%	-4.3 ppt

Evolution of Healthcare Promotion Activities

1962	Establishment of MARUI GROUP's health insurance union
1970	Opened Marui Health Insurance Union Building
2008	Commencement of overtime reduction project Start of Health Improvement Program by MARUI GROUP's health insurance union that contributed to a large reduction in obesity rates in comparison to the nationwide average
2011	Introduced health management committee system Established Health Management Division and appointed dedicated Company physicians
2013	Introduced wellness leader system and physical and mental health consultation hotline
2014	Began analyzing health examination data of all employees and relationship between lifestyle patterns and attitudes toward work at Health Management Division Started holding self-care training sessions for all employees across Japan Appointed wellness leaders nationwide to help alleviate women's health concerns
2015	Appointed chief health officer (CHO)
2016	Introduced Resilience Program to promote habits to energize senior managers in terms of their body, mood, mental state, and thinking Incorporated new healthcare management items into labor agreements to clarify responsibilities of the Company and of employees Appointed an outside advisor and began analyzing healthcare management practices and data Formulated Groupwide Healthcare Management Project Team*
2018	Began holding group tests for nationally accredited health master examination
2019	Began holding group tests for nationally accredited women's health examination

* Name changed to Wellness Management Project Team in 2018



Tracking of Wellness Activities and Organization Energy

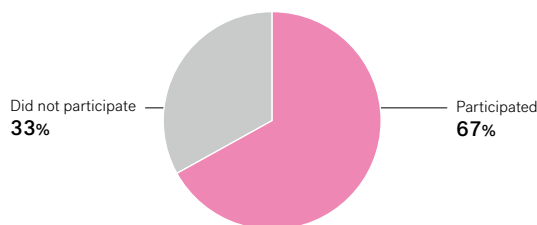
Analyzing the benefits of wellness activities enables us to track the link between wellness activities and organization energy levels. Workplaces actively engaging in wellness activities have seen improvements in work engagement indicators, providing quantitative evidence of the link between wellness management and Companywide energy.

EXAMPLE 01

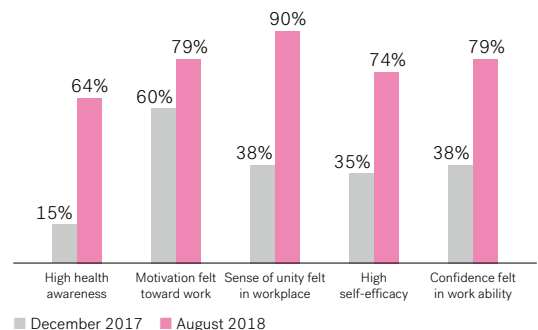
Participation in Workplace Wellness Activities by 67% of Employees

A survey conducted in June 2019 found that 67% of employees were participating in workplace wellness activities, showing that these activities are gaining traction within the organization. In addition, members of the Wellness Management Project Team conducted a survey on changes in the awareness and behaviors of project members as part of their activities in their workplaces. These surveys indicated that these activities were helping energize organizations through increases in motivation, a sense of self-efficacy, and confidence in work ability.

Participation in Workplace Wellness Activities in Past Six Months



Changes in Awareness and Behaviors of Project Members

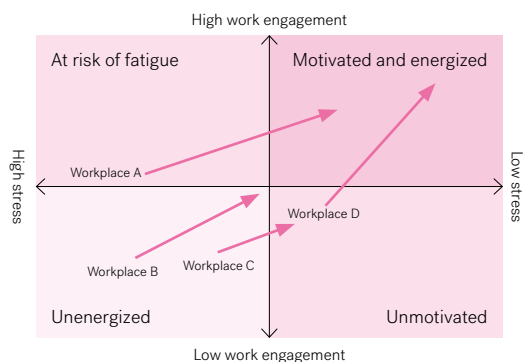


Source: Stress checks conducted in June 2019

EXAMPLE 02

Energization of Workplaces through Stress Checks

The results of organization analyses via stress checks are being used to institute targeted measures aimed at items identified as important for specific workplaces (items that will contribute to improve work engagement). After initial stress checks in the fiscal year ended March 31, 2019, voluntarily participating workplaces conducted additional stress checks before the end of the fiscal year. These checks found that stress was down and work engagement was up at almost all applicable workplaces. Successful measures will be shared throughout the Company in the future to energize other workplaces.



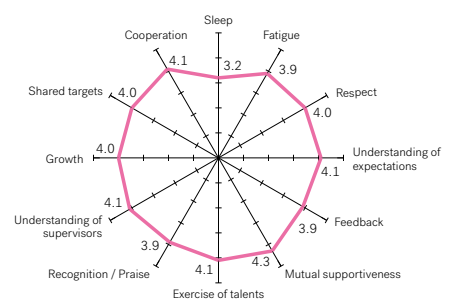
Source: Stress check data from the fiscal year ended March 31, 2019

EXAMPLE 03

Hybrid Measures Based on Organization Energy Surveys (Organization Health Surveys)

With the aim of further energizing organizations, MARUI GROUP has introduced proprietary organization health surveys that allow for analyses of organizations with small numbers of people, which are conducted in conjunction with stress checks. These surveys are currently being performed at more than 100 organizations. The benefits of stress checks will be used together with organization health surveys to increase the accuracy of future measures.

	Issues with Stress Checks	Organization Health Surveys
Timing	Once a year, in principle	Quarterly or at other freely chosen periods
Aggregation method	Specialized aggregation by external partner (90 questions)	Simple aggregation at workplaces (12 questions)
Minimum number of participants	More than 10	Around 10 (capable of surveying small numbers of people)



Source: Organizational health survey data from the fiscal year ended March 31, 2019



Tracking of Happiness to Energize Employees and Society as a Whole

Dr. Kazuo Yano is engaged in researching happiness by utilizing data to elucidate fundamental principles behind the behavior of people. We invited Dr. Yano to discuss the future potential of wellness management with Dr. Reiko Kojima, a company physician at MARUI GROUP who asserts that there is a link between employee happiness and success.

Dr. Kazuo Yano

Fellow and Director
 Happiness Project Leader,
 Future Investment Division
 Hitachi, Ltd.



Dr. Reiko Kojima

Executive Officer
 Company Physician
 General Manager, Health Management Division
 MARUI GROUP CO., LTD.

Application for Measuring Happiness from Body Motions

Yano: I first felt the desire to change how Japanese people worked about 15 years ago. As the Internet brought with it the rapid spread of virtual connections, real-life interpersonal connections were becoming more important than ever. Meanwhile, the tools for improving society, such as philosophy, sociology, and psychology, were all qualitative in nature. This realization prompted me to search for a tool for bettering society that was more scientific, more based on hard data. I thus began collecting data from my own body along with massive quantities of data from various business organizations. One finding that was particularly noteworthy was how corporate value and employee happiness, two metrics that initially seem to be in opposition, actually showed a positive correlation when you really delved into the data. Employees who are happy or who make those around them happy perform better and thus contribute to the happiness of their organization as a whole.

Kojima: Over the course of nearly 20 years, I have been a company physician at many corporations. In these positions, I always saw that employees who appeared to be energized and happy also exhibited high levels of productivity and creativity. However, it is difficult to communicate the link between happiness and results. Searching for an objective indicator for gauging happiness, I became aware of Happiness Planet, an application that you, Dr. Yano, developed. I felt great potential for this application.

Yano: Happiness Planet is a smartphone app that measures body motions related to behaviors that contribute to the happiness of the people around an individual or that indicate active engagement with these people. These measurements are made possible by the accelerometers installed in all smartphones. This app enables individuals to view indicators of their condition, to identify whether it is good or bad, and it is also possible to utilize indicators for organizations and teams. With the cooperation of MARUI GROUP and its hundreds of employees, I was able to collect a great deal of data for verifying the effectiveness of this app.

Kojima: MARUI GROUP's Wellness Management Project Team is operated in intervals of one year, with a team of around 50 employees assembled for each interval to play a proactive role in promoting wellness management (healthcare management). The current project team is advancing initiatives on a Companywide basis as well as outside of the Company. One group on this team is examining possible ways of using Happiness Planet in the future.

Yano: When you begin tracking metrics, it is only natural to start looking for ways to improve those metrics. The means of realizing improvements will vary from person to person. Accordingly, it is important for people to be inspired to make a personal commitment to improvement. In this regard, Happiness Planet allows users to decide in the morning the challenges they will tackle that day. This app offers a selection of around 7,000 such challenges to choose from. Users can also make their own. Furthermore, if a user puts their smartphone in their pocket for only three hours a day, the app will



Kazuo Yano

Dr. Kazuo Yano obtained a master's degree in physics from Waseda University in 1984 and joined Hitachi, Ltd., thereafter. In 1993, he achieved the world's first successful operation of single-electron memory at room temperature. Since 2004, he has been a world leader in the field of wearable technology and the collection and utilization of big data. His papers have been cited 2,500 times and he has 350 patent applications. He is known for the breadth and depth of his specialties, which range from artificial intelligence to nanotechnology. Dr. Yano's literary work, *Invisible Hand of Data: The Rule for People, Organizations, and Society Uncovered by Wearable Sensors* (published in 2014), was selected as one of 2014's 10 Best Business Books on the BookVinegar book review website. Dr. Yano has a doctorate in engineering and is an IEEE Fellow as well as a visiting professor at the Tokyo Institute of Technology.

Photograph taken at "Kyōsō-no-Mori (Forest of Co-Creation)," a facility established at the Central Research Laboratory of Hitachi, Ltd., in April 2019, to accelerate the co-creation of innovation together with customers

measure their body motion to quantify the degree to which they engaged in behavior that contributes to the happiness of those around them.

Kojima: In fall 2019, MARUI GROUP will launch an initiative in which everyone will work together to increase their happiness scores using the Happiness Planet. This initiative will make it easier for everyone to take part in wellness management activities while also creating venues through which people from various workplaces and Group companies can gather. Increasing venues for exchanges of diverse knowledge will foster a corporate culture of high creativity.

Disparity in the Movements of the Bodies of Happy People

Yano: Over the past two decades, there has been a boom in scientific research on happiness. Genetics are part of the determining factors behind happiness, and such factors cannot be changed once someone has become an adult. However, there are also factors that can continue to be changed through means such as environmental alterations, training, experience, and learning. Among the most important determining factors behind happiness are working toward some goal, no matter how small, on a daily basis and adopting good habits. Particularly effective is attempting to make the people around you happy or acting for the benefit of these people. Incorporating such behaviors into one's daily life is an extremely effective way of increasing happiness.

Kojima: At MARUI GROUP, we conduct the Resilience Program in which managers strive to adopt good habits that help energize and bring happiness to themselves and the people around them over the period of a year, after which they seek to spread these habits throughout their workplace. Employees that find meaning in their work and tackle challenges in a self-driven manner are more resilient in that they are more able to remain committed to overcoming adversity than those employees who feel as though they are being made to work. When people hear the word "happiness," they are inclined to imagine something easy, like flower gardens. However, when we asked a group of more than 500 employees in a training session about the times that they felt the happiest and most fulfilled at work, the answers we received included stories of

overcoming adversity as a team to satisfy customers.

I hope to make MARUI GROUP into a happy organization where employees can find joy and fulfillment by tackling such challenges of their own accord.

Yano: All activities by people are driven, in the end, by the movement of their muscles. For this reason, the movement of people's bodies is the easiest output to read. Even when sitting, people are not entirely still, but rather are constantly moving. In the case of people that make those around them happy, there is a great deal of disparity between how long they will continue moving once they start. For unhappy people, however, the amount of time between when they start moving and stop moving is usually the same. The values are practically fixed. These characteristics appear in a clear, quantitative fashion when looking at data. What is interesting is that when happy people communicate with the people around them, there is a lot of reciprocity. In fact, the data shows that their body movements often synchronize with the person with whom they are interacting. The ability to engage in effective communication is important, as human relationships and communication are essential to happiness.

Kojima: As a company physician, I have spoken with around 5,000 people to date. There are very few people who have exceptional people and communication skills but are in poor health.

Challenging Environments Fundamentally Related to the Do of Japan

Kojima: MARUI GROUP's corporate philosophy calls for us to "continue evolving to better aid our customers" and "equate the development of our people with the development of our company." To enact this philosophy, we are developing frameworks and a corporate culture that offer employees access to challenging environments. These efforts can be seen in our profession change system as well as in Groupwide project teams and the Medium-Term Management Visionary Committee, which are open to voluntary participation.

Yano: Challenging environments are important. It is easiest for people to feel fulfilled when they are able to utilize their strengths and skills in challenging environments. If people are placed in environments that are not challenging, they may become complacent or, worse yet, bored.



Challenging environments are fundamentally related to the various *do* of Japan. Someone who practices *shodo* (calligraphy) or *sado* (tea ceremony) continue to hone their art, growing until they die. The act of making a cup of tea can lead one to become aware of changes in the seasons or customer tendencies that they could not perceive when they first took up the art, spurring ongoing growth. The mass production era in which people worked based on manuals to produce large quantities of products was perhaps an outlier in human history. We appear to be returning to an era in which people continue to grow throughout the course of their entire lives.

Kojima: I agree. You just made me think that people who join MARUI GROUP naturally begin walking the path, the *do*, of lifelong growth.

Increased Happiness throughout Society Achieved by Tracking Happiness

Kojima: MARUI GROUP's wellness management approach is aimed at generating positive benefits, rather than preventing illnesses and eliminating negative health impacts. This management approach is thus oriented toward the creation of a flourishing and inclusive society

offering happiness to all. I therefore see potential to utilize the objective indicators provided by Happiness Planet in this approach. I understand that Happiness Planet assigns high happiness scores to altruistic actions. MARUI GROUP is promoting financial inclusion. It is possible that, outside of the area of wellness (healthcare) management, the ability to track the happiness of oneself and of the people around oneself could help us propose ways of using money to contribute to the happiness of others. In this manner, I see the potential for MARUI GROUP to contribute to increased happiness scores throughout society by means of its business.

Yano: Happiness is contagious. I therefore hope you will use Happiness Planet as a means of spreading such happiness fostering activities to MARUI GROUP's customers and to the rest of society. In the past, corporate value has been quantified through stock price and other indicators. However, these indicators were relatively divorced from people, and data on employees tended to be of a more superficial level, primarily pertaining to career metrics and salaries. I hope to engage initiatives that more directly incorporate the value of people. I believe that such initiatives could change the very way we live.

Kojima: You are right. A change in mind-set certainly has the potential to change how someone lives.

I remember the sense of commitment I felt to ensuring that
I did not let the Company go under whenever
I visited the grave of the founder.

Sick of overtime and old men.

Hiroshi Aoi

President and Representative Director, Representative Executive Officer

I was inspired by the MBA holders around me to
attend Harvard University to acquire my own
MBA. This experience changed me, making me
realize that I preferred innovative, transformative
businesses as opposed to reliable,
large-scale ones.

Etsuko Okajima

External Director

The entirety of MARUI
GROUP was united toward
a single goal. This exhilara-
tion remains with me today,
this time stimulated by
MARUI GROUP's efforts
to co-create value.

Masao Nakamura

Director,

Senior Managing Executive Officer

I became a lawyer in 1969, and cel-
ebrated my 50th anniversary in this
position in 2019. I still step into the
courtroom even today. I would say that
I am careful and business-minded. Not
a particularly interesting statement,
I know.

Tadashi Ooe

External Audit & Supervisory Board Member

I have changed positions more than 10 times in
the roughly 20 years since I joined MARUI GROUP.
I would say that I am a positive individual.

Junko Tsuda

Executive Officer

I have 40 years of experience in tax bureaus and in the
National Tax Agencies. When I was young, I was placed in an
audit department. In this position, I exposed many major and
malicious tax evaders.

Takehiko Takagi

External Audit & Supervisory Board Member

I am the oldest active
employee at MARUI GROUP.
I see myself as an optimist,
believing that a desirable
result can always be
achieved no matter what
adversity is faced.

Motohiko Sato

Executive Vice President

Management

Section 03

Co-Creation Sustainability Management

There are several areas
with regard to which
I cannot help but sense
risks in terms of the differ-
ences in the cultures of
fostering innovation
between the United States
and Japan. This is one of the
reasons why I serve as the
head of a government digital
transformation human
resource research commit-
tee even today.

Masahiro Muroi

External Director

My career history makes many think I have committed to
defending our current state, but I see things differently.
I changed myself, losing 20 kg over a period of three years
some eight years ago.

Tomoo Ishii

Senior Managing Executive Officer

My becoming store manager at Machida Marui in 2007,
marked my triumphant return to where my career began.
I was general manager of the Financial Department at the
outbreak of the 2008 financial crisis. My time overseeing
the Financial Department was thus the most challenging leg
of my career.

Yoshinori Saito

Managing Executive Officer

As I am addicted to
addressing customer needs,
I greatly enjoy people
watching. I am often told
that I observe things that
I don't need to see. I find joy
in doing things different
from other people, and
I hope to utilize this pecu-
liarity in my work.

Tatsuo Niitsu

Executive Officer

I learned the warmth of a team when managing a shop, and I then gained a sense of motivation and perseverance when faced with the harsh working conditions of the planning product division.

Hajime Sasaki
Senior Executive Officer

At college, this passion became fashion, and I joined MARUI GROUP in 1987 with the goal of working in fashion. As for my personality, while I don't necessarily agree with it, I am often said to be "stubborn."

Hirotsugu Kato
Director, Managing Executive Officer

We are currently faced with a highly volatile era. In my central role in corporate governance as an Audit & Supervisory Board member, I hope to be proactive and optimistic and to enjoy contributing to improved corporate value for MARUI GROUP.

Hideaki Fujizuka
Audit & Supervisory Board Member
(Full time)

I tend to like to do everything myself, and I spent a lot of my 20s and 30s on overtime. If I had to sum up my personality, the word I would use is "serious."

Mayuki Igayama
Executive Officer

Born in Nagano Prefecture, my grandfather founded his business in the waterfilled city of Ogaki City, Gifu Prefecture, often referred to as an important center of transportation on the Nobi Plain in the middle of Japan. I was thus raised in this city among its plentiful water.

Yoshitaka Taguchi
External Director

My love for cars drove me to joining MOVING CO., LTD. in 1992, where I was a truck driver for five years. I was promoted to management in 2009 and then transferred to MARUI CO., LTD. At first, I didn't know any other way into our stores aside from the truck loading gate.

Masahisa Aoki
Director, Senior Executive Officer

My coworkers called me "Dynamite Kawara" because of my head-on approach toward everything. My source of energy is sweets and shopping.

Miyuki Kawara
Executive Officer

The positions I spent years in saw me primarily interacting with men during my work, whether inside or outside of the Company. As I overcame the obstacles placed before me as a woman, I grew while experiencing the sense of accomplishment that came with my achievements as a woman.

Yuko Ito
Director, Executive Officer

I wanted to research how people can be happy in their work, prompting me to enter a graduate program. I look forward to continuing to help invigorate the Company's employees and organizations with my foundation in medicine in the future.

Reiko Kojima
Executive Officer

My education was in liberal arts, far removed from IT. Regardless, I have been involved in the majority of the Company's businesses through the lens of IT utilization, which has been a truly motivating experience. I fulfill my duties with a commitment to seeing matters through to the end.

Nariaki Fuse
Audit & Supervisory Board Member
(Full time)

At the time, we were still collecting payments for monthly installment transactions. Notably, I was responsible for reconstructing our credit card services businesses, introducing the EPOS card to the world, and developing this business thereafter, an accomplishment of which I am most proud.

Toshikazu Takimoto
Managing Executive Officer

The number of business negotiations I have taken part in with external business partners is No. 1 in MARUI GROUP. I hope to develop a business that enables us to repay this debt to our customers and to our business partners.

Masahiro Aono
Senior Executive Officer

I realized that I suffered from a lack of fashion sense working in men's designer and character brands at the head office. When I returned to stores from the head office after 15 years, my inexperience as a deputy store manager showed as I didn't understand anything. For some reason, I felt joy everyday as the female employees treated me like a newcomer as they taught me.

Yoshiaki Kogure
Executive Officer

I took part in the development of the systems that would be used to launch the EPOS card. Many people say that I am very meticulous, despite the image of people with B-type blood in Japan. I take this as a compliment.

Takeshi Ebihara
Executive Officer

The unique self-introductions are featured in the "Directors, Audit & Supervisory Board Members, and Executive Officers" section on pages 132-140.

Dialogue 04

Need to Aggressively Communicate New Business Models to Investors

Okajima: MARUI GROUP's strength is rooted in its DNA of innovation and in the frameworks that allow employees embodying this DNA to create innovation. The Company has been cultivating employees capable of responding to change through a variety of measures over the past 10 or so years. The central pillar for these initiatives has been the leadership of President Aoi. Another major factor has been the development of frameworks for advancing initiatives through an approach that is simultaneously top down and bottom up.

Sampei: You could not be more right. It is clearly apparent, even to me, that MARUI GROUP has been implementing various innovative initiatives and that this spirit of innovation and change is permeating its employees. However, investors do not yet appear to be able to completely understand what type of business model will arise from this innovation in the future. While it may seem that the Company's stock price is doing well, I think that the market has yet to evaluate MARUI GROUP correctly.

Muroi: MARUI GROUP's co-creation sustainability management is almost perfect, and it has an incredibly sincere corporate culture. I therefore think that the risks associated with the Company are few. In fact, I first thought that there was not much for me to do

First Panel for Face-to-Face Discussion between Long-Term Investors and External Directors

As companies come to be expected to engage in constructive dialogue with investors regarding the improvement of their corporate value, exchanges between external directors and institutional investors are becoming increasingly more important.

We therefore invited two long-term investors to sit down with three external directors and discuss MARUI GROUP's business model and the ideal relationship with the employees that support this model.



at MARUI GROUP, given that the role of external directors is supposed to be monitoring. To address the issue that you, Mr. Sampei, point out, it would probably be a good idea to think of ways to improve the materials provided at meetings with investors and to supply data that backs the Company's assertions.

Sampei: Data should not be the top priority. Around 70% to 80% of the work should be done by alleviating investor concerns through explanations of the Company's policies, its frameworks, and the areas with which it is exercising caution. The role of data comes around when investors ask for evidence after hearing such an explanation. If the data can supply the remaining 20%, everything should click with investors. The other day, I spoke with Director and Managing Executive Officer Hirotsugu Kato on the subjects of financial inclusion and credit management. He put forth a clear vision together with a wealth of data. The fund managers and analysts from my firm that were present at the time were quite impressed with this explanation. To investors, it is important to be able to paint a clear picture of the next step in a company's evolution and of its business model. If a company can aggressively broadcast such information to market representatives, the expectations of the market for this company will increase. This is the bridgehead MARUI GROUP needs.

Taguchi: MARUI GROUP's spirit of innovation is its unbreakable backbone, and the Company boasts a responsiveness to change that spurs it toward the

appropriate action, regardless of the means or methods. I believe that these qualities are contributing to increases in lifetime value from customers. I would like to ask: When a company puts forth a new business model, how do investors judge this model?

What benchmark do you use in these cases?

Sampei: We do not have a particular benchmark. New business models are exactly that, something completely new, and we therefore have nothing with which to judge them against. What is important is the elements of the business model that will allow it to continue. I tend to take interest in business models that I judge to have the potential to continue for 10 or 15 years.

Makino: At the moment, the main factors behind any variation when I assess MARUI GROUP's corporate value are the growth rates of EPOS Gold cardholders, the per card usage amounts, and how the Company intends to improve these indicators. However, although Gold cardholders may be highly loyal to MARUI GROUP, their income tends to be around the same level as the standard cardholders of rivals. The question then turns to the degree to which revolving and cash advance transactions can grow through these cardholders. MARUI GROUP estimates that one-third of women living in the Tokyo metropolitan area will hold an EPOS card in the future. However, one cannot help but question the validity of this estimate. I cannot say for sure at the moment. However, if MARUI GROUP's stock price is

This face-to-face discussion started with a photograph session. The anxious gazes captured in this photograph are symbolic of the curiosity regarding the course of this discussion between external directors and investors.

From left: External Director Yoshitaka Taguchi, Nao Makino, Hiroki Sampei, External Director Etsuko Okajima, and External Director Masahiro Muroi



Hiroki Sampei

Head of Engagement
Fidelity International, Japan

After graduating from Waseda University's School of Science and Engineering in 1987, Mr. Hiroki Sampei joined Nippon Life Insurance Company. He worked as a foreign stock analyst and portfolio manager in New York, Tokyo, and London in the years that followed. Mr. Sampei was also a member of the Ministry of Economy, Trade and Industry's *Ito Report* project team, and he took part in the formulation of 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*.



struggling, it is probably because it is reaching the limits of evaluation frameworks developed under its current business model. MARUI GROUP has a lot of potential for the future, including its financial inclusion and other initiatives. However, it is currently hard to judge which of these initiatives will begin generating value and when.

Positive and Negative Aspects of Not Appearing Business-Like

Sampei: MARUI GROUP's co-creation sustainability management has become well-known. However, there is a bit of a communication gap experience when talking on this subject with frontline staff enacting this type of management at operating companies.

Taguchi: When you are on the front lines, your perspective tends to be focused on this area. It is only natural for this perspective to change as one's rank rises and they find themselves positioned in different divisions.

Muroi: Looking back at my own experience, after transferring from being head of a business segment to working in the investor relations division, it took a year or two before I could truly bridge the communication gap with medium-to-long-term investors. The perspectives of those overseeing operations and those viewing a company from the outside are fundamentally different.

Okajima: I understand what you are saying. In my time at MARUI GROUP, I have probably met more than half of the Group's roughly 5,000 employees, including those taking part in the Co-Creation Management Academy (CMA) future leader development program. Overall, MARUI GROUP's employees are good, devoted, and honest people. Most of them seem as though they were

born with the purpose of working with or for the sake of customers. This is definitely a strength, but at the same time this situation does not appear business-like. Specifically, there is not much consideration of how to monetize the efforts of employees.

Makino: There are both positive and negative aspects of not appearing business-like. MARUI GROUP is advocating the idea of stores that do not sell with the goal of transitioning to a business model that generates earnings by stimulating growth in the lifetime value of customers. Not appearing business-like is perhaps a way of facilitating the development of long-term relationships with customers. Still, it will be impossible to maximize the value of this model without employees that are able to understand and effectively implement it. I have high expectations for MARUI GROUP's idea of lifetime value. However, there may be cases in which increasing lifetime value will require decisions to continue operating a business at a loss in order to achieve future cash flows. Earnest dedication to turning a profit on a single fiscal year basis is not enough in these cases. On the contrary, the Company will need to foster employees with the type of acumen that allows them to develop frameworks and businesses that, for example, force customers to use EPOS cards, despite their not having a desire to do so. A company only needs a handful of such employees, and I truly hope that MARUI GROUP will be able to cultivate them, through the CMA or some other such initiative.

Okajima: The clearest example I can think of such unorthodox human resource development is Masahisa Aoki, who was recently promoted to a director of MARUI GROUP. Mr. Aoki joined MOVING CO., LTD., as a truck driver. He later became the general manager of the Anime Business Department at MARUI GROUP and



Nao Makino

Investment Officer, Misaki Capital Inc.
 Technical Committee: Revenue Recognition
 Accounting Standards Board of Japan

Mr. Nao Makino graduated from the University of Tokyo Faculty of Law in 2012 and then joined Morgan Stanley MUFG Securities Co., Ltd., where he was responsible for researching Japanese stocks. He later took up a position at a socially responsible investment research firm, providing consultation services on ESG investment in Japanese companies.

then was appointed to the position of president and representative director of MARUI CO., LTD., at age 49. I suspect that such examples will become more common going forward.

Makino: Similarly, Ms. Asumi Kantake, who was in charge of investor relations until just a few years ago, is now representative director and CEO of tsumiki Co., Ltd. MARUI GROUP's co-creation management reports let readers track the growth of various employees, offering another way to enjoy these reports.

Venues for Deeper Communication with Long-Term Investors

Sampei: In regard to stakeholder engagement, I see that dialogue with employees and customers has become common place within MARUI GROUP. How are shareholders and other investors positioned among stakeholders? MARUI GROUP's co-creation management reports feature an image of six overlapping rings of stakeholders, and investors are included among these rings. However, I feel that the number of venues for engagement with shareholders and other investors are few and the information provided is lacking and unsatisfactory. This rings especially true when looking at the level of communication practiced with other stakeholders.

Okajima: MARUI GROUP has an incredible power to draw people into its orbit, and it has appointed experts in various areas to serve as advisors. It may need to establish a capital market advisory board next.

Taguchi: I definitely think it would be a good idea to establish such a board. Japanese companies are often thought to be good at following rules, but bad at making them. However, I suspect that MARUI GROUP

will be able to propose a new, made-in-Japan benchmark for assessing companies: the rule that companies should engage in co-creative, sustainable management.

Muroi: External directors could be seen as agents of institutional investors. This is because our job is to raise the questions that you two investors have at meetings of the Board of Directors. For this reason, it is incredibly important that we have opportunities to speak with institutional investors. I therefore think that your comment about the need for venues for deeper communication is right on the mark. MARUI GROUP is quick to address issues, so I hope to see the rapid resolution of such issues in the future.

Makino: I feel that there is a close relationship between external directors and the executive team at MARUI GROUP. General shareholders may look at this relationship and wonder how oversight functions can be effectively exercised given this closeness. I hope that you can draft a narrative that will enable you to answer this question by illustrating how there is still a healthy degree of tension in this relationship, allowing for oversight to be exercised, along with a narrative about how this relationship makes it possible for external directors with a greater understanding of internal affairs to support management.

Sampei: The gap between the perspectives of shareholders and other investors and companies, while not going as far as to represent a dichotomy, still signifies a lack of shared recognition. There is a need to actively approach the other party and to foster understanding, and this could be said of both companies and investors. I think that one major takeaway from this discussion was that it highlighted the shared recognition of the need for mutually deepening communication going forward.

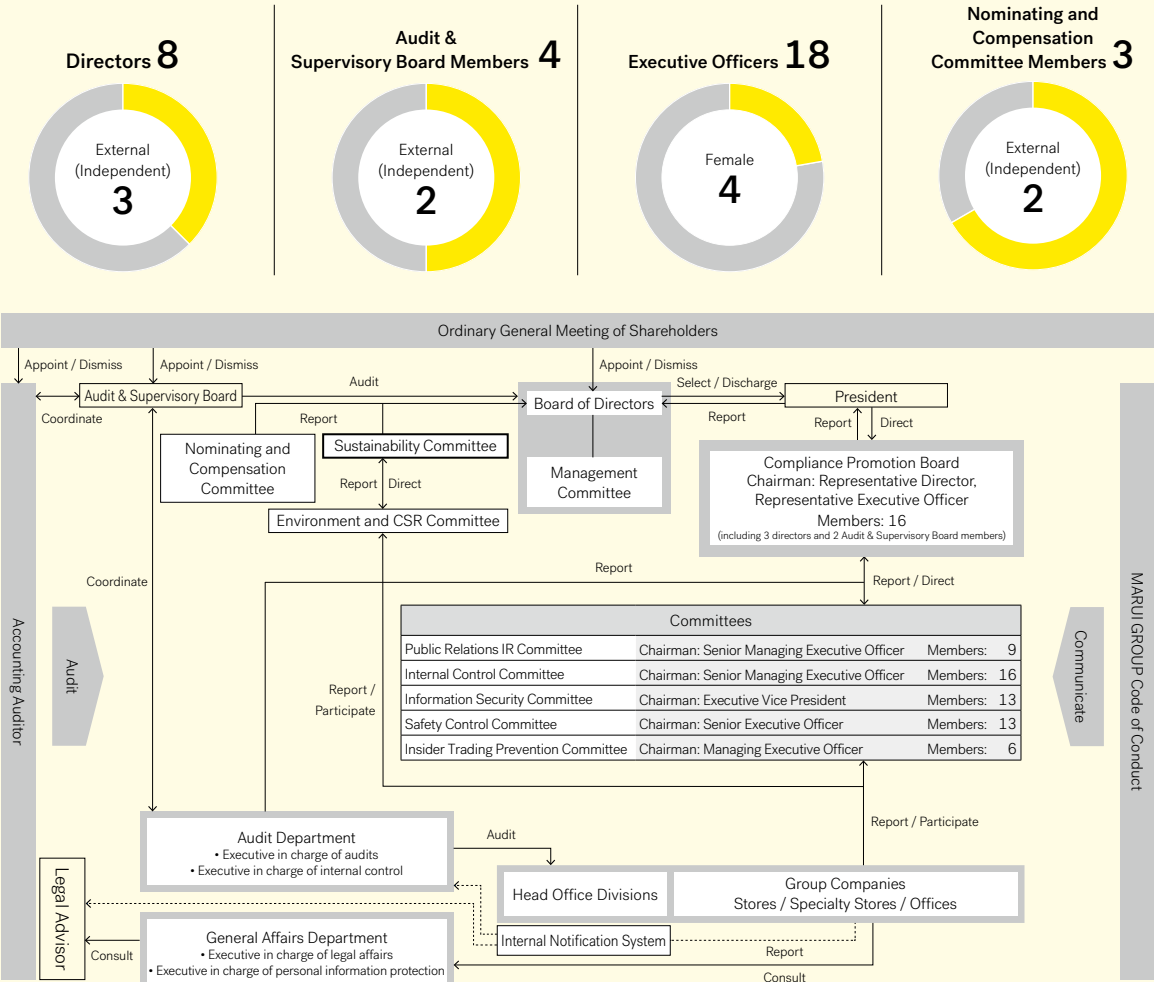
Corporate Governance for Co-Creating Corporate Value

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.





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 and Reports	Discussion Themes
First Quarter	<ul style="list-style-type: none"> Investment projects Performance-linked bonuses for directors Results of evaluations of the effectiveness of the Board of Directors 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Cross-shareholdings Audit plans for Audit & Supervisory Board Review of Ordinary General Meeting of Shareholders 	
Third Quarter	<ul style="list-style-type: none"> Status of tsumiki Co., Ltd. Establishment of Digitization Committee Long-term vision 	
Fourth Quarter	<ul style="list-style-type: none"> Progress of Co-Creation Management Academy future leader development program Liquidation of receivables 	

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.



Evaluations of the Board of Directors' Effectiveness

The Company has been performing annual evaluations of the Board of Directors' effectiveness since the fiscal year ended March 31, 2016, with the aim of improving the effectiveness of the Board of Directors. In these evaluations, all directors and Audit & Supervisory Board members complete a self-evaluation survey of the effectiveness of the Board of Directors with regard to such aspects as the scale and composition of the Board of Directors, operating procedures, decision-making processes, and roles and responsibilities. Based on the results of this survey, information on the current evaluation of the Board of Directors and the issues it faces are shared, and constructive discussions are held in order to formulate measures for the future.

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

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

Future Leader Development Program

MARUI GROUP unveiled its Co-Creation Management Academy (CMA) future leader development program in April 2017 with the aim of cultivating human resources capable of promoting management reforms.

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

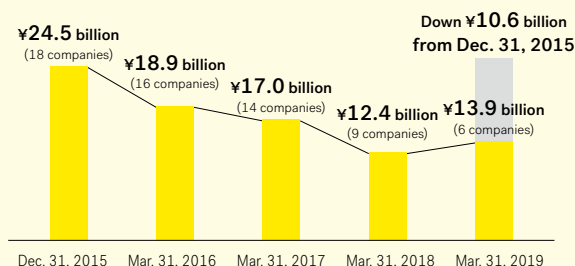
speakers. After the curriculum has been completed, participants continue to be monitored and nurtured into future leaders through secondment to affiliates or assignment to strategic or corporate planning posts.

Reduction of Cross-Shareholdings

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

Since then, the returns from each cross-shareholding have been verified at meetings of the Board of Directors held in either July or August of each year. The extent to which holdings have been reduced was confirmed at these meetings. On March 31, 2019, the Company held shares of the stock in six companies as cross-shareholdings (12 companies fewer than on December 31, 2015), and the total value of these shares on the consolidated balance sheets was ¥13.9 billion (down ¥10.6 billion from December 31, 2015).

Total Value of Cross-Shareholdings on the Consolidated Balance Sheets



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

Revision of Officer Compensation Systems to Facilitate Sustainability Management

Compensation for directors (excluding external directors) comprises fixed basic compensation as well as performance-linked bonuses, which are based on the performance of the Company in a given fiscal year to function as



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

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

Ratios of Compensation

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

Change in Target Indicators for Performance-Linked Compensation

Applicable years		Target indicator	Target	Performance	Performance-linked coefficient
Fiscal year ended March 31, 2019	Performance-linked bonuses	Consolidated operating income	¥41.0 billion	¥41.2 billion	98% ^{*1}
	Performance-linked stock-based compensation	Financial indicators	EPS	¥115.99	100% if three targets accomplished
			ROE	9.1%	
			ROIC	3.7%	

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



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

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

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

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

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

Appointment of Sustainability Advisors

MARUI GROUP appoints external experts with insight into business strategies and various business areas as advisors. We anticipate that such advisors will be a powerful asset in the establishment of strategies for Groupwide efforts to accomplish the targets of the medium-term management plan and to improve corporate value over the medium-to-long term as we seek to address the rapidly changing operating environment and an ever-diversifying society. Regular bimonthly meetings

of advisors are held, at which the president, pertinent directors, and representatives from relevant areas attend; advice is also sought on specific themes and operations are inspected.

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

Sustainability Advisors



Appointed in
January 2019

Kazuhiko Toyama

Managing Partner, Industrial Growth Platform, Inc.

Governance Specialist

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



Appointed in
January 2019

Peter David Pedersen

Co-founder, Next Leaders' Initiative for Sustainability

Environmental Specialist

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



Appointed in
January 2019

Masayoshi Suzuki

Executive Vice President, BORDERLESS JAPAN CORPORATION

Social Specialist

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

Advisors



Appointed in
October 2019

Yutaka Matsuo

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

AI Specialist

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



Masakazu Masujima

Partner, Mori Hamada &
Matsumoto

Appointed in July 2016

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



Yuji Yamamoto

Physician, Representative
Director, MinaCare Co., Ltd.

Appointed in July 2016

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



Meyumi Yamada

Director, istyle Inc.

Appointed in July 2017

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

Co-Creation of Corporate Value with Shareholders and Other Investors

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

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

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

Dialogue with Shareholders

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

Ordinary General Meeting of Shareholders Held in June 2019 Shareholders in attendance: 183 Questions: 13 Ratio of voting rights exercised: 88.3%

Comments from Attendees

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

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

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



Responsible Procurement Together with Business Partners

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

Message from an Employee



Futoshi Maeda

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

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

MARUI GROUP's Four Core Themes for Inclusion

In November 2016, MARUI GROUP identified four core themes for inclusion to guide its efforts to help create a flourishing and inclusive society offering happiness to all. The concept of inclusion entails integrating and including individuals that had previously been excluded

and is congruent with the principles embodied by the United Nations Sustainable Development Goals. In addition, MARUI GROUP's 2050 Vision, a long-term vision looking to 2050, was announced in 2019, marking a step forward in the Company's practice of full-fledged co-creation sustainability management. MARUI GROUP is proactively pursuing its targets with regard to these four core themes and this vision through co-creation with all stakeholders.

CORE THEME 1

Customer Diversity and Inclusion

We will seek to develop products, services, and stores that bring joy to all customers, regardless of their age, gender, or physical characteristics.

Inclusive Store Development	P36
Inclusive Product Development	
Financial Inclusion	P40



CORE THEME 3

Ecological Inclusion

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

Environmental Footprint Reduction	P49
Responsible Procurement	P83
Innovative Services for Reducing Environmental Impacts	



CORE THEME 2

Workplace Inclusion

Based on MARUI GROUP's corporate philosophy of striving to "continue evolving to better aid our customers" and "equate the development of our people with the development of our company," we will provide all employees with venues through which they can excel.

Development of an Organization That Utilizes Diversity ...	P60
Wellness Management	P66
Human Resource Investments	P88



CORE THEME 4

Co-Creation Corporate Governance

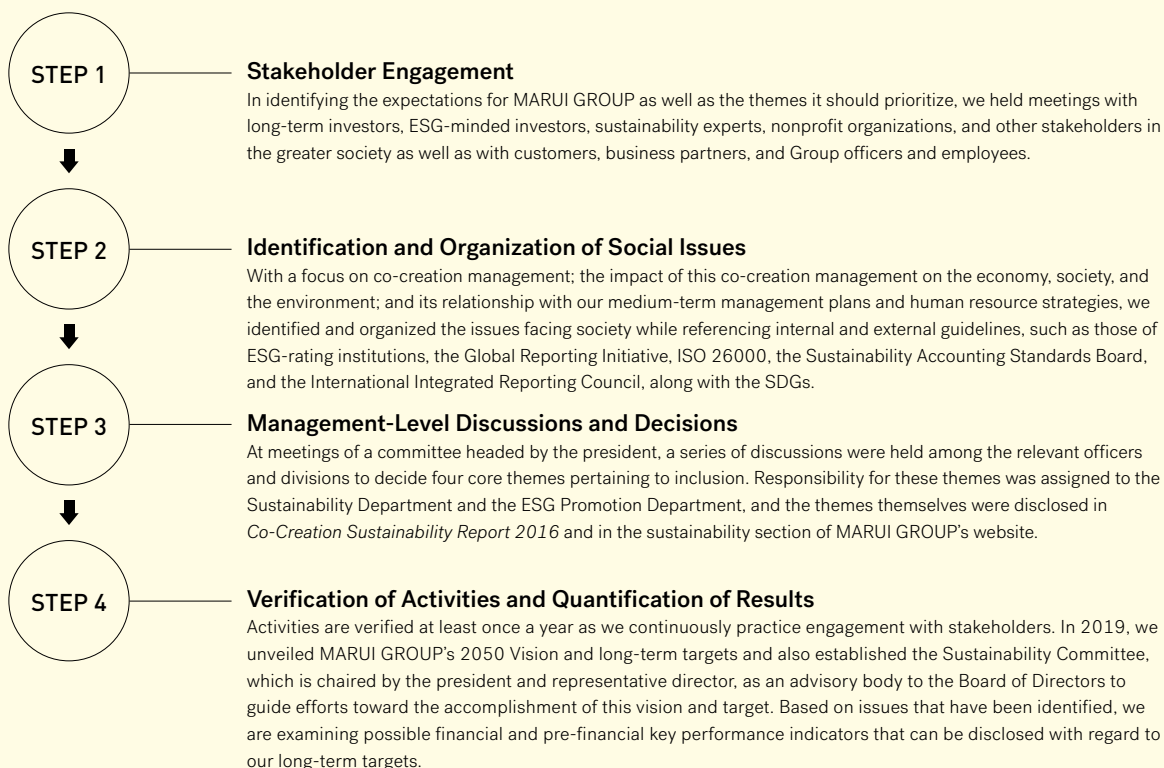
We will develop management frameworks that include stakeholders in order to achieve harmony between the interests and the happiness of all stakeholders.

Co-Creation with Stakeholders	P24
Sustainability Management	P78
Cultivation of Future Leaders	P80
Risk Management	

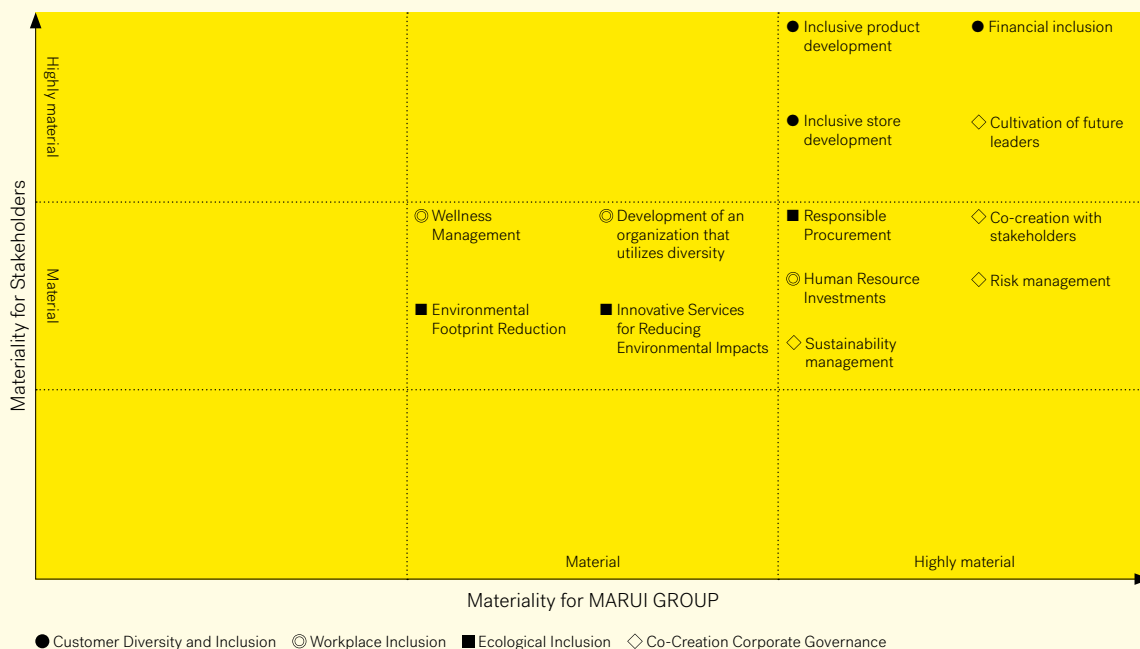




Process for Establishing Core Themes



Major Initiative Matrix



Medium-Term Management Plan

Basic Policy of the Medium-Term Management Plan

It is stated in MARUI GROUP's corporate philosophy that we should "continue evolving to better aid our customers" and "equate the development of our people with the development of our company." Based on this philosophy, our mission is to help build a flourishing and inclusive society that offers happiness to all together with all of our

stakeholders, including our customers, investors, communities and society, business partners, employees, and future generations. Seeking to heighten the corporate value that will arise from this process, we are moving ahead with a five-year medium-term management plan with the fiscal year ending March 31, 2021, as its final year.

MARUI GROUP's Three Focus KPIs for the Fiscal Year Ending March 31, 2021

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

Plan Framework

Improvement of corporate value through integrated Group operations

Creation of new businesses through transformation of Group businesses

Development of optimal capital structure and further improvement of productivity

Specific Initiatives

Retailing Segment	Stores	Improve capital productivity by completing transition from prior department stores to a business structure focused on shopping centers and fixed-term rental contracts and deploying next-generation lifestyle-oriented shopping centers
	Omni-channel retailing	Develop business focused on Internet sales while expanding scope of unique business models that combine Group expertise
	Facility management and distribution	Utilize store renovation, distribution, building management, and other retailing expertise in an integrated manner and advance business-to-business operations
FinTech Segment	Credit cards	Increase number of EPOS card fans across Japan and reinforce collaboration with commercial facilities and content companies while maintaining high profit margins and simultaneously expanding business scale
	Financial services	Expand revenues from rent guarantee, insurance, and other services utilizing credit know-how to improve ROIC through business requiring minimal invested capital
	IT	Support expansion of Group business scope by utilizing new technologies to improve customer convenience
Optimal capital structure		Create structure in which ROIC consistently exceeds capital costs by improving ROIC through income growth and establishing optimal capital structure suited to Group business structure ⇒ P101 Target Balance Sheet
Growth investments		Develop commercial facilities utilizing shopping center and fixed-term rental know-how, invest in venture companies to acquire new technologies, and execute other growth investments for improving corporate value ⇒ P88 Growth Investment for Improving Future Group Value
Productivity improvement		Utilize human resources as necessitated by business portfolio as a united MARUI GROUP to further improve Group productivity

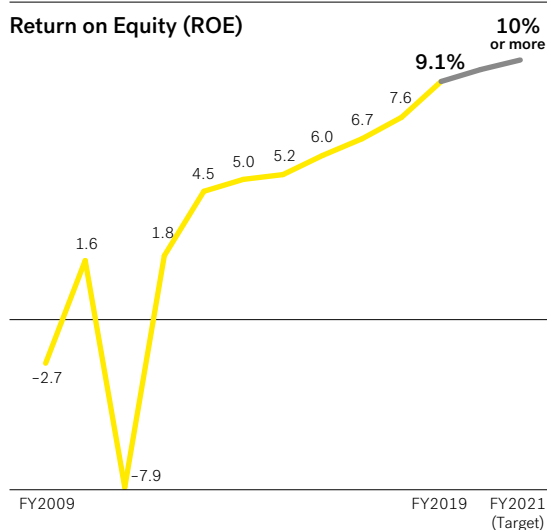
MARUI GROUP's Three Focus KPIs

Based on its concept of co-creation management, MARUI GROUP views all of its business assets as being borrowed from society. We believe that this view will help clarify our efforts to achieve harmony between stakeholder interests and improve corporate value.

The Company is committed to effectively utilizing these "borrowings" and then returning them to stakeholders with "interest." In line with this belief, MARUI GROUP identified three key performance indicators (KPIs) for gauging Groupwide performance beginning with the fiscal year ended March 31, 2017. These KPIs include earnings per share (EPS) and return on equity (ROE), which are both indicators that have been selected based on the Company's emphasis on improvements to medium-to-long-term corporate value, as well as return on invested capital (ROIC), which is an indicator of profitability in the Company's main business.

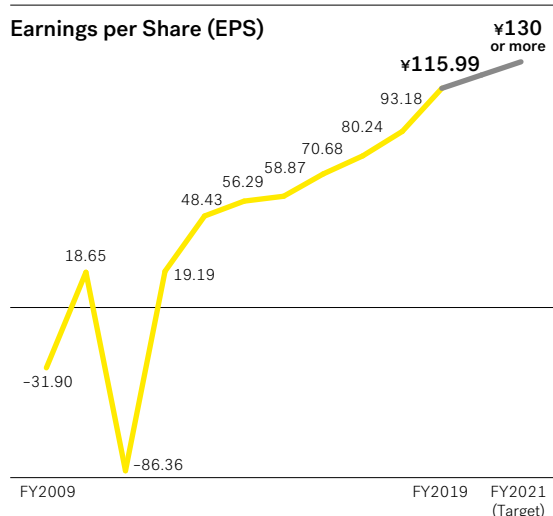
In the fiscal year ended March 31, 2019, EPS rose 24.5%, to ¥115.99, setting a new record for the first time in 28 years. ROE rose 1.5 percentage points, reaching 9.1% and exceeding cost of shareholders' equity, while ROIC increased 0.4 percentage point, coming to 3.7% and surpassing weighted average cost of capital for the third consecutive year. By transforming our business and capital structures to create corporate value, we

Return on Equity (ROE)

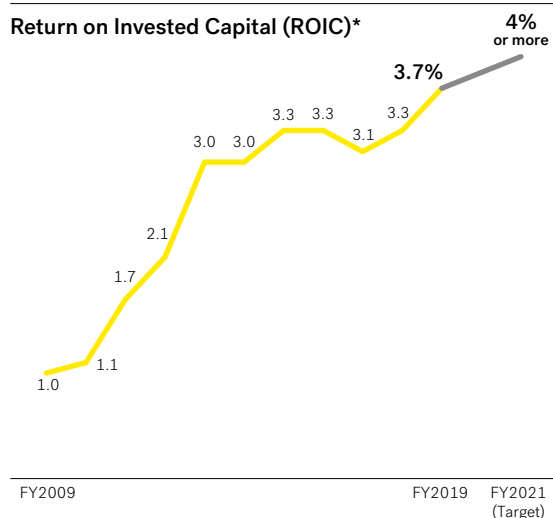


achieved our targets for all three KPIs as well as for operating income in the third year of the five-year medium-term management plan, placing the targets for the fiscal year ending March 31, 2021, well within reach.

Earnings per Share (EPS)



Return on Invested Capital (ROIC)*



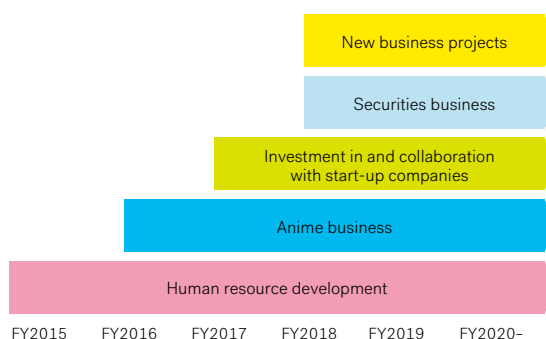
* From the fiscal year ended March 31, 2019, gain on bad debt recovered, which has previously been recorded at net value under non-operating income, will be recorded at total value under revenue, and expenses on bad debt recovered will be recorded at total value under selling, general and administrative expenses. Figures for the fiscal year ended March 31, 2018, have been restated to reflect this change.

Growth Investment for Improving Future Corporate Value

Growth investments have been positioned as a priority measure in the five-year medium-term management plan set to conclude with the fiscal year ending March 31, 2021. MARUI GROUP will thus be conducting growth investments over the period of the plan in order to fund future improvements in corporate value. These investments will be directed at developing new businesses that utilize our shopping center and fixed-term rental know-how and investing in start-up companies to acquire new technologies.

MARUI GROUP believes the businesses that will drive its growth and contribute to improved corporate value going forward are those that go beyond the boundaries of retailing and FinTech to utilize the Company's strengths and expertise in order to resolve social issues. The first such business was the securities business launched in August 2018 in order to contribute to financial inclusion. Meanwhile, our new business projects are moving ahead with the development of new businesses that are both sustainable and profitable.

Future investment in new businesses will be focused on the development of businesses that utilize MARUI GROUP's unique business model to resolve social issues. We will also aggressively invest in start-up companies with which we can co-create such businesses.

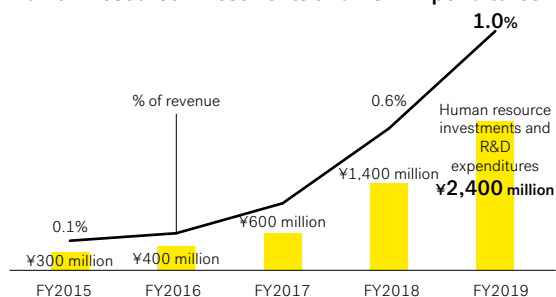


Expansion of Human Resource and R&D Investments to Create Wellsprings of Future Corporate Value

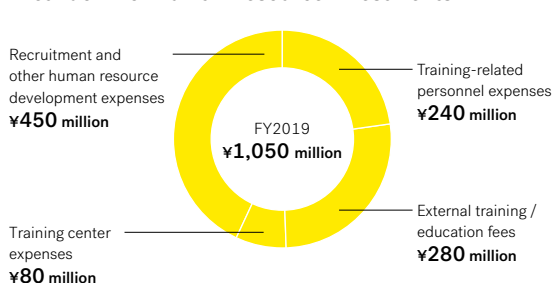
Human resource investments are recorded as expenses for accounting purposes, causing short-term declines in profit. However, ongoing human resource investments are essential to carrying out our philosophy: "equate the development of our people with the development of our company." More importantly, MARUI GROUP emphasizes the importance of human resource investments to accumulate the intangible assets that are a wellspring of

future corporate value. This belief has prompted us to disclose human resource investment and R&D expenditure amounts along with a breakdown of human resource investments. In the fiscal year ended March 31, 2019, the combined total of human resource investments and R&D expenditures was ¥2,400 million, up ¥1,000 million year on year and representing 1% of revenue. Furthermore, we intend to conduct approximately ¥1,000 million worth of human resource investments each year going forward.

Human Resource Investments and R&D Expenditures



Breakdown of Human Resource Investments



Message from a Personnel Representative



Tomoo Ishii

Senior Managing Executive Officer and CHO
In charge of Audit, General Affairs, Personnel, and Health Promotion
Director of MARUI GROUP's Health Insurance Union

Power of People Driving MARUI GROUP

The current era is said to be one of volatility, uncertainty, complexity, and ambiguity. In this era, the ability to identify changes in the tides and predict what will become the mainstream is more important than ever. It is the power of people that makes it possible to identify change and formulate and enact hypotheses in response. This is part of the basis for our corporate philosophy of "equate the development of our people with the development of our company." Accordingly, human resource investments have an important role to play in MARUI GROUP's sustainable growth. We are currently developing human resources from a variety of angles, including conventional training and education as well as secondment to start-up companies. Investments for these purposes are progressing as planned. These initiatives have made me realize that the most effective way for people to grow is for them to act in a forward-looking and autonomous manner, tackling any challenges that appear head on. Human resource investments do not often produce returns in the short term. An extensive bottom-up approach is important, but I have high aspirations to deploy effective initiatives that inspire as many people as possible to tackle new challenges.

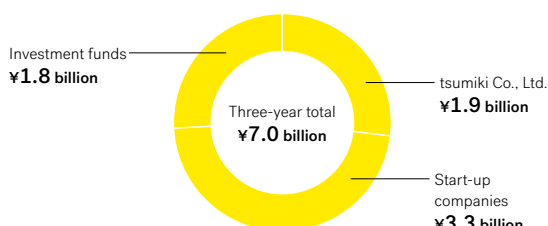
Progress in New Business Investments

Over the three-year period beginning with the fiscal year ended March 31, 2017, MARUI GROUP has invested ¥7.0 billion in growth investments for the creation of new businesses. Of this amount, ¥3.3 billion was used to invest in nine start-up companies, and these companies are currently collaborating with the Retailing and FinTech segments.

A total of ¥30.0 billion was earmarked for growth investments to be conducted by the fiscal year ending March 31, 2021. However, progress toward this goal is currently low. Accordingly, we have decided to extend the period for this target by two years, making for an

investment plan leading up to the fiscal year ending March 31, 2023. MARUI GROUP intends to steadily engage in open innovation activities to accomplish this plan.

Breakdown of New Business Investments (FY2017-FY2019)



Major Start-Up Company Investees (as of August 2019)

Company	Business overview
 Money Design Co., Ltd.	Asset management services using automated asset management advisors, financial planner and independent financial advisor matching services, etc.
 Laxus Technologies Inc.	Provision of consumer-to-consumer platform allowing unlimited use (lending and borrowing) of brand-name handbags
 giftee Inc.	Planning, development, and operation of e-gift services for individuals, corporations, and municipal bodies
 sitateru Inc.	Provision of platform for compiling databases of apparel factories in Japan and overseas and offering online support for all garment production processes

Company	Business overview
 BASE, Inc.	Production of Internet shopping sites, provision of online payment services
 Global Trust Networks Co., Ltd.	Rent guarantee, mobile phone, and other services for non-Japanese individuals
 Minna-denryoku, Inc.	Power sales centered on renewable energy with visibility of producers
 FABRIC TOKYO Inc.	Operation of FABRIC TOKYO made-to-order suit brand

Detailing

Progress and Future Strategies in the Retailing Segment

Completion of Transition to Shopping Centers and Fixed-Term Rental Contracts

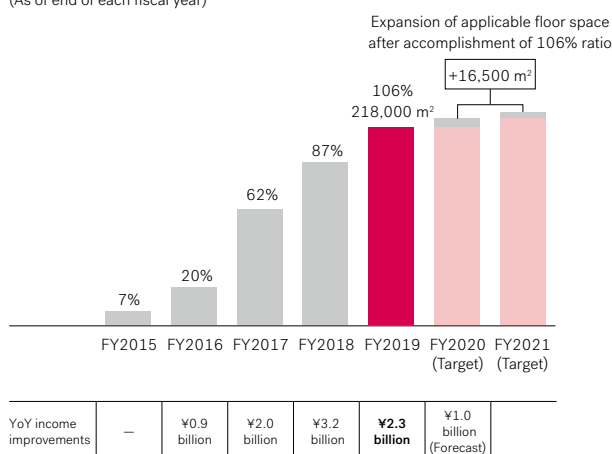
In the fiscal year ended March 31, 2019, operating income in the Retailing segment rose ¥2.6 billion, to ¥11.4 billion, and ROIC was up 1.0 percentage point, to 3.8%. It was during this year that we completed the transition to shopping centers and fixed-term rental contracts meant to center our business model on shopping centers that generate rent revenues from fixed-term rental contracts. The ratio of fixed-term rental contracts reached 106% during this year. Going forward, we intend to convert an additional 16,500 m² to fixed-term rental contracts by transforming storage space into sales floors (see Figure 1).

Following the completion of the transition to shopping centers and fixed-term rental contracts, the ratio of total floor space at stores on fixed-term rental contracts reached 76%, compared with 12% in the fiscal year ended March 31, 2014, prior to the transition. At the same time, apparel products came to represent 29% of floor space, a decrease from 44%, while the ratio of floor space occupied by food vendors and service providers rose from 18% to 29%. The gross profit margin increased from 20.6% to 21.2% over the same period. This transition thus improved store value and enabled us

to attract a record-breaking 210 million customers to our stores in the fiscal year ended March 31, 2019, 1.3 times higher than a decade ago.

Figure 1: Plan for and Increases in Ratio of Fixed-Term Rental Contracts and Income Improvements

(As of end of each fiscal year)



Ratio of fixed-term rental contracts = Fixed-term rental contracted floor space ÷ Initial total floor space capable of being contracted as fixed-term rental (205,000 m²)
Sections not applicable for fixed-term rental contracts are based on requests of building owners, directly managed sales floors, event spaces, etc.

Message from Retailing Segment Representative



Toshikazu Takimoto

Managing Executive Officer and CIO
Responsible for Retailing Business
President and Representative Director,
M & C SYSTEMS CO., LTD.

Invitation to Co-Create New Customer Experiences

It has been nearly two years since I assumed responsibility for the Retailing segment. Over this period, MARUI GROUP's retailing business underwent a massive transformation to a model focused on shopping centers, a transformation, I am proud to say, we were able to complete thanks to the cooperation of our business partners. I was previously responsible for the FinTech segment, and this experience enabled me to better sense the strong connection forged between the two segments through this transformation. Not much progress can be made in recruiting cardholders and encouraging them to upgrade to Gold cards through regular mail and email. Conversely, customers seem happy to sign up when guidance is provided by sales staff while they are shopping. However, I feel that we have not been sufficiently communicating the appeal of our e-commerce venues and of Marui and Modi stores to EPOS cardholders, and use has thus been limited. There is certainly a need for more thorough communication in this regard. Looking ahead, we can expect increases in tenant replacements at our stores as fixed-term rental contracts expire. I would like to invite any potential tenants that are interested in co-creating new customer experiences with us to use our stores as physical venues for providing valuable experiences to customers. Let's shape our stores together.

Meanwhile, e-commerce sales increased for the fourth consecutive year, rising 5% year on year, to ¥24.2 billion. This increase was a result of our efforts to bolster our product lineup by sharing inventory information with business partners, expand listing of our products on KDDI CORPORATION's au Wowma! and other external Internet shopping websites, and allow customers to pick up items ordered online in Marui and Modi stores.

Expansion of New Directly Operated Sales Floors

Over the past four years, transactions in the anime business have seen a six-fold increase in transactions, from ¥1.2 billion to ¥7.5 billion. As for in-store events, we have been able to increase per m² efficiency several fold by holding events on small sections of floor space. Through such events, we have been successful in increasing transaction volumes and EPOS card issuance numbers. Going forward, we look to leverage MARUI GROUP's retailing expertise to expand sharing venues, in-store events, and other new directly operated sales floors.

New Digital Native Store Strategy

Although the completion of the transition to fixed-term rental contracts has contributed to income improvements and stabilization, net operating income (NOI) yield has been falling below the hurdle rate at both urban and suburban stores (see Figure 2). To address this issue going forward, we will look to clear the hurdle rate by pursuing increases in value following contract renewals. At the same time, we plan to increase the hurdle rate itself through the implementation of the differentiation strategy of evolving our stores to digital native stores (see Figure 3).

Today, the Internet has become more convenient than physical stores, and the act of going to stores is now becoming a source of stress as a result. As the younger digital native generation becomes the main proponent of consumption, the number of people who shop at stores will likely decrease. MARUI GROUP seeks to win the support of these new consumers by proactively inviting digital native brands into its stores to evolve these stores into venues for the type of experiences and close communication that cannot be provided via the Internet. We refer to stores based on this vision as "digital native stores."

Digital native brands include those developing direct-to-consumer, sharing, and subscription businesses. An example would be FABRIC TOKYO, which has set up shop at Shinjuku Marui Main Building with a venue for its business prefaced on e-commerce in which only

measurements are taken in stores, with orders being placed online. Another digital native brand would be Wacom a leading company in the pen tablet market. Wacom has opened a store in Shinjuku Marui Annex that does not have product inventories, serving purely as a venue for experiencing its products. MARUI GROUP has been contracted to operate this store, and per customer sales through this experience-oriented store have been higher than those through e-commerce venues. Also in Shinjuku Marui Annex, a store has been opened by Suruga-Ya, Japan's leading online seller of secondhand hobby items. The ratio of female customers at this location is higher than on Suruga-Ya Internet shopping site or at its other physical stores, and transaction volumes and customer numbers are top among Suruga-Ya stores. Suruga-Ya's Marui location is thus functioning as an important touch-point for acquiring new customers.

Value Provided by MARUI GROUP for Increasing Hurdle Rates

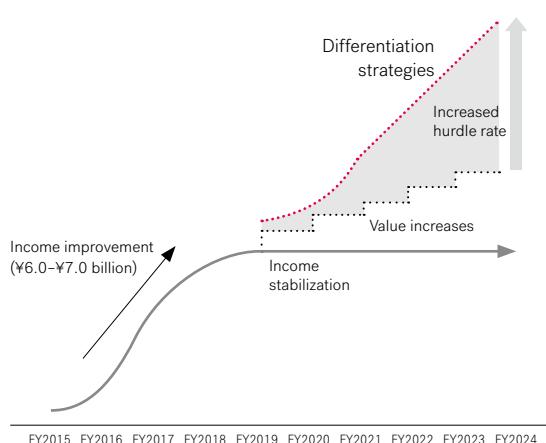
Under MARUI GROUP's prior department store and shopping center business models, stores and e-commerce were completely separated. Accordingly, the only criteria

Figure 2: NOI Yield (FY2019)

	Performance	Hurdle Rate (Anticipated NOI Yield)
Urban stores	3.9%	4.0%
Suburban stores	6.4%	7.0%

NOI yield = Net operating income (NOI) ÷ Facility market value

Figure 3: Improvements in Retailing Segment Income



used by business partners to judge the appropriateness of rents was in-store sales. In our digital native stores, however, the experiences and communities provided will serve as catalysts for increasing e-commerce sales while also heightening engagement and consequently LTV. This situation will encourage business partners to add e-commerce sales and LTV based on a medium-to-long-term timetable to their judgment criteria alongside in-store sales. MARUI GROUP's future approach to store development will thus be to provide to business partners in forms such as higher e-commerce sales and engagement.

Digital native brands collect and utilize data on all of the purchasing behaviors of their customers to acquire new customers, improve engagement, and thereby maximize e-commerce sales and LTV. The structure of earnings for these brands can be broken down into four categories: customer traffic, conversion ratios, customer spending amounts, and retention rates. MARUI GROUP stores see visits by as many as 210 million customers a year. In addition, the Company also boasts 6,880,000 EPOS cardholders. Together with our contract operation services, these factors represent substantial points of differentiation for the Company (see Figure 4). By providing such value unique to MARUI GROUP, we aim to heighten the value of our real estate-model Marui and Modi stores and increase hurdle rates.

Going forward, MARUI GROUP will look to expand the portion of total tenants represented by those who provide new value. We aim to raise the ratio of digital stores to total stores to 25% over the next five years, and then utilize the resulting customer numbers and ripple

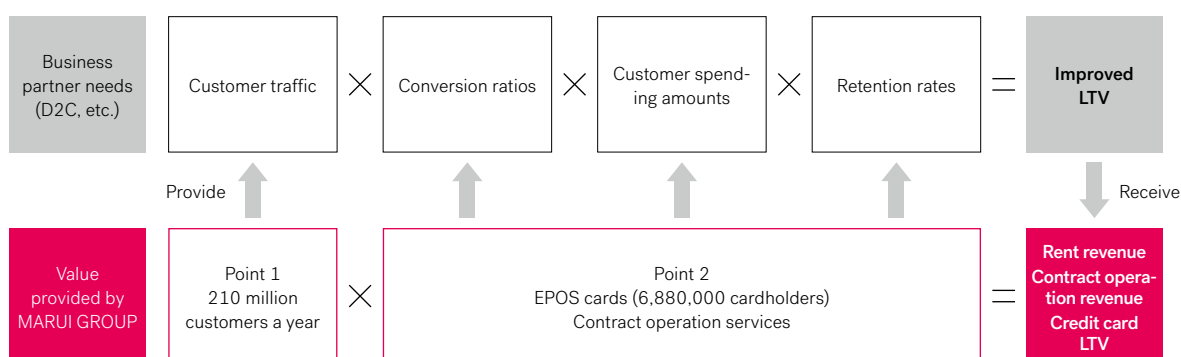
effects to push forward with the digitization of all Marui and Modi stores.

Expansion of E-Commerce Sales by Broadening Range of Categories, Evolving Size Matching Methods, and Transitioning to E-Commerce with Focus on Private Brands

MARUI GROUP's e-commerce operations are currently centered on apparel and fashion accessories. Going forward, however, we plan to develop additional products in categories that feature high customer demand and frequent purchases, such as cosmetics and sporting goods, to increase the number of brands that we handle. At the same time, we are evolving our initiatives pertaining to product size, an area in which there are many complaints when it comes to e-commerce purchases. By displaying recommended sizes based on integrated purchase data from online venues and physical stores, we aim to match customers to sizes that they will subjectively judge to fit. Furthermore, we intend to transition to a focus on e-commerce for private brand products. To this end, we will use social media as a venue for expanding communication while transforming physical stores into venues for customers to try on products and experience purchases via e-commerce websites. With this as our approach, we will proceed to expand lifetime value with a digital focus.

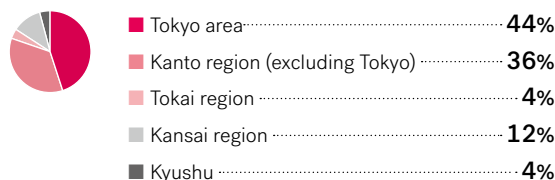
Through these initiatives, the Retailing segment will target a year-on-year increase in operating income of 14% in the fiscal year ending March 31, 2020, to ¥13.0 billion.

Figure 4: Value Provided to Business Partners



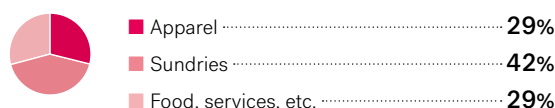
Overview of Retailing Segment (Fiscal year ended March 31, 2019)

Distribution of Stores by Region*1

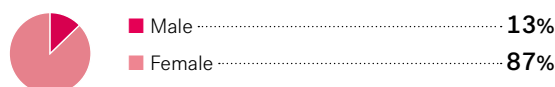


*1 Marui and Modi stores occupying the same area counted as one store

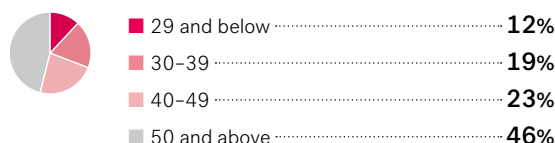
Distribution of Floor Space by Product Category



Distribution of Purchases by Gender*2



Distribution of Purchases by Age Group*2



*2 Distribution of purchases using EPOS cards

Marui and Modi Stores

	Name	Sales floor area (m ²)	Transactions (billions of yen)
Tokyo	Kitasenju Marui	35,300	38.8
	Shinjuku Marui	30,590	30.0
	Yurakucho Marui	18,500	21.4
	Machida Location	21,270	15.5
	Kinshicho Marui	22,990	13.1
	Ueno Marui	16,390	13.0
	Shibuya Location	14,090	12.5
	Kokubunji Marui	14,300	11.5
	Nakano Marui	4,950	6.3
	Ikebukuro Marui	12,170	5.9
Kanagawa	Kichijoji Marui	11,950	5.3
	Marui Family Mizonokuchi	32,260	22.2
	Totsuka Modi	16,580	9.2
	Marui Family Ebina	19,500	8.3
	Marui City Yokohama	16,770	8.1
Saitama	Marui Family Shiki	18,900	11.0
	Omiya Marui	13,970	6.8
	Soka Marui	16,530	4.6
	Kawagoe Modi	7,850	1.7
Chiba	Kashiwa Location	18,810	7.2
Shizuoka	Shizuoka Location	13,460	2.8
Osaka	Namba Marui	17,000	11.0
Kyoto	Kyoto Marui	8,760	4.9
Hyogo	Kobe Marui	6,940	4.5
Fukuoka	Hakata Marui	15,000	8.5

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

Message from Retailing Segment Representative



Masahisa Aoki

Director and Senior Executive Officer
In charge of Anime Business
President and Representative Director,
MARUI CO., LTD.

New Vision for Retailing to Communicate to External Stakeholders

Having completed the transition to shopping centers and fixed-term rental contracts and stabilized our earnings bases, our most pressing task is to evolve our stores to next-generation Marui stores. As the focus of consumption shifts from goods to experience, there is no clear answer, no goal, for the value we need to provide. We therefore must forget the past successes that have led Marui stores to generate massive profits by selling goods in physical stores. Our evolution to digital native stores will require that we move away from our previous focus on products and their sales to a focus on customers and the experience we sell them. Important to this transition will be our ability to locate and give form to customer needs. I am confident that this is the area in which MARUI GROUP employees are the most capable.

MARUI GROUP boasts strength in the form of its store staff, who are adept at customer service and communication, as well as its in-house IT and distribution systems. By building on these strengths and communicating our new vision for retailing to external stakeholders, and inviting them to join hands with us in realizing this vision, I believe we can attract numerous business partners that resonate with our ideals.

Progress and Future Strategies in the FinTech Segment

New Card Applications Surpassing 800,000 Target and Transactions Exceeding ¥2.0 Trillion

In the fiscal year ended March 31, 2019, operating income in the FinTech segment increased for the seventh consecutive year, rising ¥3.6 billion year on year, to ¥35.0 billion. ROIC reached 4.2%, achieving the medium-term management plan's target of 4.1% two years ahead of schedule due to operating income growth and improvements in invested capital that resulted from the liquidation of receivables.

Total EPOS card transactions rose 17%, to ¥2.3 trillion, exceeding ¥2.0 trillion for the first time. In addition, we have sustained an average annual growth rate of 19% for EPOS card transactions over the past 10 years, greatly outpacing the industry average of 7% for the same period (see Figure 1). Card shopping transactions rose to ¥1,880.0 billion, with an average annual growth rate of 26% in use by Gold and Platinum cardholders driving overall transaction growth over the past five years.

In regard to revolving and installment payment transactions, we have been expanding the number of affiliates at which installment payments can be used while introducing services allowing customers to change to installment payments after purchases. Owing to these initiatives, installment payment transactions showed a substantial increase, contributing to a 25% year-on-year increase in

the volume of revolving and installment payment transactions in the fiscal year ended March 31, 2019. As a result, the balance of revolving and installment payments on March 31, 2019, was 1.6 times higher than on March 31, 2016, before installment payment initiatives were stepped up, of which the balance of installment payments was 5.1 times higher (see Figure 2). Users of these payment methods were up. In addition, the ease of using installment payment transactions in a planned manner stemming from their short repayment periods led to higher usage amounts and thereby growth in transaction volumes. These factors contributed to increases in transaction volumes and subsequently affiliate commissions. The rise in the portion of our total balance of receivables accounted for by installment payments, which feature relatively low rates of default, enabled us to limit bad debt-related expenses while improving ROIC.

Revenue from rent guarantee services, meanwhile, amounted to ¥6.5 billion in the fiscal year ended March 31, 2019, continuing the strong growth that has manifested in an average annual growth rate of more than 30% over the past five years. At the same time, transactions for rent payments using EPOS cards rose to approximately ¥260.0 billion, representing more than 10% of the total transaction volume.

On March 31, 2019, we had a total of 6,880,000

Figure 1: Total EPOS Card Transactions

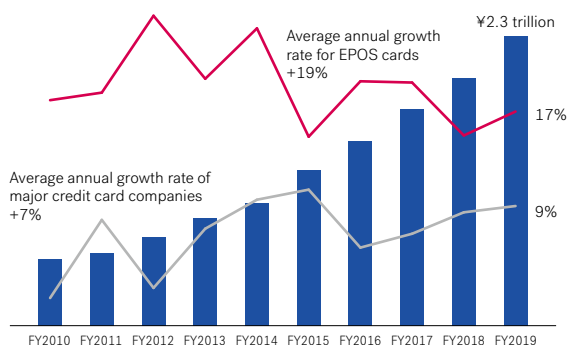
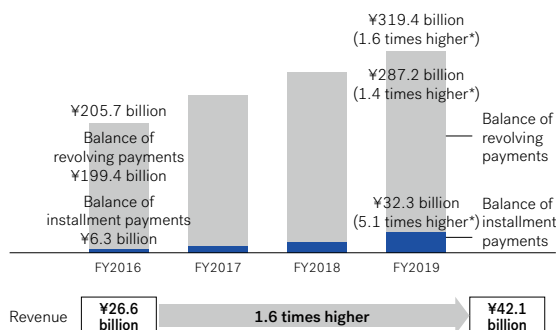


Figure 2: Balance of Revolving and Installment Payments and Revenue



* In comparison with the fiscal year ended March 31, 2016



Masao Nakamura

Director and Senior Managing
Executive Officer
Responsible for FinTech Business

Creation of New Financial Services to Realize Long-Term Vision

The FinTech segment has continued to see strong growth in EPOS card shopping transactions with an average annual growth rate of 19% over the past 10 years, more than twice the industry average. Whereas credit cards have supported the growth of the Retailing segment in the past, this relationship has since been reversed with stores now underpinning the growth of credit cards. The Retailing and FinTech segments are thus in a completely complementary relationship. One of the roles of the FinTech segment is to facilitate high levels of ongoing engagement with customers. We also have a clear mission: growing cardholder numbers while increasing LTV, creating new financial services to drive future growth, and addressing the accelerating digitization trend to further us on the path toward our long-term vision.

EPOS cardholders, of which the rapidly growing number of Gold and Platinum cardholders was 2,150,000. In addition, new card applications surpassed 800,000. Applications at stores and external commercial facilities have remained consistently above 500,000 while the number of individuals applying via the Internet or through service-related venues has risen. In the fiscal year ended March 31, 2019, MARUI GROUP commenced collaboration with eight new commercial facilities, bringing the total number of partner facilities to 25 and raising our cardholder share both inside and outside of MARUI GROUP's business area. (see Figure 3).

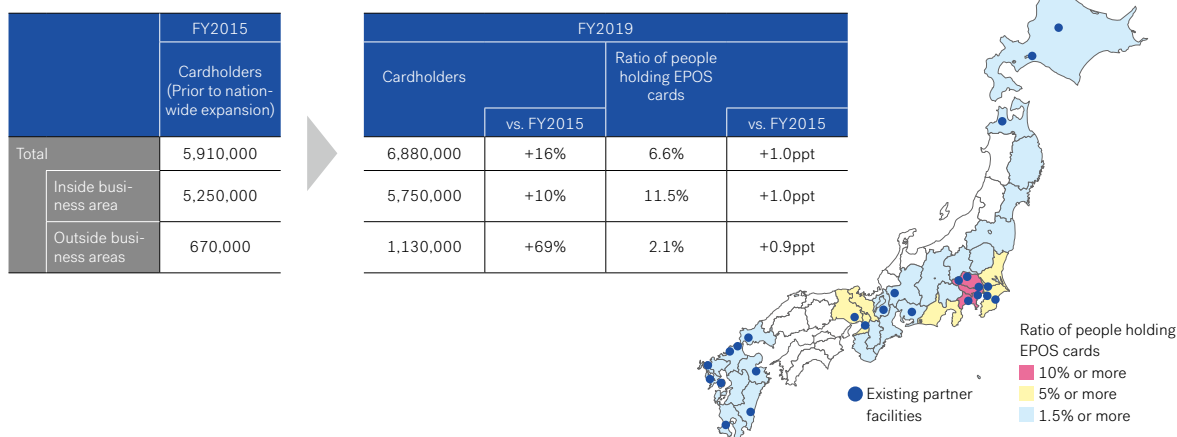
After commencing service in August 2018, tsumiki Co., Ltd., has primarily seen patronage by younger and first-time investors, as we had anticipated. The ratio of active accounts as well as average monthly investments exceeded our targets, whereas the number of applications in the fiscal year ended March 31, 2019, fell below the target at 16,000.

Maximizing the Share of EPOS Card Payments among Household Finances

The FinTech segment is advancing a unique strategy of maximizing the share of EPOS card payments among household finances with the goal of addressing the trend toward cashless payments and increasing LTV. Currently, the average share of EPOS card payments in the household finances of cardholders stands at 12%. While this share is only 5% for standard EPOS cardholders, it has been growing rapidly to 17% for Gold cardholders and 41% for Platinum cardholders. Gold cardholders account for the largest amount of transactions among the different card types, and the average share among these cardholders is 17%. There is significant room for growth in this area given that those Gold cardholders who have low shares of less than 10% represent approximately 40% of all Gold cardholders.

Households in which EPOS card payments represent a large share of household finances tend to make rent and other recurring payments using their credit card. This

Figure 3: EPOS Cardholder Statistics





tendency leads cardholders to also use their card for payments traditionally made with cash, such as those for food or leisure, further increasing the share of EPOS card payments in household finances. As a result, the rate of upgrades to Gold cards as well as LTV is four to five times higher than those of customers that do not use their EPOS card for such recurring payments. Accordingly, increasing the number of cardholders that use their card for rent and other recurring payments will be a cornerstone of MARUI GROUP's strategy of maximizing the share of EPOS card payments among household finances.

Ever-Growing Rent Guarantee Services

MARUI GROUP's strengths in the rent guarantee services market include services that allow for points to be accrued through rent payments, perhaps one of our business' most noteworthy features, as well as the efficient business operations made possible through joint operation with our credit card services business, the system capabilities that enable us to respond to the needs of our business partners, and the high reliability backed by MARUI GROUP's financial capacities. MARUI GROUP looks to promote the use of its rent guarantee services both through collaboration with Sumitomo Forestry Residential Co., Ltd., and ABLE INC. We will also encourage cardholders living in rental properties to use our rent guarantee services through our proprietary website. In this way, we will target revenue from our ever-growing rent guarantee services of more than ¥10.0 billion in the

fiscal year ending March 31, 2021 (see Figure 4).

* Based on estimates by Epos Card Co., Ltd.

Collaboration for Promoting E-Commerce Use and New Applications

MARUI GROUP is collaborating with GMO Payment Gateway, Inc., to promote e-commerce use among EPOS cardholders and expand its cardholder base. Normally, when someone wants to make payments via e-commerce websites, they are required to register their credit card number with each individual website. However, the collaborative scheme with GMO Payment Gateway will make it possible for a customer to use the same ID and password for all affiliated e-commerce websites. In addition, EPOS cardholders will be recruited through affiliated websites, and we will employ real-time inspections that are available 24 hours a day to enable card application, payment, and use of application benefits to be conducted simultaneously. Through these initiatives, MARUI GROUP is targeting more than 200 affiliates and over 100,000 new card applicants in the fifth year of service.

Growth of EPOS Family Gold Cardholders

The EPOS Family Gold card (see Figure 5) launched in 2018 is currently held by 110,000 individuals in 50,000 households. As all members of households with an EPOS Family Gold cardholder are encouraged to become holders of this card, the average share of EPOS card payments in household finances has risen from the prior



Message from FinTech Segment Representative



Yoshinori Saito

Managing Executive Officer
President and Representative Director,
Epos Card Co., Ltd.

Maximization of Share of EPOS Card Payments in Household Finances to Boost LTV

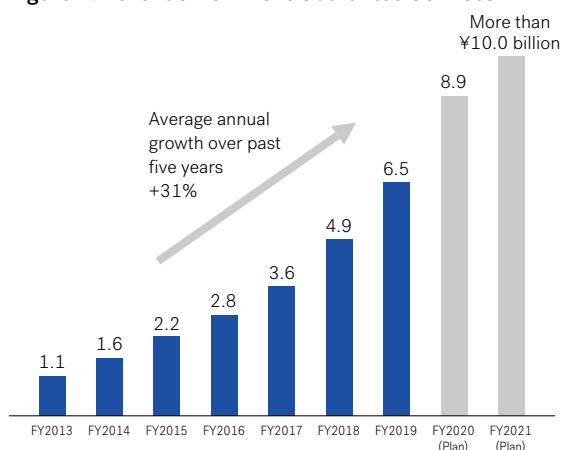
In the fiscal year ended March 31, 2019, card applications through commercial facilities, the Internet, and service-related venues proceeded as planned, and the number of new card applications exceeded 800,000 for the first time, bringing the total number of cardholders to nearly 7 million. Another first, total transactions surpassed ¥2.0 trillion.

We are targeting the maximization of the share of EPOS card payments in household finances in order to respond to the future advancement of the trend toward cashless payments.

We are maximizing the share of EPOS card payments in household finances by promoting the use of EPOS cards for rent, utilities, and other payments primarily made via bank transfers. We thereby aim to promote ongoing use among existing cardholders while encouraging them to use their EPOS card as their main card. To accomplish these objectives, we will partner and collaborate with companies in the new areas of rent guarantee services, recurring payments, and subscription-type services. Other initiatives will include encouraging all members of cardholders' families to become cardholders with the EPOS Family Gold card.

Going forward, we will seek to maximize the share of EPOS card payments in household finances to increase LTV while growing EPOS cardholders through collaboration and nationwide expansion.

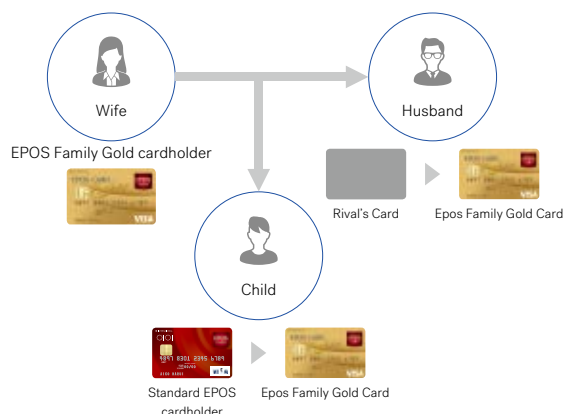
Figure 4: Revenue from Rent Guarantee Services



14% to 23%. We aim to have these cards held by more than 1 million individuals in 500,000 households five years from now.

The FinTech segment looks to achieve growth in total transactions of between ¥800.0 billion and ¥1,000.0 billion by increasing the number of Gold cardholders and raising the share of EPOS card payments in the household finances of Gold cardholders from the current 17% to between 22% and 25% over the next five years. If these goals are achieved, the share of EPOS card payments in the household finances of all EPOS cardholders is projected to rise from 12% to 16%.

Figure 5: Conversion of All Family Members into EPOS Family Gold Cardholders



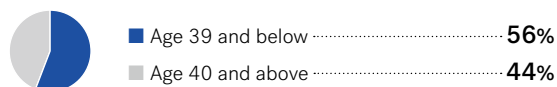
Through these initiatives, we will raise total transactions in the FinTech segment above ¥5.0 trillion five years from now, a level that is top-class in the industry.

Future Outlook

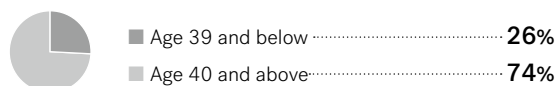
In the fiscal year ending March 31, 2020, we anticipate ROIC of 4.4% and operating income of ¥39.0 billion, up ¥4.0 billion. Furthermore, the FinTech segment targets for the fiscal year ending March 31, 2021, call for ROIC of 4.5% and operating income of ¥42.0 billion or more.

Overview of FinTech Segment (Fiscal year ended March 31, 2019)

EPOS Cardholders by Age*1



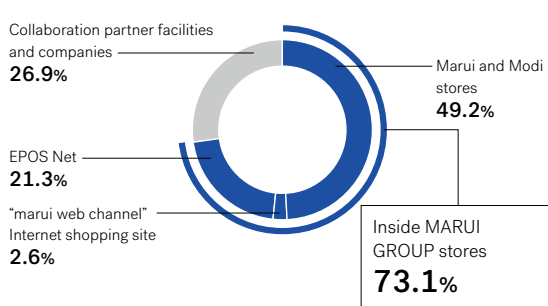
Industry Cardholders by Age*2



EPOS Cardholders by Gender*1



Distribution of EPOS Card Applications by Venue



Breakdown of EPOS Card Usage by Venue



*1 Active cardholder base

*2 Source: Consumer Credit Statistics from Japan (FY2018), Japan Consumer Credit Association

Message from the CFO



Hirotsugu Kato

Director, Managing Executive Officer,
and CFO
In charge of IR, Finance, Investment
Research, Sustainability,
and ESG Promotion
Director, tsumiki Co., Ltd.

MARUI GROUP will continue to produce high growth coupled with high returns by increasing recurring revenue.

Accomplishment of Initial Targets for All KPIs

In the fiscal year ended March 31, 2019, the third year of the medium-term management plan, we were able to achieve our initial third-year targets for all KPIs (EPS, ROE, and ROIC). Over this year, we moved forward with the principal strategies of the plan, namely improving the earnings capacity of the Retailing segment through business structure reforms and expanding earnings scale in the FinTech segment. At the same time, our financial strategies for achieving our target balance sheet and capital measures produced benefits. As a result, earnings per share (EPS) increased by 1.6 times over the past three years, to ¥116; return on equity (ROE) rose 3.1 percentage points, to 9.1%; and return on invested capital (ROIC) grew 0.4 percentage point, to 3.7%.

Furthermore, an average annual growth rate of 18% was seen over the past three years for EPS, which reached a record high in the fiscal year ended March 31, 2019, I might add, and the average annual rate of increase in dividends was 31%. In this manner, we have continued to achieve high growth coupled with high returns.

From the perspective of corporate value creation, ROIC exceeded weighted average cost of capital (WACC) in the fiscal year ended March 31, 2017, the first year of the medium-term management plan, leading to a positive economic value added spread. However, our equity spread swung into the positive in the fiscal year ended March 31, 2019, as ROE climbed to 9.1% and cost of shareholders' equity was 6.8% following a decline in the beta value. We are committed to continuously creating corporate value in line with the expectations of our shareholders in the future.

Improvement of Capital Efficiency Not Dependent on the Balance Sheet

To achieve our target balance sheet, we have been working to maintain a sufficient level of financial soundness and efficiency as represented by an equity ratio of approximately 30% and level of interest-bearing debt that is equivalent to around 90% of operating receivables. Meanwhile, operating receivables grew to a degree that exceeded our initial expectations, leading to a similar increase in interest-bearing debt. We sought to curb this

Dramatic Changes in Earnings Structure

High Growth Coupled with High Returns

increase by liquidating revolving payment receivables from card shopping transactions and cash advance receivables. The amount of liquidated receivables on March 31, 2019, was ¥119.3 billion, representing 17.4% of operating receivables (ratio of liquidation). Operating receivables are expected to continue to increase above the projected levels, and the ratio of liquidation is forecast to reach around 25% by March 31, 2021. Our receivable liquidation scheme has been highly regarded as contributing to debt safety due to it embodying the co-creation of creditability, MARUI GROUP's core value. Accordingly, procurement costs are at low levels on par with those of borrowings from banks or corporate bonds. For this reason, the majority of earnings, such as those from finance charges on revolving transactions, return directly to the Company, enabling us to maintain high profitability without depending on our balance sheet. Our rent guarantee business, which is in the process of expanding the scope of its operations, is also realizing high profitability without depending on its balance sheet through the co-creation of creditability. Looking ahead, MARUI GROUP will pursue further improvements in capital efficiency by proactively expanding businesses with high levels of LTV and low dependence on balance sheets, whether new or existing businesses.

Over the period encompassing the previous medium-term management plan, which began with the fiscal year ended March 31, 2015, and the current medium-term management plan, which was launched in the fiscal year ended March 31, 2017, we have proceeded to pursue increases in LTV. These increases were accomplished through various strategies and measures aimed at transforming all flow-type businesses into stock-type businesses, regardless of segment, and at strengthening stock-based businesses. As a result, MARUI GROUP's earnings structure has been transformed dramatically when compared to the fiscal year ended March 31, 2014, prior to the establishment of the previous medium-term management plan. LTV itself is an estimated figure dependent on future predictions. Recurring revenue, however, is an important component of LTV that can be tracked numerically with a relatively high degree of financial accuracy. Recurring revenue is defined as the revenue that is generated on a recurring basis through contracts with customers or business models and includes finance charges on revolving and installment payments and sales floor rent revenues. Accordingly, recurring revenue could be seen as a quantitative measurement of our core value of the co-creation of creditability.

The most noteworthy change to MARUI GROUP's earnings structure is large increases in recurring revenue and in the portion of total revenue that it represents. For example, recurring gross profit in the fiscal year ended March 31, 2019, represented 63% of total gross profit, double the level from five years ago. By segment, recurring gross profit accounted for 54% of total gross profit in the Retailing segment and 69% in the FinTech segment, a majority in both segments. On April 1, 2019, contracted recurring revenue, which will translate to revenue in the future, amounted to ¥357.2 billion, 2.6 times higher than the amount of recurring revenue in the fiscal year ended March 31, 2019, and 1.4 times higher than total revenue in this year. One way of measuring corporate value is a methodology using future cash flows. Recurring revenue contributes to higher and more reliable future cash flows. For this reason, the growth in recurring revenue to date could be seen to have made significant contributions to improved corporate value.

Due to these factors, MARUI GROUP's ability to achieve stable profit growth has increased. In addition, we have put forth a policy of raising the consolidated payout ratio to 55% by the fiscal year ending March 31, 2024, while targeting a total return ratio of 70%. I therefore think it is entirely possible that we will be seeing high growth coupled with high returns in the future with EPS growth rates of 10% and average annual dividend increases of 15%.

Tracking of LTV

The completion of the transition to shopping centers and fixed-term rental contracts has granted MARUI GROUP a business structure that enables it to secure consistent earnings. Going forward, the Company will aspire to stabilize LTV while accurately communicating its business value arising from consistent earnings using the concepts of recurring revenue, contracted future recurring revenue, and total addressable market.

⇒ Please refer to "Lifetime Value Management Dramatically Transforming Earnings Structures" on Page 34 and "Co-Creation Credit Expertise" on page 40 for more information.

Recurring Revenue

An important element of LTV, recurring revenue is revenue that is generated on a recurring basis through contracts with customers and business partners. Examples of recurring revenue include rent revenues in the Retailing segment and finance charges on revolving and installment payments and cash advances, rent guarantee revenues, and annual enrollment fees from EPOS card use in the FinTech segment. In the fiscal year ended March 31, 2019, recurring revenue was 2.1 times higher than in the fiscal year ended March 31, 2014, largely as a result of the completion of the transition to shopping centers

and fixed-term rental contracts in the Retailing segment. In addition, recurring revenue has been representing an increasingly large portion of total revenue, with the ratio of recurring to total revenue exceeding 50% in the fiscal year ended March 31, 2019, and projected to surpass 55% in the fiscal year ending March 31, 2020. Meanwhile, recurring gross profit accounted for more than 60% of total gross profit in the fiscal year ended March 31, 2019, and was 2.3 times higher than in the fiscal year ended March 31, 2014. The ratio of recurring to total gross profit is expected to climb past 65% in the fiscal year ending March 31, 2020.

Recurring Gross Profit

	FY2014	FY2018	FY2019	% of total	vs. FY2018	vs. FY2014
Retailing (total)	¥5.9 billion	¥34.0 billion	¥41.1 billion	54%	+21%	+595%
Rent revenues, etc.	¥2.0 billion	¥27.1 billion	¥33.6 billion			
Other	¥3.9 billion	¥6.8 billion	¥7.5 billion			
FinTech (total)	¥47.0 billion	¥74.1 billion	¥81.5 billion	69%	+10%	+73%
Finance charges on revolving and installment payments	¥20.7 billion	¥39.0 billion	¥43.5 billion			
Affiliate commissions (Of which, recurring)	¥0.8 billion	¥1.7 billion	¥1.9 billion			
Finance charges on cash advances	¥21.1 billion	¥23.9 billion	¥24.5 billion			
Service revenues	¥3.6 billion	¥8.4 billion	¥10.3 billion			
Other	¥0.9 billion	¥1.2 billion	¥1.3 billion	63%	+14%	+132%
Total recurring revenue	¥52.9 billion	¥108.0 billion	¥122.7 billion			

Note: Calculated as the ratios of segment income and of a figure combining gross profit and selling, general and administrative expenses paid by business partners

Contracted Future Recurring Revenue

Contracted future recurring revenue is an indicator of the earnings promised by contracts with customers and business partners in the given fiscal year and in subsequent fiscal years and is used to measure the stability of earnings. For rent revenues, for example, contracted future recurring revenue is calculated by assessing the future earnings projected based on the remaining number of years in rental contracts. Meanwhile, repayment periods are used for finance charges on revolving and installment payments and

cash advances, expiration dates are used for (recurring) affiliate commissions, and the number of remaining years of residency is used for rent guarantees. The completion of the transition to shopping centers and fixed-term rental contracts and the expansion of rent guarantee services in the fiscal year ended March 31, 2019, led to an increase in future anticipated revenue. As a result, the amount of contracted future recurring revenue promised in subsequent fiscal years was ¥357.2 billion, 1.4 times higher than total revenue in the fiscal year ended March 31, 2019.

Contracted Future Recurring Revenue

	FY2019	Contracted future recurring revenue to be posted in FY2020 and beyond	vs. FY2019
Recurring revenue	¥137.0 billion	¥357.2 billion	+161%
Retailing	¥48.8 billion	¥90.4 billion	+85%
FinTech	¥88.2 billion	¥266.8 billion	+203%
Non-recurring revenue	¥118.9 billion	—	—
Consolidated revenue + Selling, general and administrative expenses paid by business partners	¥255.9 billion	¥357.2 billion	+40%

Target Balance Sheet

01
POINT

Creation of Corporate Value with ROIC Exceeding WACC and ROE Exceeding Cost of Shareholders' Equity

ROE exceeds cost of shareholders' equity for the first time due to improved profit and low cost of capital while ROIC stays consistently above WACC

ROE 7.6% < Cost of shareholders' equity 8.0% ROIC 3.3% > WACC 3.1%		ROE 9.1% > Cost of shareholders' equity 6.8% ROIC 3.7% > WACC 2.8%		ROE 10.0% > Cost of shareholders' equity 7.0%–8.0% ROIC 4.0% > WACC 2.0%–3.0%	
FinTech ROIC 3.9%	Cost of liabilities 0.3%	FinTech ROIC 4.2%	Cost of liabilities 0.3%	ROIC 4.0% or more	Cost of liabilities 0.3%–1.0%
Retailing ROIC 2.8%	Cost of shareholders' equity 8.0%	Retailing ROIC 3.8%	Cost of shareholders' equity 6.8%		Cost of shareholders' equity 7.0%–8.0%
FY2018 (Actual)		FY2019 (Actual)		FY2021 (Forecast after liquidation of receivables)	

In the fiscal year ended March 31, 2019, profit growth caused a large increase in ROE, which exceeded cost of shareholders' equity for the first time. Meanwhile, a significant increase in ROIC was achieved in the Retailing segment, resulting in overall ROIC surpassing WACC for the third consecutive year. MARUI GROUP will continue working toward businesses that

can achieve high profitability without depending on the balance sheet. To this end, the Company will proactively develop businesses with high LTV to realize further improvements in capital efficiency and achieve the targets of ROE of 10.0% or more and ROIC of 4.0% or more in the fiscal year ending March 31, 2021.

02
POINT

Target Balance Sheet

Procurement through interest-bearing debt in response to increases in operating receivables, optimal capital structure defined as targeting an equity ratio of approximately 30%
Increased fund procurement through liquidation of operating receivables to limit total assets to below ¥1.0 trillion in the fiscal year ending March 31, 2021, and maintain an equity ratio of approximately 30%

Total assets ¥865.9 billion (Ratio of liquidation: 12%)		Total assets ¥890.2 billion (Ratio of liquidation: 17%)		Total assets ¥930.0 billion (Ratio of liquidation: 25%)	
Liquidation of receivables ¥72.8 billion	Reduction of interest-bearing debt ¥73.0 billion	Liquidation of receivables ¥119.3 billion	Reduction of interest-bearing debt ¥125.0 billion	Liquidation of receivables ¥210.0 billion	Reduction of interest-bearing debt ¥225.0 billion
Operating receivables ¥548.0 billion	Interest-bearing debt ¥485.3 billion % of operating receivables 89%	Operating receivables ¥565.7 billion	Interest-bearing debt ¥486.6 billion % of operating receivables 86%	Operating receivables ¥630.0 billion	Interest-bearing debt ¥530.0 billion % of operating receivables 84%
Fixed assets, others	Shareholders' equity ¥274.4 billion Equity ratio 32%	Fixed assets, others	Shareholders' equity ¥284.8 billion Equity ratio 32%	Fixed assets, others	Shareholders' equity ¥300.0 billion Equity ratio 32%
FY2018 (Actual)		FY2019 (Actual)		FY2021 (Target)	

The medium-term management plan slated to conclude with the fiscal year ending March 31, 2021, defines a target balance sheet. Achieving this balance sheet will entail procuring funds through interest-bearing debt in response to increases in operating receivables, seeking a level of interest-bearing debt equivalent to roughly 90% of operating receivables, and maintaining an equity ratio of approximately 30%, deemed ideal.

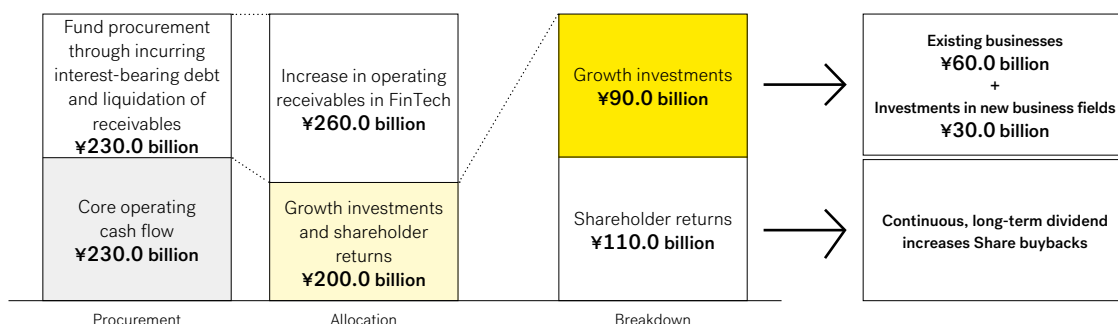
Growth in the FinTech segment is resulting in levels of operating receivables that exceed initial expectations along with

a consequent rise in interest-bearing debt. Faced with the forecast of the equity ratio dipping below 30%, MARUI GROUP responded through systemic fund procurement via the liquidation of operating receivables beginning in the fiscal year ended March 31, 2019. As a result, the ratio of liquidation reached 17% on March 31, 2019, and will be raised to around 25% on March 31, 2021, while net assets are kept below ¥1.0 trillion to maintain the ideal equity ratio of approximately 30%.

03 POINT

Cash Flow Forecasts

Five-year aggregate core operating cash flow of ¥230.0 billion forecast for period of medium-term management plan
(fiscal year ended March 31, 2017–fiscal year ending March 31, 2021)
Allocation of cash flows to growth investments and shareholder returns to achieve ongoing growth and improve capital efficiency



Over the period of the medium-term management plan, core operating cash flow, which excludes outflows associated with increases in operating receivables, is expected to amount to ¥230.0 billion. We will allocate ¥200.0 billion of this amount to growth investments and shareholder returns. Growth investments of ¥90.0 billion will be conducted, of which ¥30.0 billion will be used for investments in new

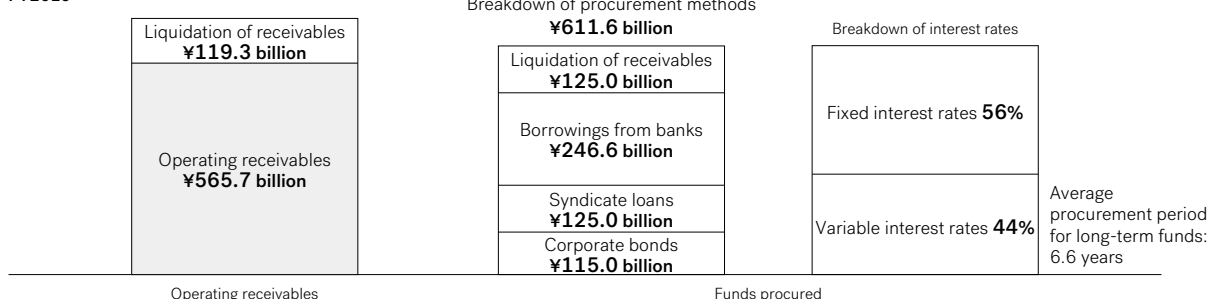
business fields and collaborative ventures. The remaining ¥110.0 billion will go to shareholder returns through continuous, long-term dividend increases and share buybacks. Investments in new business fields will be conducted steadily over the period leading up to the fiscal year ending March 31, 2023.

04 POINT

Response to Fund Procurement Risks and Interest Rate Hikes

Prioritization of safety in response to volatile procurement environment by maintaining consistent repayment levels and establishing backups
Balanced combination of diverse procurement methods and measures to limit risks and procurement costs

FY2019



The FinTech segment is expected to continue to grow, resulting in ongoing increases in fund procurement. Recognizing the risks presented by the volatile financial market, MARUI GROUP will respond by prioritizing safety and costs.

To this end, we will maintain consistent repayment levels while establishing backups, such as commitment lines, to hedge against the risk of not being able to replace repaid borrowings. At the same time, we will diversify the procurement

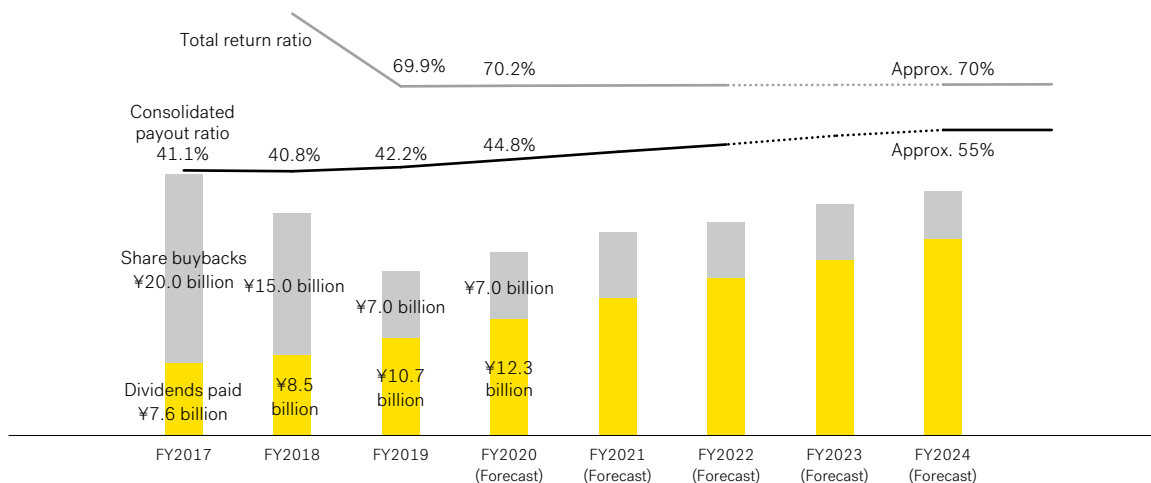
methods we use through a combination of borrowings from banks, syndicate loans, corporate bonds, and liquidation of operating receivables, utilizing these procurement methods in a balanced manner. We will look to have procurement methods with fixed interest rates represent 50%–60% of total debt in order to absorb the impacts of future interest rate hikes and limit procurement costs.

Shareholder Returns and Future Policies

Continuous, Long-Term Dividend Increases

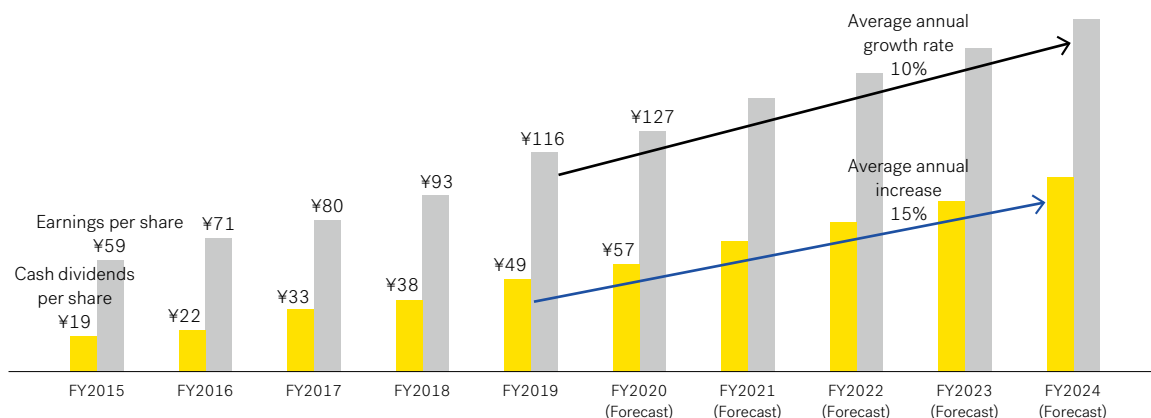
MARUI GROUP is targeting high growth coupled with high returns through ongoing dividend increases in conjunction with long-term growth in EPS. From the current target for the consolidated payout ratio of 40%, we will institute a phased increase toward the target of 55% in the fiscal year ending March 31, 2024, and consistent, long-term increases in dividends will be implemented to achieve these targets. Share buybacks will be implemented targeting a total return ratio of 70% through improved capital efficiency and shareholder returns. Acquired treasury stock will, in principle, be canceled.

Future Shareholder Returns Outlook



Following the completion of the transition to fixed-term rental contracts and shopping centers, recurring gross profit has come to represent more than 60% of total gross profit. Through this stable earnings growth combined with a phased increase in the consolidated payout ratio along with ongoing share buybacks, we will target average annual increases of 10% in EPS and 15% in cash dividends per share to realize high long-term growth coupled with high returns.

Future Dividend Outlook



11-Year Financial and Non-Financial Summary

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries

Fiscal years ended March 31	2009	2010	2011	2012
Total Group transactions	—	—	—	—
Retailing* ¹	—	—	—	—
FinTech* ¹	—	—	—	—
Eliminations* ²	—	—	—	—
Total operating revenues* ³ * ⁴	—	—	—	—
Revenue* ³	447,400	419,255	406,472	412,408
Gross profit* ⁴	160,125	149,926	144,736	147,240
Selling, general and administrative expenses* ⁴	150,986	139,488	129,940	129,224
EBITDA* ⁴ * ⁵	28,522	29,695	30,457	33,085
Operating income* ⁴	9,138	10,438	14,795	18,015
Net income (loss) attributable to owners of parent	(8,750)	5,104	(23,638)	5,251
Segment income* ¹ * ⁴	—	—	—	—
Retailing* ¹	—	—	—	—
FinTech* ¹ * ⁴	—	—	—	—
Retailing and Store Operation* ¹	1,252	37	2,110	7,547
Credit Card Services* ¹	6,725	10,272	13,704	10,619
Retailing-Related Services* ¹	3,740	2,509	1,568	2,567
Total assets* ⁶	685,351	664,357	628,910	615,130
Shareholders' equity	310,818	312,188	284,526	289,975
Installment sales accounts receivable	88,761	95,871	111,760	142,995
Consumer loans outstanding	207,117	191,486	158,707	132,280
Interest-bearing debt	292,061	283,676	264,692	245,175
Net cash provided by (used in) operating activities	15,316	30,811	30,280	24,897
Core operating cash flow* ⁷	—	—	—	—
Net cash provided by (used in) investing activities	(18,234)	(13,034)	(7,033)	(3,913)
Net cash provided by (used in) financing activities	2,409	(14,519)	(22,926)	(23,660)
Cash and cash equivalents	29,026	32,283	32,603	29,928
Capital investments	24,073	17,398	14,332	7,941
Depreciation and amortization	19,384	19,257	15,661	15,069
Earnings (loss) per share (yen)	(31.90)	18.65	(86.36)	19.19
Net assets per share (yen)	1,135	1,140	1,039	1,059
Cash dividends per share (yen)	28.0	14.0	14.0	14.0
Payout ratio (%)	—	75.1	—	73.0
Total return ratio (%)	—	75.1	—	73.0
Operating income margin (%)* ⁴ * ⁸	2.0	2.5	3.6	4.4
Return on equity (%)	(2.7)	1.6	(7.9)	1.8
Return on invested capital (%)* ⁴	1.0	1.1	1.7	2.1
Return on assets (%)* ⁶	1.1	1.5	2.2	2.8
Equity ratio (%)* ⁶	45.4	47.0	45.2	47.1
Stock price at year-end (yen)	523	678	537	690
Market capitalization				
(including treasury stock) (billions of yen)	166.6	216.0	171.1	219.8
Price earnings ratio (times)	—	36.4	—	36.0
Price book-value ratio (times)	0.5	0.6	0.5	0.7
Number of common shares issued (including treasury stock)	318,660,417	318,660,417	318,660,417	318,660,417
Number of shares of treasury stock	44,918,979	44,941,174	44,946,398	44,947,345
Total number of employees	7,085	6,847	6,492	6,218
Ratio of female employees (%)	44.6	44.7	44.4	44.4
Ratio of female managers (%)	—	—	—	—
Employee turnover rate				
(excluding mandatory retirement) (%)	—	—	—	—
Total number of stores* ⁹	25	25	26	27
Total sales floor area (thousand m ²)	444.8	453.3	457.8	458.4
EPOS cardholders (including Akai Card)				
(ten thousands of members)	437	476	476	487
Ratio of delinquent debt (%)	3.91	3.19	3.35	3.10
Energy consumption (GJ)	—	—	—	—
GHG emissions (Scope 1) (t-CO ₂)* ¹⁰ * ¹¹	18,964	21,653	14,136	17,291
GHG emissions (Scope 2) (t-CO ₂)* ¹⁰ * ¹¹	103,172	108,970	100,756	79,050
GHG emissions (Scope 3) (t-CO ₂)* ¹⁰ * ¹¹	—	—	—	—

*1 Beginning with the fiscal year ended March 31, 2017, the prior segments of Retailing and Store Operation, Credit Card Services, and Retailing-Related Services were reorganized into the Retailing and FinTech segments.

*2 Eliminations under total Group transactions represent the deduction of credit card transactions recorded in Retailing.

*3 Beginning with the fiscal year ended March 31, 2016, the display method was changed from total value display to net value display, the portion that represents income to the Company, for sales recorded through sale or return arrangements. In conjunction with this change, the previous "operating revenues" line item was replaced with the new "revenue" line item.

*4 From the fiscal year ended March 31, 2019, gain on bad debt recovered, which has previously been recorded at net value under non-operating income, will be recorded at total value under revenue, and expenses on bad debt recovered will be recorded at total value under selling, general and administrative expenses. Figures for the fiscal year ended March 31, 2018, have been restated to reflect this change.

*5 EBITDA (earnings before interest, taxes, and depreciation and amortization) = Operating income + Depreciation and amortization



Millions of yen

2013	2014	2015	2016	2017	2018	2019
—	1,297,250	1,469,111	1,703,353	1,933,685	2,189,374	2,539,631
—	—	—	341,478	326,327	328,486	337,006
—	—	—	1,473,539	1,723,254	1,972,482	2,310,635
—	—	—	(111,664)	(115,896)	(111,594)	(108,010)
—	253,077	249,847	245,867	237,022	240,469	251,415
407,366	416,460	404,947	—	—	—	—
148,172	156,642	159,448	160,035	165,964	175,875	190,502
123,886	129,495	131,406	130,419	134,711	139,509	149,317
35,237	37,134	38,338	39,286	41,374	46,640	51,095
24,285	27,146	28,042	29,615	31,253	36,365	41,184
13,255	15,409	16,036	17,771	18,724	20,907	25,341
—	—	—	10,658	7,759	8,826	11,421
—	—	—	23,094	27,111	31,433	35,018
9,885	10,562	8,074	7,856	—	—	—
13,177	15,634	20,126	22,186	—	—	—
3,792	4,523	3,333	3,674	—	—	—
624,173	664,019	675,627	730,126	806,575	865,887	890,196
303,637	315,446	306,795	281,610	273,883	274,434	284,752
171,187	213,466	227,121	279,763	348,191	402,030	428,180
123,739	125,215	128,030	134,107	140,569	146,011	137,473
243,762	264,824	277,839	359,324	434,327	485,331	486,632
5,111	(9,227)	12,310	(35,310)	(45,955)	(19,329)	26,396
—	—	25,484	26,788	28,188	35,853	42,778
435	(6,791)	(3,867)	(4,063)	1,995	747	(7,432)
(5,571)	16,141	(7,267)	40,719	47,630	27,773	(17,680)
29,940	30,053	31,229	32,575	36,245	45,437	46,720
7,665	11,238	9,786	12,882	15,696	10,250	9,094
10,951	9,988	10,296	9,670	10,121	10,274	9,911
48.43	56.29	58.87	70.68	80.24	93.18	115.99
1,109	1,152	1,166	1,161	1,196	1,245	1,310
15.0	18.0	19.0	22.0	33.0	38.0	49.0
31.0	32.0	32.3	31.1	41.1	40.8	42.2
31.0	32.0	125.3	227.5	147.5	112.3	69.9
6.0	10.7	11.2	12.0	13.2	15.1	16.4
4.5	5.0	5.2	6.0	6.7	7.6	9.1
3.0	3.0	3.3	3.3	3.1	3.3	3.7
3.9	4.3	4.2	4.1	4.1	4.2	4.5
48.6	47.5	45.4	38.6	34.0	31.7	32.0
975	885	1,365	1,613	1,513	2,168	2,235
310.6	282.0	380.3	449.4	353.5	506.6	499.9
20.1	15.7	23.2	22.8	18.9	23.3	19.3
0.9	0.8	1.2	1.4	1.3	1.7	1.7
318,660,417	318,660,417	278,660,417	278,660,417	233,660,417	233,660,417	223,660,417
44,948,289	44,901,353	15,588,364	36,270,334	4,704,750	13,269,506	6,214,767
6,101	5,966	5,918	5,899	5,732	5,548	5,326
44.3	44.5	44.6	45.5	45.1	44.4	43.9
6.4	7.3	8.5	8.9	10.0	10.9	12.0
2.8	2.3	2.0	1.6	2.6	2.3	2.5
27	27	27	28	27	26	25
453.1	446.5	444.0	441.8	452.1	439.8	425.6
498	542	591	613	636	657	688
2.32	1.84	1.68	1.57	1.45	1.60	1.80
1,998,182	2,525,815	2,350,595	2,305,099	2,341,454	2,327,713	2,277,481
10,727	13,044	12,580	14,434	14,920	13,818	15,109
76,039	106,085	98,637	89,179	103,264	99,286	96,232
—	550,612	530,595	509,070	489,439	412,256	399,926

*6 Figures for the fiscal year ended March 31, 2018, have been restated to reflect the change in accounting standards accompanying the application of the Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ), Guidance No. 28, February 16, 2018).

*7 Core operating cash flow represents net cash provided by (used in) operating activities less the increase in operating receivables.

*8 Operating income margin is calculated using operating revenues for the fiscal year ended March 31, 2013, and prior fiscal years and revenue for the fiscal year ended March 31, 2014, and subsequent fiscal years.

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

*10 Scope 1 & 2 represent greenhouse gas emissions from the Group. Scope 3 represents greenhouse gas emissions from areas including raw material procurement, transportation, and use by customers. Third-party verification has been received from the Japan Quality Assurance Organization for greenhouse gas emissions figures since the fiscal year ended March 31, 2017.

*11 In the fiscal year ended March 31, 2014, the scope of data collection was expanded to include the entire Group.

Consolidated Financial Statements

Consolidated Balance Sheets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	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	35,920	35,920	326,545
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			
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	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	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	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	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)	Yen		U.S. dollars (Note 1)
	2018	2019	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:

	2018	Millions of yen	Thousands of U.S. dollars (Note 1)
		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)
	2019	2019
	¥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)
	2019	2019
Stocks of unconsolidated subsidiaries and affiliates	¥840	\$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)
	2019	2019
Capital of unconsolidated subsidiaries and affiliates	¥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:

	2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 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	Land	¥ 738
	Mito, Ibaraki, etc.	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

	2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 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:

	2018	Number of shares 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		Dividends per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)	(Yen)	(U.S. dollars) (Note 1)		
Ordinary General Meeting of Shareholders held on June 25, 2018	Common stock	¥4,417	\$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		Source	Dividends per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)		(Yen)	(U.S. dollars) (Note 1)		
Ordinary General Meeting of Shareholders held on June 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:

	2018	Millions of yen	Thousands of U.S. dollars (Note 1)
		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:

	2018	Millions of yen	Thousands of U.S. dollars (Note 1)
		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:

	2018	Millions of yen	Thousands of U.S. dollars (Note 1)
		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).

	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:

	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)		
	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:

	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)		
	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
	2018	2019	U.S. dollars (Note 1)
		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:

	2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 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

	Millions of yen				
	2018			Adjustment*1	Consolidated*2
	Reportable segment				
	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:

	2018	Millions of yen	Thousands of U.S. dollars (Note 1)
		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		Thousands of U.S. dollars (Note 1)
	2018	2019	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			Thousands of U.S. dollars (Note 1)		
	Long-term loans payable	Bonds payable	Lease obligation	Long-term loans payable	Bonds payable	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

Independent Auditor's Report



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

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Directors, Audit & Supervisory Board Members, and Executive Officers

As of June 20, 2019



Hiroshi Aoi

President and Representative Director,
Representative Executive Officer

Shares held: 1,538,300
Born: January 1961

Self-Introduction

Born into the family of MARUI GROUP's founder, I joined the Company in 1986. I was 30 when I became a director and 44 when I became the Company's third president, a position I have held for the past 14 years. When we were faced with a management crisis, I remember the sense of commitment I felt to ensuring that I did not let the Company go under whenever I visited the grave of the founder. At that time, meetings on how to recover our performance ran late into the night on a daily basis. Eventually, I realized that these late-running meetings were the source of our troubles. Sick of overtime and old men, I pledged to promote work style reforms and diversity.

Career History

Jul. 1986 Joined the Company
Apr. 1991 Director and General Manager,
Sales Planning Headquarters
Apr. 1995 Managing Director and Deputy General
Manager, Sales Promotion Headquarters and
General Manager, Sales Planning Division
Jan. 2001 Managing Director and General Manager,
Sales Promotion Headquarters
Jun. 2004 Executive Vice President and
Representative Director
Apr. 2005 President and Representative Director
Oct. 2006 President and Representative Director,
Representative Executive Officer
Apr. 2019 President and Representative Director,
Representative Executive Officer, CEO
(Incumbent)

Participation in committees:

Management Committee (Chairman)
Nominating and Compensation Committee
Sustainability Committee (Chairman)
Compliance Promotion Board (Chairman)



Etsuko Okajima

External Director

Shares held: 0
Born: May 1966

Self-Introduction

I joined Mitsubishi Corporation as a career-track employee in 1989. In comparison to the 150 men hired on the career track, women in this program were rare, with only two hired that year. After joining, I was placed in an M&A section, where I was inspired by the MBA holders around me to attend Harvard University to acquire my own MBA. This experience changed me, making me realize that I preferred innovative, transformative businesses as opposed to reliable, large-scale ones. In the years that followed, I built a career in fields merging management, people, and organizations through my positions at McKinsey & Company and GLOBIS Management Bank, finally founding ProNova Inc. in 2007. Today, I am an external director at numerous companies, including five listed companies, where I am working together with managers to foster future presidents.

Career History

Apr. 1989 Joined Mitsubishi Corporation
Jan. 2001 Joined McKinsey & Company
Jul. 2005 Representative and CEO,
GLOBIS Management Bank
Jun. 2007 President & CEO, ProNova Inc. (Incumbent)
Jun. 2014 External Director (Incumbent)
Mar. 2016 Outside Director, Link and Motivation Inc.
(Incumbent)
Dec. 2018 Outside Director, euglena Co., Ltd. (Incumbent)

Participation in committees:

Nominating and Compensation Committee



Yoshitaka Taguchi

External Director

Shares held: 400
 Born: April 1961

Self-Introduction

Born in Nagano Prefecture, my grandfather founded his business in the waterfilled city of Ogaki City, Gifu Prefecture, often referred to as an important center of transportation on the Nobi Plain in the middle of Japan. I was thus raised in this city among its plentiful water. After graduating college in 1985, I was sent to a U.S. subsidiary of the Seino Group, where I served as president before returning to Japan to become a director of Seino Transportation Co., Ltd., in 1989 and later president in 2003. My motto is "wisdom and action," inspiring me to attempt to link customers and other relevant parties through my management. MARUI GROUP's concept of co-creation management thus resonates with me. As a manager from a different industry and a representative of the interests of shareholders, I hope to play my part in contributing to improved social value for MARUI GROUP.

Career History

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

Participation in committees:

Nominating and Compensation Committee



Masahiro Muroi

External Director

Shares held: 0
 Born: July 1955

Self-Introduction

I have worked at Nomura Research Institute, Ltd., for 40 years. Joining this company as an IT engineer, I have been responsible for large-scale development projects and the creation of new businesses with cutting-edge digital technologies. I was 45 when I became a director, and have thus spent a long time at the head office, where I have engaged in corporate governance reforms and in investor relations activities. Having visited Silicon Valley in the United States several times since my youth, there are several areas with regard to which I cannot help but sense risks in terms of the differences in the cultures of fostering innovation between the United States and Japan. This is one of the reasons why I serve as the head of a government digital transformation human resource research committee even today. My motto is "always earnest and dedicated."

Career History

Apr. 1978 Joined Nomura Computer System Co., Ltd.
 (currently Nomura Research Institute, Ltd.)
 Jun. 2000 Member of the Board,
 Nomura Research Institute, Ltd.
 Apr. 2009 Representative and Senior Executive Managing
 Director, Member of the Board,
 Nomura Research Institute, Ltd.
 Apr. 2013 Representative and Vice President,
 Member of the Board,
 Nomura Research Institute, Ltd.
 Apr. 2015 Vice Chairman, Member of the Board,
 Nomura Research Institute, Ltd.
 Jun. 2016 External Director, Ryoden Corporation
 (Incumbent)
 Jun. 2017 External Director (Incumbent)
 Jun. 2018 Audit & Supervisory Board Member,
 The Norinchukin Bank (Incumbent)



Masao Nakamura

Director, Senior Managing Executive
 Officer

Shares held: 22,000
 Born: June 1960

Self-Introduction

I joined MARUI GROUP in 1983. During the 12 years in which I could have been considered a mid-rank employee, I was in store planning departments, where I played a central role in developing the department stores that we have since moved away from. I was later placed in charge of the retailing business, a position that saw me promoting the transition to shopping centers and fixed-term rental contracts to transform the business models of the department stores I had a hand in developing. This was a massive change that felt similar to transferring to a new company in a different industry. However, it was also exhilarating as I could feel the propensity for innovation born when the entirety of MARUI GROUP was united toward a single goal. This exhilaration remains with me today, this time stimulated by MARUI GROUP's efforts to co-create value.

Career History

Apr. 1983 Joined the Company
 Apr. 2007 Executive Officer
 Jun. 2008 Director and Executive Officer,
 General Manager, Corporate Planning Division
 and General Manager, Business Development
 Division
 Apr. 2011 Managing Director and Managing Executive
 Officer
 President and Representative Director,
 MARUI CO., LTD.
 Apr. 2015 Director and Managing Executive Officer
 Responsible for Retailing and Store Operation
 Business
 President and Representative Director,
 MARUI CO., LTD.
 Apr. 2016 President and Representative Director,
 AIM CREATE CO., LTD.
 Oct. 2017 Director and Managing Executive Officer
 Responsible for FinTech Business
 Apr. 2019 Director and Senior Managing Executive Officer
 Responsible for FinTech Business
 In charge of Corporate Planning, Real Estate
 Business, and Customer Success (Incumbent)

Participation in committees:

Management Committee
 Sustainability Committee
 Compliance Promotion Board
 Public Relations IR Committee
 Internal Control Committee (Chairman)



Hirotsugu Kato

Director, Managing Executive Officer

Shares held: 5,800
Born: July 1963

Self-Introduction

My passion was baseball until high school. At college, this passion became fashion, and I joined MARUI GROUP in 1987 with the goal of working in fashion. Ironically, after joining I have had almost no experience working directly in fashion, rather devoting one half of my career to finance and accounting and the other half to corporate planning. I have been working in investor relations for the past couple of years, and I was also placed in an investor relations position when I was young. Since that time, I have been acutely aware of topics of interest to investors, cost of capital, for example. This awareness shaped my work in finance and accounting and in corporate planning thereafter. As for my personality, while I don't necessarily agree with it, I am often said to be "stubborn."

Career History

Mar. 1987 Joined the Company
Apr. 2015 Executive Officer and General Manager, Corporate Planning Division
Jun. 2016 Director and Senior Executive Officer General Manager, Corporate Planning Division and IR Department
Oct. 2017 Director, Senior Executive Officer, and CDO (Chief Digital Officer), General Manager, IR Department In charge of Corporate Planning and ESG Promotion
Feb. 2018 Director, tsumiki Co., Ltd. (Incumbent)
Apr. 2018 Senior Managing Director, M & C SYSTEMS CO., LTD.
Apr. 2019 Director, Senior Managing Executive Officer, and CFO In charge of IR, Finance, Investment Research, Sustainability, and ESG Promotion (Incumbent)

Participation in committees:

Management Committee
Sustainability Committee
Environment and CSR Committee (Leader)
Compliance Promotion Board
Public Relations IR Committee
Insider Trading Prevention Committee (Chairman)



Masahisa Aoki

Director, Senior Executive Officer

Shares held: 4,300
Born: July 1969

Self-Introduction

My love for cars drove me to joining MOVING CO., LTD. in 1992, where I was a truck driver for five years. I was promoted to management in 2009 and then transferred to MARUI CO., LTD. At first, I didn't know any other way into our stores aside from the truck loading gate. As the years passed, I took part in many new undertakings, including the apparel recycling program and the anime business. Today, I remain optimistic and forward-looking, enjoying my work as I tackle new challenges every day. However, I sometimes find myself longing for those short yet fun days as a deputy store manager or store manager.

Career History

Apr. 1992 Joined MOVING CO., LTD.
Apr. 2015 Store Manager, Shinjuku Marui Annex, MARUI CO., LTD.
Oct. 2015 General Manager, Pre-Opening Development Office, Anime Business Department
Apr. 2016 General Manager, Anime Business Department
Apr. 2017 Executive Officer
Apr. 2018 General Manager, New Business Development Department, in charge of Anime Business
Apr. 2019 Senior Executive Officer In charge of Anime Business (Incumbent) President and Representative Director, MARUI CO., LTD. (Incumbent)
Jun. 2019 Director and Senior Executive Officer (Incumbent)

Participation in committees:

Management Committee
Sustainability Committee
Compliance Promotion Board
Internal Control Committee



Yuko Ito

Director, Executive Officer

Shares held: 7,700
Born: June 1962

Self-Introduction

I studied architecture in college and joined MARUI GROUP in 1986, being placed in an agriculture department at this time. As I built my career thereafter, I spent years in positions pertaining to spaces, including sales floor and interior renovation planning and sales to external customers in the space production business. These positions saw me primarily interacting with men during my work, whether inside or outside of the Company. As I overcame the obstacles placed before me as a woman, I grew while experiencing the sense of accomplishment that came with my achievements as a woman. In 2007, I became MARUI GROUP's first female general manager. My goals since then have been improving the diversity of management and spurring MARUI GROUP toward new growth with my specialized expertise.

Career History

Mar. 1986 Joined the Company
Oct. 2007 General Manager, Construction Department (Incumbent)
Apr. 2012 Director and General Manager, Creative Management Department Deputy General Manager, Space Production Business Division, AIM CREATE CO., LTD.
Apr. 2014 Executive Officer (Incumbent)
Apr. 2016 Director and General Manager, Design Management Department Deputy General Manager, Space Production Business Division, AIM CREATE CO., LTD.
Oct. 2016 Director and General Manager, Creative Management Department Deputy General Manager, Space Production Business Division, AIM CREATE CO., LTD.
Apr. 2018 General Manager, Group Design Center (Incumbent)
Apr. 2019 Director, MARUI CO., LTD. (Incumbent) Managing Director, AIM CREATE CO., LTD. (Incumbent)
Jun. 2019 Director and Executive Officer (Incumbent)

Participation in committees:

Management Committee
Environment and CSR Committee



Hideaki Fujizuka

Audit & Supervisory Board Member
(Full time)

Shares held: 1,200
Born: September 1955

Self-Introduction

In 1980, I joined a bank with the dream of becoming a branch manager. However, I spent the next several years in market-related divisions and later found myself in general affairs, public relations, and other positions removed from the market. For this reason, I was unfortunate in that my time as a branch manager was limited to one year at the Yoyogi-Uehara Branch of MUFG Bank, Ltd. I have experienced various industries and types of work over my career at real estate companies, precision equipment manufacturers, and, of course, MARUI GROUP. In these positions, I have aspired to identify the fundamental aspects of the issues at hand to respond to the present market conditions. We are currently faced with a highly volatile era. In my central role in corporate governance as an Audit & Supervisory Board member, I hope to be proactive and optimistic and to enjoy contributing to improved corporate value for MARUI GROUP.

Career History

Apr. 1980 Joined Mitsubishi Bank Ltd.
(currently MUFG Bank, Ltd.)
Jun. 2007 Executive Officer and General Manager,
General Affairs Dept.,
The Bank of Tokyo-Mitsubishi UFI, Ltd.
Jun. 2010 President and Director, Chitose Kosan, Co., Ltd.
Apr. 2012 Director, Senior Executive Managing Officer and
Group President of Corporate Center,
Olympus Corporation
Apr. 2015 Director, Olympus Corporation
Jun. 2015 Audit & Supervisory Board Member (Full time)
(Incumbent)

Participation in committees:
Management Committee
Compliance Promotion Board
Public Relations IR Committee



Nariaki Fuse

Audit & Supervisory Board Member
(Full time)

Shares held: 10,000
Born: June 1959

Self-Introduction

After joining MARUI GROUP in 1982, I was placed in a credit card division and then a division selling computers, which were just then becoming commonplace. It may have been this position that led to my transfer to an IT systems division, later becoming president of M & C SYSTEMS CO., LTD., our IT arm. All in all, I have spent around 30 years in MARUI GROUP's IT divisions. My education was in liberal arts, far removed from IT. Regardless, I have been involved in the majority of the Company's businesses through the lens of IT utilization, which has been a truly motivating experience. I fulfill my duties with a commitment to seeing matters through to the end. In the future, I look forward to contributing to MARUI GROUP's development by helping strengthen corporate governance as an Audit & Supervisory Board member.

Career History

Mar. 1982 Joined the Company
Apr. 2007 Director, M & C SYSTEMS CO., LTD.
Apr. 2011 Executive Officer
Managing Executive Officer,
M & C SYSTEMS CO., LTD.
Apr. 2013 President and Representative Director,
M & C SYSTEMS CO., LTD.
Jun. 2013 Director and Executive Officer
Apr. 2015 Senior Executive Officer
In charge of Audit and Information Systems
Apr. 2016 Senior Executive Officer and CIO
(Chief Information Officer)
In charge of Audit
Jun. 2018 Audit & Supervisory Board Member (Full time)
(Incumbent)

Participation in committees:
Compliance Promotion Board
Internal Control Committee



Tadashi Ooe

External Audit & Supervisory Board
Member

Shares held: 76,800
Born: May 1944

Self-Introduction

I became a lawyer in 1969, and celebrated my 50th anniversary in this position in 2019. I still step into the courtroom even today, primarily working in the fields of trade and corporate law. My first position as an external Audit & Supervisory Board member came in 1994, after which I have been involved in this capacity at MARUI GROUP and various other companies. Because of my background, MARUI GROUP probably expects me to offer advice on legal and compliance matters. Not limiting myself to these areas, I try to offer positive advice for the benefit of MARUI GROUP. If I had to summarize my personality, I would say that I am careful and business-minded. Not a particularly interesting statement, I know.

Career History

Apr. 1969 Registered as Attorney
Apr. 1989 Practicing-Attorney,
Professor for Civil Advocacy,
Legal Training and Research Institute of the
Supreme Court of Japan
Mar. 1994 Outside Audit & Supervisory Board Member,
Canon Inc.
Jun. 2004 External Audit & Supervisory Board Member
(Incumbent)
Jun. 2011 Director, Jeco Co., Ltd. (Incumbent)
Jun. 2015 Outside Director, Nissan Chemical Corporation
(Incumbent)



Takehiko Takagi

External Audit & Supervisory Board Member

Shares held: 6,800
Born: January 1945

Self-Introduction

I have 40 years of experience in tax bureaus and in the National Tax Agencies. When I was young, I was placed in an audit department. In this position, I exposed many major and malicious tax evaders, driven by my commitment to ensure that our society is one that is fair to people who responsibly pay their taxes. During the latter half of my career, I found myself working to facilitate the smooth introduction of the then-new computer systems in all tax bureaus, cultivating human resources, and developing organizations in which personnel can be placed in the ideal position. Today, I am contributing to the sound development of companies as a corporate auditor.

Career History

Jul. 2001 Chief, Kanazawa Regional Taxation Bureau
Jul. 2002 President, National Tax College
Jul. 2003 Retired from National Tax Administration Agency
Aug. 2003 Registered as Certified Public Tax Accountant
May 2006 External Audit & Supervisory Board Member, TOH-TEN-KOH Corporation
Jun. 2008 External Audit & Supervisory Board Member (Incumbent)
Jun. 2010 External Audit & Supervisory Board Member, KAWADA TECHNOLOGIES, Inc. (Incumbent)



Motohiko Sato

Executive Vice President

Shares held: 48,900
Born: December 1953

Self-Introduction

Having joined the Company in 1977, I am the oldest active employee at MARUI GROUP. I was positioned in the IT system division of MARUI CO., LTD., in 1980, where I took part in systems development in this division for 13 years, gaining experience as a programmer and system engineer. M & C SYSTEMS CO., LTD., was established in 1984, and this company's code of conduct states that "the customer's perspective is the foundation for system services." I went about my work while keeping this statement close at heart, and this experience continues to benefit me today. I became a director at MARU GROUP CO., LTD., in 2005 at the same time that Hiroshi Aoi assumed his position as president. I was later assigned to the positions of CIO, CFO, and now CSO. I see myself as an optimist, believing that a desirable result can always be achieved no matter what adversity is faced.

Career History

Mar. 1977 Joined the Company
Jun. 2005 Director and General Manager, Group Corporate Planning Division
Jun. 2008 Managing Director and Managing Executive Officer
Apr. 2012 Senior Managing Director and Senior Managing Executive Officer
Apr. 2015 Director and Senior Managing Executive Officer, and CFO
In charge of Corporate Planning and Finance Responsible for Credit Card Services Business and Information Systems
Jun. 2016 Senior Managing Executive Officer and CFO
In charge of Corporate Planning, IR and Finance
Apr. 2017 Senior Managing Executive Officer and CFO
In charge of IR and Finance
Apr. 2019 Executive Vice President and CSO (Chief Security Officer) (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Public Relations IR Committee
Internal Control Committee
Information Security Committee (Chairman)
Safety Control Committee
Insider Trading Prevention Committee



Tomoo Ishii

Senior Managing Executive Officer

Shares held: 19,000
Born: July 1960

Self-Introduction

I worked in credit card divisions for six years after joining the Company in 1983 before being transferred to general affairs in 1990, where I would stay for 29 years. It was six years ago when I was placed in charge of personnel. My career history makes many think I have committed to defending our current state, but I see things differently. After becoming a general manager, I was given the opportunity to gain experience in the leadership of organizations of various sizes, including being president of two Group companies and three management companies as well as director of the health insurance union. Throughout this experience, I have remained keenly aware of the fact that change is essential. If we do not change, productivity and safety will decline. Symbolic of this belief, I changed myself, losing 20 kg over a period of three years some eight years ago.

Career History

Apr. 1983 Joined the Company
Apr. 2007 Executive Officer and General Manager, Group Compliance Division
Jun. 2009 Director and Executive Officer, General Manager, General Affairs Division
Apr. 2013 Director and Executive Officer, General Manager, Personnel Division
Apr. 2015 Director and Managing Executive Officer, and Chief Operating Officer
Healthcare Promotion and General Manager, Personnel Division
In charge of General Affairs and Healthcare Promotion
Apr. 2017 President and Representative Director, MOVING CO., LTD.
Jun. 2018 Senior Managing Executive Officer, CSO (Chief Security Officer), and CHO (Chief Health Officer)
In charge of Audit, General Affairs, Personnel, and Health Promotion
Apr. 2019 Senior Managing Executive Officer and CHO
In charge of Audit, General Affairs, Personnel, and Health Promotion (Incumbent)

Participation in committees:

Management Committee
Sustainability Committee
Environment and CSR Committee
Compliance Promotion Board
Public Relations IR Committee (Chairman)



Toshikazu Takimoto
Managing Executive Officer

Shares held: 1,900
Born: November 1959

Self-Introduction

I had actually intended to enter a different industry, but I found myself joining MARUI GROUP in 1982 instead. At the time, we were still collecting payments for monthly installment transactions, and my first position was visiting customer homes by motorcycle to make such collections. This experience proved incredibly beneficial when it came time to reconstruct our credit card services business. Over the years, I have been placed in various positions, including those related to stores, sales floors, new businesses, planning, and IT systems. Notably, I was responsible for reconstructing our credit card services businesses, introducing the EPOS card to the world, and developing this business thereafter, an accomplishment of which I am most proud. My chance entry into MARUI GROUP enabled me to experience something so amazing. I hope to repay the Company for this incredible opportunity by working to make it better and to deliver greater joy to customers.

Career History

Mar. 1982 Joined the Company
Mar. 2009 Executive Officer and General Manager, Group Profit Improvement Division
Apr. 2011 Managing Director, Epos Card Co., Ltd.
Apr. 2012 President and Representative Director, Epos Card Co., Ltd.
Jun. 2012 Director and Executive Officer
Apr. 2015 Managing Executive Officer (Incumbent)
Apr. 2016 Managing Executive Officer Responsible for FinTech Business
Oct. 2017 Managing Executive Officer Responsible for Retailing Business (Incumbent)
Apr. 2018 Managing Executive Officer and CIO (Chief Information Officer) (Incumbent)
President and Representative Director, M & C SYSTEMS CO., LTD. (Incumbent)

Participation in committees:

Management Committee
Sustainability Committee
Compliance Promotion Board
Public Relations IR Committee
Internal Control Committee
Information Security Committee



Yoshinori Saito
Managing Executive Officer

Shares held: 3,100
Born: July 1962

Self-Introduction

I started my career at MARUI GROUP in 1986 as a member of the sales staff at Machida Marui. I experienced various positions in the years that followed, including procurement, accounting, and corporate planning, culminating in my becoming store manager at Machida Marui in 2007, marking my triumphant return to where my career began. I was general manager of the Financial Department at the outbreak of the 2008 financial crisis, watching as we recorded the first loss since the time of our founding. My time overseeing the Financial Department was thus the most challenging leg of my career. Fortunately, this crisis was surmounted thanks to the support of my colleagues, including those more experienced than I, and our business partners. I am currently managing Epos Card Co., Ltd., with a focus on the cultivation of the human resources that will drive its ongoing growth.

Career History

Mar. 1986 Joined the Company
Jul. 2008 Executive Officer General Manager, Financial Department
Apr. 2011 Director and General Manager, Direct Marketing Department, MARUI CO., LTD.
Apr. 2013 Director and General Manager, Collaboration Card Business Department, Epos Card Co., Ltd.
Oct. 2013 Director and General Manager, Sales Promotion Department, Epos Card Co., Ltd.
Apr. 2015 Managing Director, Epos Card Co., Ltd. Director, M & C SYSTEMS CO., LTD.
Apr. 2016 Senior Executive Officer President and Representative Director, Epos Card Co., Ltd. (Incumbent)
Apr. 2019 Managing Executive Officer (Incumbent)

Participation in committees:

Management Committee
Sustainability Committee
Compliance Promotion Board
Internal Control Committee
Information Security Committee



Hajime Sasaki
Senior Executive Officer

Shares held: 6,700
Born: November 1963

Self-Introduction

After joining the Company in 1986, I started my career on the sales floor. I learned the warmth of a team when managing a shop, and I then gained a sense of motivation and perseverance when faced with the harsh working conditions of the planning product division. A major change in my career occurred in 2006, when I transferred to Epos Card Co., Ltd. There, I was involved in the launch of the EPOS card, and I suppose you could say that I grew by overcoming adversity with the help of those around me. I experienced the importance of co-creation at MARUI CO., LTD., after that, later becoming president of this company in 2016. However, the dip in earnings in my first year as president showed me that things do not always go as planned. In 2019, I became president of AIM CREATE CO., LTD. I consider myself an optimistic dreamer, and I am now filled with anticipation regarding the future potential of our alliance with Sumitomo Forestry Co., Ltd.

Career History

Mar. 1986 Joined the Company
Oct. 2007 Director and General Manager, Card Planning Division, Epos Card Co., Ltd.
Apr. 2012 Director and General Manager, Private Brand Department, MARUI CO., LTD.
Apr. 2013 Executive Officer
Apr. 2014 Managing Director and General Manager, Specialty Store Department, MARUI CO., LTD.
Jun. 2014 Director
Apr. 2015 Director and Senior Executive Officer Responsible for Retailing and Store Operation Business
Senior Managing Director, MARUI CO., LTD. Director, Epos Card Co., Ltd.
Apr. 2016 Senior Executive Officer President and Representative Director, MARUI CO., LTD.
Apr. 2019 Senior Executive Officer In charge of Architecture (Incumbent)
President and Representative Director, AIM CREATE CO., LTD. (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Internal Control Committee



Masahiro Aono
Senior Executive Officer

Shares held: 2,100
Born: March 1962

Self-Introduction

I joined MARUI GROUP in 1984 and then went on to experience sales on the sales floors of 10 different stores. I was later involved in product creation as a private brand buyer. For the past 15 years, my role has been store development. The number of business negotiations I have taken part in with external business partners is No. 1 in MARUI GROUP. Some negotiations are difficult, and some do not end well. However, through these negotiations I have been able to experience, several times, that amazing moment when we pool our knowledge to overcome obstacles and reach an agreement. My growth, as well as MARUI GROUP's growth, has been spurred by its customers as well as by its numerous business partners. I therefore hope to develop a business that enables us to repay this debt to our customers and to our business partners.

Career History

Mar. 1984 Joined the Company
Mar. 2008 General Manager, Women's Clothing and Accessories Department, MARUI CO., LTD.
Apr. 2010 General Manager, Women's Fashion Department, MARUI CO., LTD.
Apr. 2011 Director and General Manager, Business Promotion Department, MARUI CO., LTD.
Apr. 2013 Executive Officer
Apr. 2014 Director and General Manager, Store Business Promotion Department, MARUI CO., LTD.
Apr. 2015 Managing Director, MARUI CO., LTD.
Director, AIM CREATE CO., LTD. (Incumbent)
Apr. 2019 Senior Executive Officer (Incumbent)
Senior Managing Director, MARUI CO., LTD. (Incumbent)

Participation in committees:

Management Committee
Safety Control Committee (Chairman)



Yoshiaki Kogure
Executive Officer

Shares held: 2,600
Born: September 1960

Self-Introduction

I entered MARUI GROUP in 1983, being positioned at New Ikebukuro Nishi-Guchi Marui. My decision to join the Company was motivated by a desire to work in fashion and apparel, but I realized that I suffered from a lack of fashion sense working in men's designer and character brands at the head office. I later held positions in public relations, sales promotions, and events. I relied on my stamina to overcome the harsh conditions, which entailed early morning and late-night overtime, and sometimes all-nighters. When I returned to stores from the head office after 15 years, my inexperience as a deputy store manager showed as I didn't understand anything, not card issuance, register inspection, mark-downs, or stocking. For some reason, I felt joy everyday as the female employees treated me like a newcomer as they taught me. After that, I was primarily placed in head office management divisions. My longest position has been at MARUI FACILITIES Co., Ltd., where I am currently in my seventh year.

Career History

Apr. 1983 Joined the Company
Mar. 2006 General Manager, Group Financial Department
Apr. 2007 Executive Officer (Incumbent)
Jul. 2008 General Manager, Personnel Division
Oct. 2009 General Manager, Voi Business Department, MARUI CO., LTD.
Apr. 2011 General Manager, Corporate Planning Division
Apr. 2013 President and Representative Director, MARUI FACILITIES Co., Ltd. (Incumbent)
Apr. 2015 Director, MARUI HOME SERVICE Co., Ltd. (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Internal Control Committee
Safety Control Committee



Mayuki Igayama
Executive Officer

Shares held: 5,500
Born: June 1964

Self-Introduction

My career at MARUI GROUP started at the men's accessory sales floor at Kichijoji Marui in 1987. I then went on to work in sales promotion, advertising, and direct marketing at the head office. I tend to like to do everything myself, and I spent a lot of my 20s and 30s on overtime. Two experiences inspired me to change how I worked and to grow. The first was an illness that struck me when I was 42. The second was when I became a product development project leader in the field of shoes, where I had no experience, at 44. If I had to sum up my personality, the word I would use is "serious." Going forward, I hope to contribute to the improvement of corporate value at MARUI GROUP through the type of serious action for which I was named.

Career History

Mar. 1987 Joined the Company
Apr. 2009 General Manager, New Business Department
Oct. 2009 Deputy General Manager, Voi Business Department, MARUI CO., LTD.
Apr. 2012 General Manager, Direct Marketing Department, MARUI CO., LTD.
Apr. 2014 Director and General Manager, Direct Marketing Department, MARUI CO., LTD.
Apr. 2015 Executive Officer (Incumbent)
Director, MOVING CO., LTD.
Apr. 2016 Director and General Manager, Omni-Channel Retailing Division, MARUI CO., LTD.
Apr. 2019 President and Representative Director, MOVING CO., LTD. (Incumbent)

Participation in committees:

Management Committee
Compliance Promotion Board
Internal Control Committee



Junko Tsuda
Executive Officer

Shares held: 3,600
Born: May 1972

Self-Introduction

I have changed positions more than 10 times in the roughly 20 years since I joined MARUI GROUP in 1995, working in sales and customer service, sales promotion, purchasing, private brand, demand marketing, and new business divisions as well as a store manager. I felt highly motivated in all of these positions, focusing my efforts on co-creation activities with our customers and various other stakeholders. By responding to changes in the needs of the times with empathy, I aim to increase the range of situations in which I can contribute. I would say that I am a positive individual. I thus intend to go about my work proactively and with optimism going forward while turning my attention to future possibilities.

Career History

Mar. 1995 Joined the Company
Apr. 2014 Store Manager, Nakano Marui, MARUI CO., LTD.
Apr. 2015 Executive Officer (Incumbent)
Director and Store Manager, Marui Family Shiki, MARUI CO., LTD.
Apr. 2017 Executive Officer and General Manager
New Business Development Department
Apr. 2018 Director and Store Manager,
Marui Family Mizonokuchi, MARUI CO., LTD.
Apr. 2019 Director and General Manager,
Cardholder Service Department,
Epos Card Co., Ltd. (Incumbent)

Participation in committees:
Management Committee
Public Relations IR Committee



Miyuki Kawara
Executive Officer

Shares held: 1,300
Born: August 1963

Self-Introduction

I was born in Kagoshima Prefecture, and I came to Tokyo for work. I joined MARUI GROUP out of my love for designer and character brands. In my first year, I worked in the women's clothing department of Shibuya Marui. My coworkers called me "Dynamite Kawara" because of my head-on approach toward everything. For about a decade beginning in my 30s, I was engaged in product planning, analyzing social trends to propose the product themes we should focus on. This was a job I could lose myself in as I enjoyed the feeling of launching new movements. Later, I experienced the importance of individuals and of teams as a store manager before bearing witness to the various possibilities accessible through connections with external stakeholders in the CSR Promotion Department and at Epos Card Co., Ltd. I hope to use the lessons I have learned in my current position and in developing new stores that will shape the future. My source of energy is sweets and shopping.

Career History

Mar. 1986 Joined the Company
Apr. 2007 Store Manager, Kobe Marui, MARUI CO., LTD.
Oct. 2008 General Manager, Brand Development
Department, MARUI CO., LTD.
Apr. 2012 General Manager, CSR Promotion Department
Apr. 2015 Director and General Manager,
Collaboration Card Business Department,
Sales Promotion Department,
Epos Card Co., Ltd.
Apr. 2016 Executive Officer (Incumbent)
Director and General Manager,
Sales Promotion Department,
Epos Card Co., Ltd.
Apr. 2018 Director and Store Manager, Ueno Marui,
MARUI CO., LTD.
Apr. 2019 Director and Store Manager, Marui Family
Mizonokuchi, MARUI CO., LTD. (Incumbent)

Participation in committees:
Management Committee
Internal Control Committee



Tatsuo Niitsu
Executive Officer

Shares held: 20,100
Born: November 1967

Self-Introduction

My first position after entering the Company in 1991 was in credit card services. I later gained experience in the Sales Planning Division of MARUI CO., LTD., before taking up my first chief manager position in the Demand Marketing Section. After that, I managed the Corporate Planning Section and Sales Planning Division before assuming my current position as general manager of the Business Planning Division. I emphasize the importance of creating new businesses by giving form to unmet customer needs, and I like to hypothesize about how to accomplish this goal whenever something inspires me, whether at or away from work. As I am addicted to addressing customer needs, I greatly enjoy people watching. I also enjoy social occasions as they are a source of good ideas. I find joy in doing things different from other people, and I hope to utilize this peculiarity in my work.

Career History

Apr. 1991 Joined the Company
Apr. 2014 General Manager, Sales Planning Division,
MARUI CO., LTD.
Apr. 2016 Director and General Manager,
Sales Planning Division, MARUI CO., LTD.
Apr. 2019 Executive Officer (Incumbent)
Director and General Manager,
Sales Planning Division, MARUI CO., LTD.
(Incumbent)

Participation in committees:
Management Committee
Information Security Committee



Takeshi Ebihara

Executive Officer

Shares held: 1,000
Born: March 1969

Self-Introduction

Joining the Company in 1991, I was placed in the women's apparel department of Ikebukuro Marui before being transferred to an IT systems division in my second year. At age 35, I took part in the development of the systems that would be used to launch the EPOS card. This undertaking entailed revising our prior frameworks while developing new frameworks to accommodate the needs of Visa and of card shopping revolving payment transactions. It was a challenging project, but we overcame these challenges as a team, and the sense of accomplishment was great. Many people say that I am very meticulous, despite the image of people with B-type blood in Japan. I take this as a compliment. Looking forward, I aim to accelerate our digitization efforts and deliver frameworks that contribute to customer satisfaction.

Career History

Apr. 1991 Joined the Company
Apr. 2012 General Manager, Customer System Development Department, M & C SYSTEMS CO., LTD.
Apr. 2014 General Manager, Systems Department, Corporate Planning Headquarters, Epos Card Co., Ltd.
Apr. 2018 Director and General Manager, Customer System Development Department, M & C SYSTEMS CO., LTD.
Apr. 2019 Executive Officer and CDO (Chief Digital Officer) (Incumbent)
Director and General Manager, Digital Transformation Promotion Department, M & C SYSTEMS CO., LTD. (Incumbent)
Director, Epos Card Co., Ltd. (Incumbent)

Participation in committees:

Management Committee
Information Security Committee



Reiko Kojima

Executive Officer

Shares held: 0
Born: September 1975

Self-Introduction

After graduating from a medical program, I became an internal medicine physician at a general hospital. Contrary to my reason for becoming a doctor, which was to support working individuals, most of my patients were senior citizens. I therefore chose to become a company physician at a major manufacturer in 2002. For six years, I worked in this position while simultaneously performing outpatient examinations in the psychosomatic medicine department of a hospital on a weekly basis. In my examinations, I witnessed people that were energized despite being busy as well as those that became ill under similar circumstances. This made me want to research how people can be happy in their work, prompting me to enter a graduate program. I joined MARUI GROUP after acquiring my Doctor of Medicine. I look forward to continuing to help invigorate the Company's employees and organizations with my foundation in medicine in the future.

Career History

Mar. 2000 Acquisition of physician's license
May 2002 Regular Outpatient Physician, Department of Psychosomatic Medicine, Yokohama Rosai Hospital
Company Physician, Furukawa Electric Co., Ltd.
Mar. 2010 Acquisition of Doctor of Medicine
Apr. 2011 Company Physician (Incumbent)
Apr. 2014 General Manager, Health Management Division (Incumbent)
Apr. 2019 Executive Officer (Incumbent)

Participation in committees:

Management Committee
Sustainability Committee
Environment and CSR Committee

Hearing that President Hiroshi Aoi would wear a t-shirt to the photoshoot, CFO Hirotugu Kato showed up in a t-shirt, white pants, and sneakers. This surprising outfit drew laughter from the other officers, relaxing the atmosphere and making the overall photoshoot calmer and more enjoyable than in previous years.



Personality Types of MARUI GROUP Officers

MARUI GROUP had all directors and Audit & Supervisory Board members, both internal and external, take part in the Myers-Briggs Type Indicator® (MBTI®) personality test*¹ based on international standards. These tests were meant to help them better understand themselves and to contribute to their ongoing growth. We thereby ascertained that the naturally ingrained personalities of these officers were incredibly diverse. It was thus decided to disclose the MBTI® personality types of these officers in order to communicate the fundamental aspects of their characteristics and diversity that cannot be portrayed simply by looking at business skills.

Diversity of MARUI GROUP Officers Seen in Their Personalities

MARUI GROUP believes that diversity is crucial to the effectiveness of the Board of Directors and the Audit & Supervisory Board. When people think of diversity, they often associate it with diversity of gender, race, or business skills. Going beyond these surface-level traits, we emphasize the importance of diversity in the ingrained personalities of individuals.

All 25 of internal and external MARUI GROUP directors, Audit & Supervisory Board members, and executive officers took part in a workshop during which they underwent MBTI® personality tests and then discussed the results in groups. The purpose of this workshop was to promote self-understanding and facilitate future growth. Through this workshop, officers were able to gain a better understanding of others and of themselves and to find their Best Fit type.*² The workshop also cast light on the high level of diversity among MARUI GROUP officers.

By disclosing the results of the MBTI® personality evaluations, we hope to communicate the diversity of MARUI GROUP officers on a more fundamental level. These results complement the glimpse into officer personalities provided by the unique self-introductions featured in the “Directors, Audit & Supervisory Board Members, and Executive Officers” section on pages 132–140.

*¹ The MBTI® personality test was developed in accordance with international standards and based on the personality type theory proposed by Swiss psychiatrist Carl G. Jung. This test has been translated in the languages of more than 45 countries and is administered to around 2 million people every year in the United States. The personality types assigned through the MBTI® method refer to the naturally ingrained personality with which one is born, as opposed to the socially constructed personality that is a result of one's life experience, profession, or position. The MBTI® test is not meant to categorize people or be used for diagnosis purposes, but is rather a tool for promoting understanding of the diversity of naturally ingrained personality types. It is therefore widely used for facilitating self-understanding and career development, mutual understanding in interpersonal relationships, and team building.

*² Best Fit type constitutes personal information and has been disclosed with the consent of all relevant individuals. One's Best Fit type (how individuals recognize themselves) can change as a result of deeper self-understanding.

Comments from Officers after MBTI® Workshop

- I could not find common ground with T team, and no progress was made in discussions. Later, they told me that the conversation took off the moment I left.—Aoi
- I was once again made aware of the fact that there are a lot of different types of people and ways of reacting to the same occurrence.—Takimoto
- I was astounded to learn of the naturally ingrained personality types of everyone at the workshop. I was misreading their work faces even after all these years.—Sato
- The test categorized me as ENTJ, but I feel like INTJ.—Igayama

- I am currently helping a lot of companies achieve rapid growth, and this workshop reminded me of the importance of empathy and intuition.—Okajima
- I now understand why my naturally ingrained personality was what it was. My outward personality is a product of my years in this society.—Sasaki
- All officers were distributed pretty evenly among the 16 personality types, indicating a good balance among MARUI GROUP's officers.—Nakamura




























Diversity of MARUI GROUP Officers Extrapolated from MBTI® Types

According to the MBTI® framework, everyone has a natural preference toward how they want to act, and that preference can be divided into the four categories on the axes of the matrix below. There are no good or bad preferences. Rather, they indicate each individual's behavioral preference, how they feel most natural expressing themselves, much like one feels most natural using their dominate hand. By understanding which "hand" is dominant, we are able to better understand our purpose and how to interact with others. This understanding can help MARUI GROUP develop more effective frameworks for co-creation. It is important to recognize that everyone is born with all of the preferences to a certain degree, and that this is what enables us to grow.

Extroversion (E) or Introversion (I): Where your interests lie and what energizes you
Sensing (S) or Intuition (N): How you prefer to gain information

Thinking (T) or Feeling (F): What type of logic you prefer to follow
Judging (J) or Perceiving (P): How you prefer to interact with the world around you

		Sensing (S)		Intuition (N)	
Introversion (I)	ISTJ Quiet, serious, earn success by thoroughness and dependability. Take pleasure in making everything orderly and organized—their work, their home, their life. Value traditions and loyalty.  Ito  Takagi  Fuse  Saito	ISFJ Quiet, friendly, responsible, and conscientious. Loyal, strive to create an orderly and harmonious environment at work and at home.  Fujizuka	INFJ Conscientious and committed to their firm values. Develop a clear vision about how best to serve the common good. Organized and decisive in implementing their vision.	INTJ Have original minds and great drive for implementing their ideas and achieving their goals. Skeptical and independent, have high standards of competence and performance—for themselves and others.  Kato	
	ISTP Tolerant and flexible, quiet observers until a problem appears, then act quickly to find workable solutions. Analyze what makes things work and readily get through large amounts of data to isolate the core of practical problems.	ISFP Quiet, friendly, sensitive, and kind. Loyal and committed to their values and to people who are important to them. Dislike disagreements and conflicts, do not force their opinions or values on others.  Ooe	INFP Idealistic, loyal to their values and to people who are important to them. Curious, quick to see possibilities, can be catalysts for implementing ideas.  Aoi  Niitsu  Kojima	INTP Have unusual ability to focus in depth to solve problems in their area of interest. Skeptical, sometimes critical, always analytical.  Sasaki	
Extroversion (E)	ESTP Theories and conceptual explanations bore them—they want to act energetically to solve the problem. Focus on the here-and-now, learn best through doing.  Ebihara	ESFP Outgoing, friendly, and accepting. Enjoy working with others to make things happen. Flexible and spontaneous, adapt readily to new people and environments.  Okajima  Aoki	ENFP Warmly enthusiastic and imaginative. Want a lot of affirmation from others, and readily give appreciation and support. Spontaneous and flexible, often rely on their ability to improvise and on their verbal fluency.  Takimoto  Tsuda	ENTP Quick, ingenious, stimulating, alert, and outspoken. Resourceful in solving new and challenging problems. Bored by routine.	
	ESTJ Practical, realistic, matter-of-fact. Have a clear set of logical standards, systematically follow them and want others to also.  Muroi  Kogure	ESFJ Warmhearted, conscientious, and cooperative. Like to work with others to complete tasks accurately and on time. Want to be appreciated for who they are and for what they contribute.	ENFJ Warm, empathetic, responsive, and responsible. Find potential in everyone, want to help others fulfill their potential. Loyal, responsive to praise and criticism.  Ishii  Kawara	ENTJ Frank, decisive, assume leadership readily. Usually well-informed, well-read, enjoy expanding their knowledge and passing it on to others. Forceful in presenting their ideas.  Taguchi  Aono  Nakamura  Igayaama  Sato	

Source: The Myers & Briggs Foundation
www.myersbriggs.org/



MBTI® and Myers-Briggs Type Indicator are registered trademarks of the Myers-Briggs Type Indicator Foundation in the United States and other countries.

Overview of MARUI GROUP

As of March 31, 2019

Company Overview

Name	MARUI GROUP CO., LTD.
Head office	3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
Date of foundation	February 17, 1931
Date of establishment	March 30, 1937
Capital	¥35,920 million
Business activities	Corporate planning and management for Group companies engaged in Retailing segment and FinTech segment
Stores	Marui and Modi: 25 located in Kanto, Tokai, Kansai, and Kyushu regions
Total sales floor area	425,600m ²
Number of employees	5,326 (Group total, excludes temporary employees)
Main banks	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc. Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Ltd.
Accounting auditor	KPMG AZSA LLC*1

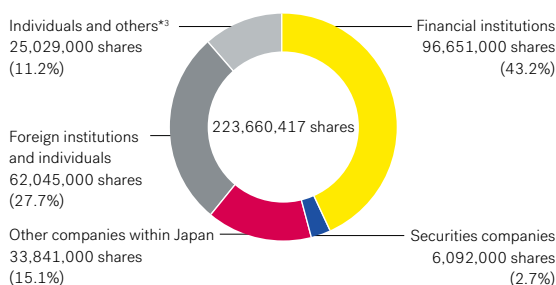
*1 The Company's accounting auditor was changed to PricewaterhouseCoopers Aarata LLC following a resolution at the Ordinary General Meeting of Shareholders held on June 20, 2019.

Stock Information

Stock listing	Tokyo Stock Exchange, First Section (loan margin trading issues)
Securities code	8252
Number of authorized shares	1,400,000,000
Number of common shares issued*2	223,660,417
Number of shareholders	27,369

*2 Number of common shares issued includes 5,712,467 shares of treasury stock, equivalent to 2.6% of the total number of shares of common stock issued.

Distribution of Shares Held by Shareholder Type



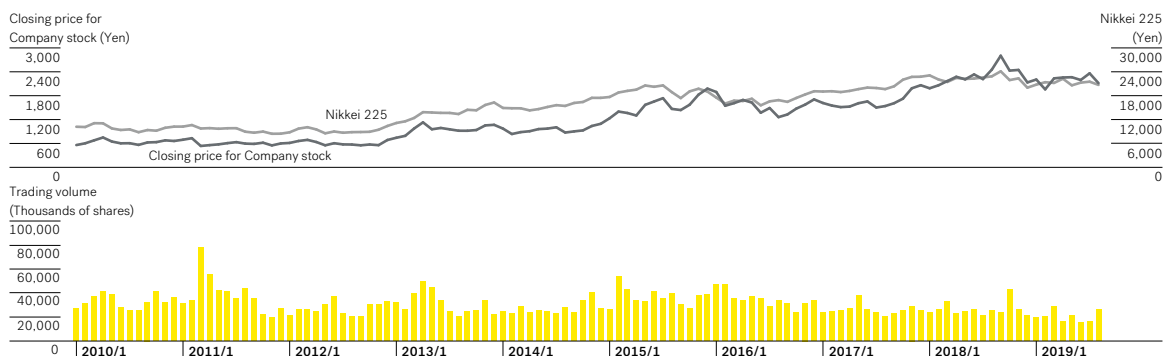
*3 Individuals and others includes 5,712,467 shares of treasury stock.

Major Shareholders

Name	Number of shares (Thousands of shares)	Percentage of total shares issued*4 (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	34,194	15.7
Japan Trustee Services Bank, Ltd. (Trust Account)	17,825	8.2
Aoi Real Estate Co., Ltd.	6,019	2.8
MUFG Bank, Ltd.	5,808	2.7
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	4,284	2.0
TOHO CO., LTD.	3,779	1.7
Japan Trustee Services Bank, Ltd. (Trust Account 7)	3,699	1.7
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,274	1.5
The AOI SCHOLARSHIP FOUNDATION	3,237	1.5
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,992	1.4

*4 Percentage of total shares issued is calculated excluding 5,712,467 shares of treasury stock and including 502,300 shares held under the Board Incentive Plan Trust scheme and the Employee Stock Ownership Plan Trust scheme.

Stock Price



MARUI GROUP's Business

MARUI CO., LTD.

Marui store business operation, original sales and private brand operation and development, online shopping and mail-order, outside specialty store business

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

🌐 www.0101.co.jp.e.ex.hp.transer.com

Epos Card Co., Ltd.

Credit card business, credit loan business

3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
Tel: 03-4574-0101 (Receptionist)

🌐 www.eposcard.co.jp (Japanese only)

AIM CREATE CO., LTD.

Commercial facility design and construction, advertisement planning and creation, property management

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-5340-0101 (Receptionist)

🌐 www.aim-create.co.jp (Japanese only)

MOVING CO., LTD.

Trucking business, forwarding, and other businesses

5-1, Bijogihigashi 2-chome, Toda-shi, Saitama 335-0032, Japan
Tel: 048-233-1000 (Receptionist)

🌐 www.moving.co.jp (Japanese only)

M & C SYSTEMS CO., LTD.

Software development, computer operation

3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
Tel: 03-5343-0100 (Receptionist)

🌐 www.m-and-c.co.jp (Japanese only)

MARUI FACILITIES Co., Ltd.

Comprehensive building management service business

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-3229-0101 (Receptionist)

🌐 www.marui-facilities.co.jp (Japanese only)

MARUI HOME SERVICE Co., Ltd.

Real estate rental business

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-6361-0101 (Receptionist)

🌐 www.marui-hs.co.jp (Japanese only)

MRI Co., Ltd.

Collection and management of receivables business, credit check business

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-4574-4700 (Receptionist)

🌐 www.mri-s.co.jp (Japanese only)

Epos Small Amount and Short Term Insurance Co., Ltd.

Small-amount short-term insurance policy business

34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Tel: 03-4546-0101 (Receptionist)

🌐 www.epos-ssi.co.jp (Japanese only)

tsumiki Co., Ltd.

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

3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
Tel: 03-5343-0134 (Receptionist)

🌐 www.tsumiki-sec.com (Japanese only)

MARUI KIT CENTER CO., LTD.

Supply pickup, product inspection, various printing services

Toda Product Center, Second Building, 5-1, Bijogihigashi 2-chome, Toda-shi, Saitama 335-0032, Japan
Tel: 048-421-7351 (Receptionist)



Group of new university students supported in the fiscal year ending March 31, 2020

The AOI SCHOLARSHIP FOUNDATION was established by MARUI GROUP founder Chuji Aoi with the aim of contributing to the development of people that can shape the future of Japan and benefit society. Over the more than 40 years since its establishment, this foundation has helped fund the education of high school and university students while facilitating networking between students receiving scholarships and past graduates.

Established: January 1973 (became an incorporated public interest foundation in 2012)
Director: Tadao Aoi (Honorary Chairman of MARUI GROUP)
Total amount of scholarships provided: ¥1,890 million
Total number of students supported: 1,599 (As of April 2019)

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

RATINGS, AWARDS, AND RECOGNITION

MARUI GROUP established the IR Department in October 2015 and then the ESG Promotion Department in October 2016 to enhance communication with institutional investors and information disclosure. We have also identified the promotion of diversity and wellness (healthcare) management as key measures under the medium-term management plan with the aim of improving corporate value.

Global Socially Responsible Investment Indexes



MARUI GROUP has been selected for inclusion in the Dow Jones Sustainability World Index for the first time, making it the only Japanese retailer included in this index, and has also been included in the Dow Jones Sustainability Asia Pacific Index for two consecutive years.



In *RobecoSAM Sustainability Yearbook 2019*, a compilation of companies displaying excellence in terms of ESG initiatives and information disclosure, MARUI GROUP was the only Japanese company from the retail sector identified as a yearbook member. Moreover, the Company has been included for two consecutive years. MARUI GROUP was also in the Bronze Class and recognized as an Industry Mover in the yearbook.



MARUI GROUP has been included in the FTSE4Good Index Series, a series of indexes arranged by FTSE Russell that comprise companies meeting evaluation standards pertaining to ESG factors, for three consecutive years.



MARUI GROUP was included in the MSCI ESG Leaders Indexes,* an ESG stock index with high global recognition.



MARUI GROUP was selected for inclusion in the SNAM Sustainability Index for two consecutive years. This index is compiled by Sampo Japan Nipponkoa Asset Management Co., Ltd., and used in its SNAM Sustainable Investment Fund, which prioritizes ESG ratings by investigation firms.

JPX-Nikkei Index 400

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

Four ESG Indexes Utilized by the Government Pension Investment Fund



MARUI GROUP has been included in the FTSE Blossom Japan Index for three consecutive years. This ESG index is meant to reflect the performance of Japanese companies that meet various ESG-related requirements, and industry is therefore not considered when selecting companies for inclusion.



MARUI GROUP was included in the MSCI Japan ESG Select Leaders Index* for the third consecutive year. This ESG index comprises Japanese companies with relatively high MSCI ESG Ratings in each industry selected from among the top 500 companies in terms of market capitalization after excluding those companies with the lowest MSCI ESG Rating of CCC.



For three consecutive years, MARUI GROUP has been included in the MSCI Japan Empowering Women Index,* an ESG index for Japanese stocks consisting of companies that exhibit gender diversity excellence in each industry, based on the Global Industry Classification Standard, selected from among the top 500 companies in terms of market capitalization.



MARUI GROUP was included, for the first time, in the S&P/JPX Carbon Efficient Index, which comprises companies included in the Tokyo Stock Price Index selected through a process that entails overweighting or underweighting companies in reflection of their disclosure of environmental information and their carbon efficiency (carbon emissions per unit of revenue).



MARUI GROUP was ranked 1st for the second time among the 22 companies included in the retail category for three of the five evaluation criteria in the Awards for Excellence in Corporate Disclosure presented by the Securities Analysts Association of Japan.



MARUI GROUP was included in this selection for the first time in the Competitive IT Strategy Company Stock Selection out of recognition for its creation of cross-Group organizational structures for promoting digitalization and its use of IT in work style reforms and in the promotion of financial inclusion providing financial services for everyone.



MARUI GROUP was the first Japanese retailing company to be included in the Climate A-List, which represents the highest evaluation offered by CDP, in reflection of its endorsement of the recommendations of the TCFD and other initiatives to address climate change response and practice information disclosure of a level that is high even viewed from a global perspective.

STOXX Climate Change Leaders Index

MARUI GROUP was selected for inclusion for the first time in the STOXX Climate Change Leaders Index, one of a series of low-carbon indexes developed in 2016 and the world's first index to focus on inclusion of companies featured on CDP's Climate A-List.

AWARDS



MARUI GROUP's greenhouse gas emission reduction targets were the first targets by a Japanese retailer to receive certification from Science Based Targets, indicating that these targets are based on scientific evidence and effective for achieving the goals of the Paris Agreement, namely keeping global warming below 2°C above pre-industrial levels.



MARUI GROUP received the Minister of the Environment Award in the Japan Green Innovation Category of the Japan Green Bond Awards in recognition of its issuance of Japan's first green bonds for procuring renewable energy.



MARUI GROUP received an award of excellence in the Sustainable Finance Award for the first time due to a high evaluation of initiatives including joining RE100 and its Groupwide efforts to introduce renewable energy.

22nd Nikkei Corporate Environmental Management Survey
The Nikkei Corporate Environmental Management Survey has been conducted by Nikkei Inc. once a year since 1997 to evaluate companies that are effectively addressing environmental issues while managing their business. MARUI GROUP ranked first in the retail and restaurants category for the second consecutive year in the 2019 survey with perfect scores in areas related to environment management systems, pollution prevention and biodiversity initiatives, and global warming countermeasures.



MARUI GROUP was included in the Health & Productivity Stock Selection for the second consecutive year in 2019, recognizing it as a company that is strategically addressing employee health and productivity management issues based on a management perspective. The Company was rated the highest among retail sector companies for its organizational framework and measures.



MARUI GROUP was included in the New Diversity Management Selection 100 for the first time out of recognition of its ability to create new services and improve corporate value by shaping its corporate culture and reforming its human resource systems in line with its strategy of promoting diversity to realize its corporate philosophy.



MARUI GROUP was chosen for inclusion in the Nadeshiko Brand for the second consecutive year due to Companywide work style reform initiatives aimed at creating foundations for the empowerment of female employees as well as its appointment of the Group's first female CEO following its entry into the securities business.

Awards for Companies Promoting Equality and Work-Life Balance
MARUI GROUP was recognized in the Awards for Companies Promoting Equality and Work-Life Balance in reflection of its expansion of the scope of duties performed by female employees and its increase in the number of female managers. These improvements were achieved by tracking women's empowerment indexes, which were established for the purpose of measuring the progress in initiatives for empowering female employees.



MARUI GROUP received the grand prize in the Companies Supporting Childrearing by Two-Income Households Grand Prix for the first time in reflection of the high evaluations of the impressive ratio of male employees acquiring childcare leave, its low average amount of monthly overtime, and its provision of opportunities for career education regardless of employees' gender, age, or other traits.

RECOGNITION



MARUI GROUP was awarded with the highest rating of gold in the PRIDE INDEX for the second consecutive year out of recognition of its expansion of the scope of application of systems for spouses of employees to include common-law marriage and same-sex partners and its establishment of an external consultation venue catering to concerns related to LGBT and other issues.



Asumi Kantake, representative director and CEO of Group company tsumiki Co., Ltd., was presented with an innovator award in the individual category of the 2018 Forbes JAPAN WOMEN AWARD, which is aimed at women who are active on the front lines of fields where women are lacking.



In the International ARC Awards, one of the two major U.S. annual report competitions, *VISION BOOK 2050* received a Gold award and four other awards and *Co-Creation Management Report 2018* received a Silver award and three other awards.



MARUI GROUP's *VISION BOOK 2050* won a Silver award in the Sustainability Report: Asia, Mid-East & Pacific section of the Specialized A.R. category of the 2019 International ARC Awards. Held on a yearly basis by U.S. independent evaluation institution MerComm, Inc., the International ARC Awards are the world's foremost annual report competition.

Recognition as Excellent Integrated Report
MARUI GROUP's *Co-Creation Management Report 2018* has been recognized as an excellent integrated report for three consecutive years by institutions to which the Government Pension Investment Fund outsources the management of domestic securities. Reasons for its selection include its creativity and the clear direction of the president's message and other sections.

NIKKEI Annual Report Awards 2018
In NIKKEI Annual Report Awards 2018, MARUI GROUP's *Co-Creation Management Report 2018* integrated report received a special award, following the award for outstanding performance received in the previous year, based on the high scores for its senior management messages and its solicitation of the idea of financial stability.

WICI Japan Award for Excellence in Integrated Reporting
Marui Group's *Co-Creation Management Report 2018* received an encouragement prize in the WICI Japan Award for Excellence in Integrated Reporting program launched by WICI Japan with the aim of promoting the spread of integrated reporting.

Rating and Investment Information, Inc.
MARUI GROUP has been granted a rating of A- for its overall debt repayment capacity with regard to financial liabilities.

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More detailed information on these and other awards and recognition can be found on the Company's corporate website.
www.0101maruigroup.co.jp/en/ci/award.html





The finger pictured on the cover of this report belongs to President Aoi.

President Aoi together with a group of employees toughed out the strong winds to take photographs to accompany this report's message of "Let's Join Hands."

Editorial Policy

MARUI GROUP has been publishing co-creation management reports and co-creation sustainability reports as tools for stakeholder engagement since 2015. These management strategy reports are forged over a process of more than 40 planning meetings a year led by President Hiroshi Aoi. Our co-creation management reports are integrated reports that focus on the financial and pre-financial information that will support the exercise of MARUI GROUP's corporate philosophy and the ongoing growth of the Company. In compiling these reports, we reference the concepts of connections between organizations and value creation for others and capital contained in the International Integrated Reporting Framework released by the International Integrated Reporting Council in December 2013. We also referenced the idea of a dichotomy between short-term gains and investments in intangible assets contained in *Ito Report 2.0* as well as the view on value creation narratives linking values, business models, strategies, success, important indicators, and corporate governance contained in the *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation: ESG Integration, Non-Financial Information Disclosure, and Intangible Assets into Investment* released by the Ministry of Economy, Trade and Industry in May 2017. In addition, Director and Managing Executive Officer Hirotsugu Kato regularly participates in the exchanges of opinion as a member of the Forum for Integrated Corporate Disclosure and ESG Dialogue arranged by the Ministry of Economy, Trade and Industry for the purpose of facilitating discussions between companies and investors based on the *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation*. Moreover, in preparing to publish *Co-Creation Management Report 2019*, we held a total of 20 planning meetings based on the opinions and requests received through meetings with and surveys of investors and from other stakeholders.



Overview of 20 Planning Meetings

Attendees

President Hiroshi Aoi, CFO Hirotsugu Kato, CDO Takeshi Ebihara, Executive Officer Reiko Kojima, and representatives from the Corporate Planning Division, the IR Department, the Sustainability Department, the ESG Promotion Department, the General Affairs Department, the Investment Research Department, the Health Management Division, M & C SYSTEMS CO., LTD., and EDGE INTERNATIONAL, INC.

Major Discussion Themes

- Results of meetings with investors and experts
- Concepts of appropriate stock price and valuations
- Long-term relationships with customers and LTV management
- Transition from healthcare management to wellness management
- Initiatives related to TCFD recommendations
- Big data and credit expertise
- Synergies generated through in-house IT system production by M & C SYSTEMS CO., LTD.
- Scope of applicability of executive officer skill map
- Vision for sustainability governance

Afterword

Thank you for reading *Co-Creation Management Report 2019* to its end.

The main message of this report was "Let's Join Hands," our invitation to readers to engage in co-creation with MARUI GROUP. As President Aoi and the other project members discussed the production of this report, we became aware of our strong desire to invite stakeholders sharing our ideals to join us in co-creating value, leading to this message. Also, hoping to facilitate better understanding of MARUI GROUP, we endeavored to provide information on our view of LTV along with disclosure based on the recommendations of the TCFD in response to opinions and requests from stakeholders. This report also features self-introductions by MARUI GROUP officers as well as a look at their MBTI®-type to provide a glimpse at the personalities and diversity of management. In addition, we prepared several dialogues, an ever-popular feature, to explain the Company's policies and initiatives from a multitude of angles. However, we realize that this report alone is insufficient to encourage customers to choose MARUI GROUP as their co-creation partner. Accordingly, this report will be positioned as a tool for engagement with stakeholders in the hope that it will lead to initiatives for co-creating value with as many stakeholders as possible.

I look forward to your ongoing support of MARUI GROUP.

Takahiro Matsumoto

General Manager, Public Relations Office,
General Affairs Department, MARUI GROUP CO., LTD.
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Let's Join Hands

CO-CREATION

with you

MARUI GROUP's vision for the world of 2050
is one in which all dichotomies have been transcended to allow future generations
and all other individuals to live happily and as themselves.
Realizing this vision will require that we engage in co-creation with MARUI GROUP
employees as well as with customers, business partners,
communities and society, investors,
and the future and younger generations that will shape the future.
We invite everyone who shares our vision for the future to
join hands with us in co-creating the happiness of all people.



Co-Creation Management Reports

www.0101maruigroup.co.jp/en/ir/lib/i-report.html

Annual integrated reports focused on
management strategies



VISION BOOK 2050

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

Report published in March 2019 declaring
MARUI GROUP's vision for the world of 2050



Co-Creation Wellness Report (Japanese only)

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

Report detailing wellness management initiatives going
beyond the basic approach of preventing illness in order
to foster more energized and happy employees



Contact

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www.0101maruigroup.co.jp/en/question.html

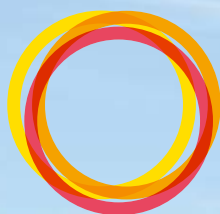
Corporate information, investor relations information,
sustainability information, recruitment information

www.0101maruigroup.co.jp/en/

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