



# CO-CREATION

Co-Creation Management Report 2016

MARUI GROUP CO., LTD.

## PROFILE

MARUI GROUP is a conglomerate that provides fulfilling lifestyles to customers of all ages through its unique business model comprising its Retailing and FinTech segments. Since its founding in 1931, MARUI has employed a business model merging retailing and credit card operations, and it has thereby established unique strengths and an undisputed position in the Japanese retail industry.

Today, the Group has grown to include 29 retail venues in Japan staffed by approximately 6,000 employees. In recent years, our FinTech business, which is supported by more than 6 million cardholders, has been growing as a consistent driver behind the Group's performance.

MARUI GROUP is practicing co-creation management based on customer perspectives as it forges ahead with various business model reforms to advance to the next growth stage.

### About Front Cover Design

The three overlapping circles on the front cover of this report represent respectively our customers, society, and MARUI GROUP itself. The Group's co-creation management is aimed at the co-creation of customer happiness realized by forming intrinsic links between customers, society, and the Group. The front cover design is a representation of this goal.

The photograph is of a mother and daughter leaving Hakata Marui on Saturday, May 14, 2016, laughing and with smiles on their faces. We spoke with them on their way to Hakata Station, preserving their beaming smiles in this photograph. In addition to these two, this report will feature many other customers that have visited Hakata Marui.

## COVER STORY

*Co-Creation*

# of Customer Happiness

MARUI GROUP's co-creation management entails incorporating the customer's perspective into all business processes and thereby working to co-create customer happiness with our partners. This approach permeates our store development and product creation efforts in the Retailing business and our advancement of credit card services in the FinTech business, and will remain a central and ongoing part of our operations into the future.

Co-Creation of Customer Happiness

MARUI GROUP and its

*Customers*

We strive to work with our customers in co-creating their happiness. By holding planning meetings on various themes and for numerous projects together with our customers, we are able to engage in ongoing discussion with them. These meetings thus enable us to develop a thorough understanding of customer needs and desires as we collaborate to seek out the ideal form for our stores, products, and services. The value of our co-creation efforts is found in the intersections of interests born out of these ongoing discussions.

→ P42 MARUI GROUP and its Customers, in the Hakata Marui Co-Creation Story

Customers enjoying shopping at the Marui Shoes store on the third floor of Hakata Marui on Thursday, April 28, 2016



Co-Creation of Customer Happiness

MARUI GROUP and its *Business partners*

Our business partners are important allies in co-creating customer happiness. For this reason, we sought to further evolve our co-creation business by inviting business partners to participate together with customers in planning meetings related to the establishment of Hakata Marui. This was the first time such partners had been invited to these meetings. The process of developing this store by collaborating with both customers and business partners was an opportunity that led to new discoveries.

→ P46 MARUI GROUP and its Business Partners, in the Hakata Marui Co-Creation Story



Staff of Dashidokoro Hyoshiro on the first floor and REC COFFEE on the sixth floor of Hakata Marui, both partners that participated in planning meetings

## Co-Creation of Customer Happiness

MARUI GROUP and its *Employees*

The foundations for our co-creation business are supported by our highly diverse employees. We benefit greatly from the strength these employees exhibit in responding quickly to changes in society and in the times, all while sharing our retailing mindset that emphasizes the customer's perspective. MARUI GROUP's corporate philosophy calls for us to "equate the development of our people with the development of our company." With this philosophy at heart, our employees will continue to treasure their connections with customers.

- ➡ P38 Documentary of Hakata Marui's Grand Opening
- ➡ P66 Employees Helping to Co-Create Customer Happiness

Sales staff displaying calm, joyous, and impassioned expressions despite the frenetic atmosphere on Thursday, April 28, 2016, one week after the opening of Hakata Marui



Co-Creation of Customer Happiness

MARUI GROUP and its

*Investors*

The point of origin for our co-creation management is our desire to contribute to the happiness of our customers, and we are confident that accomplishing this goal will fuel the long-term improvement of MARUI GROUP's corporate value. Contrary to common belief, the interests of customers and shareholders and other investors are not in opposition, but rather share a common intersection. By increasing this intersection, we aim to make greater contributions to the interests of all of our stakeholders.

- ➡ P28 Discussion of Co-Creation between Long-Term Investor and the President
- ➡ P32 Conversation between ESG Specialist and MARUI GROUP

Interactions with shareholders and other investors, opportunities to build stronger management



## Co-Creation of Customer Happiness

MARUI GROUP and *Communities and Society*

MARUI GROUP is connected to communities and the greater society through its customers. We recognize that the contributions our business activities make to the development of communities, regions, and society as a whole are also contributions to the happiness of our customers. One reason we develop stores that are considerate of the needs of small children and senior citizens as well as those of people with disabilities, non-Japanese people, and members of the LGBT community is that we believe such stores will help us resolve social issues through our business.

- ➡ [P48 MARUI GROUP and Communities and Society, in the Hakata Marui Co-Creation Story](#)
- ➡ [P50 MARUI GROUP Co-Creation Story](#)
- ➡ [P58 Corporate Culture of Co-Creation Management](#)

Customer sitting with her child next to the second floor escalator of Hakata Marui, a store that is unique in the large number of customers that visit with small children, on Thursday, April 28, 2016





*Co-Creation*  
**of Customer Happiness**

MARUI GROUP's co-creation management—its quest to co-create customer happiness through its business activities—has only just begun. We will continue to forge ahead on this path as we tackle an increasingly wider range of challenges going forward, committed to steadily producing results.





# CO-CREATION

Co-Creation Management Report 2016



Co-Creation Management Report 2015



Co-Creation CSR Report 2015

For the fiscal year ended March 31, 2015, MARUI GROUP published *Co-Creation Management Report 2015*, its first integrated report for shareholders, investors, and other stakeholders, which was followed up with the release of *Co-Creation CSR Report 2015*, a digest report. "Co-creation management" refers to the type of management for co-creating customer happiness to which MARUI GROUP aspires. *Co-Creation Management Report 2015* placed more emphasis on management strategies while *Co-Creation CSR Report 2015* focused primarily on the Company's connection with communities and the greater society.

[www.0101maruigroup.co.jp/ir/i-report-2015.html](http://www.0101maruigroup.co.jp/ir/i-report-2015.html)  
[www.0101maruigroup.co.jp/csr/report.html](http://www.0101maruigroup.co.jp/csr/report.html)

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#### Editorial Policy

*Co-Creation Management Report 2016* was created with the aim of helping our shareholders, investors, and various other stakeholders develop a better understanding of MARUI GROUP. This report contains performance, business, and financial information centered on the Group's corporate philosophy and business strategies. As an integrated report, it also includes non-financial information related to the activities that support the Group's sustainable growth. The International Integrated Reporting Framework released by the International Integrated Reporting Council in December 2013 was referenced in the development of this report.

#### 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.

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## MARUI GROUP's View on Corporate Value

MARUI GROUP aims to improve its corporate value by practicing co-creation management. What is our view of corporate value and what supports this view?

We will examine the answer to this question from various angles through a message from President Aoi and discussions with investors.





President Aoi in Yurakucho Marui in July 2016

## MARUI GROUP's Co-Creation of Corporate Value Has Only Just Begun.

I eagerly look forward to co-creating our corporate value together with shareholders, other investors, customers, business partners, and communities from a future-oriented perspective.

**Hiroshi Aoi**

President and Representative Director  
Representative Executive Officer

Let me begin by expressing my sincere appreciation to all of our stakeholders for their ongoing patronage and support of MARUI GROUP. I also thank those of you that have not previously had a chance to connect with the Company for taking the time to open this report.

This report, *Co-Creation Management Report 2016*, is MARUI GROUP's second integrated report. While we anticipate that shareholders and other investors will be its primary readers, we have taken steps to make this report of interest to a wider variety of stakeholders, including customers, business partners, community members, and students. The title "Co-Creation Management Report" might seem a little unfamiliar to you, and you may wonder why we chose this title instead of simply calling this report an "integrated report." The answer to this question is that there is a message we wanted to convey through this title.

The overarching theme of this report pertains to MARUI GROUP's quest to create corporate value, and we aim to create this value together with customers, shareholders, business partners, employees, communities, society, and all of our other stakeholders. The reason for this approach is that we view corporate value as being born out of the harmony between the interests and the happiness of all of our stakeholders.

We therefore hope to create our corporate value together with all of you who, after being introduced to MARUI GROUP's concept of co-creation management, are able to get behind this endeavor to even the smallest degree. This is the message we have encapsulated in the somewhat unusual title of this report.

### DNA of Innovation—History of MARUI GROUP

MARUI GROUP was created in 1931 by my grandfather, Chuji Aoi. At that time, our business involved selling furniture through monthly installment payments. Monthly installment payments entail providing both products and credit, or, in other words, represent a business model that merges retailing and finance. This business model has continued to be passed down through our operations, guiding our business and evolving amid changes in the times and MARUI's products and stores.

Monthly installment payments were a sales technique used by the merchants of Ehime Prefecture. Although my grandfather was from Toyama Prefecture, he was able to see the immense potential of this business model. However, he did not blindly embrace this model. Rather, he took a critical stance toward monthly installment payments, driving the evolution of this model, an undertaking that would lead my grandfather to issue Japan's first credit card in 1960. This was MARUI GROUP's first great innovation.

The credit sales model grew together with Japan's economy during the period of the so-called Japanese economic miracle that followed the end of World War II, driving the growth of the Company as a result. However, this situation changed in the 1980s. Up until that point, consumption had widely been aimed at furniture, consumer electronics, and other durable goods. When these items became commonplace, the demand for credit sales began to decline, plunging the entire industry into a state of crisis.

**“I took up the mantle of president in 2005, in the middle of this period of stagnancy. As such, I was immediately charged with the mission of breaking away from our past successes to pursue the creation of a new business model through fresh innovation.”**

During this period, MARUI GROUP’s rivals were mostly bought out by major department stores and supermarkets, resulting in their retail operations being abandoned to focus solely on finance as credit card companies. The only company to take a different path was MARUI GROUP.

As the center of consumption moved away from durable goods, we turned our attention toward the growing demand for consumer goods, choosing to specialize in sales of fashion. At the same time, we selected youths, who were generally not viewed as consumers in that era, as our target customer group. This decision enabled us to stimulate credit demand and subsequently advance the evolution of credit sales without abandoning our retail operations. In 1981, we called upon our credit expertise to begin offering cash advances. This was the second great innovation of MARUI GROUP, which was then equated with the young, fashion, and our Akai Card (Red Card) in-house credit card. This innovation proved to be a massive success, leading MARUI GROUP to a new peak in performance in 1991.

However, this success did not last long. Together with the collapse of Japan’s asset price bubble, the range of jobs available to young people changed dramatically,

and an increasingly large number of individuals were unable to find full-time positions. Furthermore, the youth population actually began to dwindle in 1996, signaling the start of the decline in Japan’s birthrate and the aging of its population. These trends were accompanied by a large shift in the needs of consumers. While consumers had previously sought to accumulate physical goods, they began pursuing more fulfilling lifestyles after the bubble’s collapse. This trend resulted in a sharp decrease in the demand for fashion, which was the focus of MARUI’s operations, and ushered in a long period of poor performance and stagnancy for the Company.

I took up the mantle of president in 2005, in the middle of this period of stagnancy. As such, I was immediately charged with the mission of breaking away from our past successes to pursue the creation of a new business model through fresh innovation. We began by seeking innovation in our credit cards. In 2006, we launched the EPOS card, MARUI GROUP’s new credit card. The prior Akai Card was only issued at Marui stores and could not be used outside these stores. Accordingly, the primary source of revenue from these cards was cash advances. EPOS cards, meanwhile, are issued through a special license with Visa Inc., meaning that these cards

can also be issued outside Marui stores and are usable anywhere in the world.

However, just as we caught this glimmer of hope, a 2007 revision to the Money Lending Business Act dealt a crushing blow to our cash advance operations, which had been a significant source of revenue up until that point. The impact of this revision was more devastating than we could have possibly imagined, lingering on for seven years during which MARUI GROUP was forced to post two losses, despite having never recorded a loss in the past. Regardless of this dire situation, we managed to overcome the crisis by increasing card shopping transactions through the new EPOS card. This transition from cash advances to card shopping brought about by the EPOS card was an innovation that took us back to the original starting point of our business: the merger of retailing and finance.

Meanwhile, our retailing operations continued to struggle, and we were barely making a profit in 2008. This outcome was due in part to the global financial crisis that struck in September of that year. However, the biggest reason for our difficulties was our inability to respond to the needs of consumers that had shifted from the accumulation of physical goods to the pursuit of more fulfilling lifestyles. With our backs to the wall, we took drastic action. We realized that our inability to respond to this shift in needs stemmed from our being caught up in past successes, which was why we could not find a way to innovate our department store retailing operations. Department stores specialize in selling physical goods. However, contemporary consumers seeking more fulfilling lifestyles desire dining, experiences, services, and other intangible commodities. The department

store business model was just not suited to catering to these kinds of needs.

Forced to make a decision, we chose to shift toward a business model of operating shopping centers that was closer to a real estate model. We thus embarked on a five-year endeavor from 2014 through 2018 to convert nearly all of our stores, save a few exceptions that have been excluded based on requests from the owners, to this model. We are making steady progress on this front, with roughly 30% of this conversion completed and the results beginning to appear. This is the retail innovation that we are currently undertaking.

As you can see, the history of MARUI GROUP is truly a history of innovation. Moreover, I am convinced that MARUI corporate DNA is a DNA of innovation. When the decision to transition to the real estate business model was made, one officer described the impending transformation as “a change as massive as transferring to a company in a completely different industry.” However, even while speaking of the difficulty, there was an air of excitement. I believe that our ability to foster innovation is the essence of MARUI GROUP. Our mission is to create such innovation and continue to evolve in our aim to contribute to the happiness of all stakeholders.

**Co-Creation Management—  
MARUI GROUP of Today**

MARUI GROUP is striving to foster innovation together with its customers. In the past, we have grown purely by our own strengths or by developing our operations together with business partners or industry specialists. However, utilizing only expertise from within the

**“As you can see, the history of MARUI GROUP is truly a history of innovation. Moreover, I am convinced that MARUI corporate DNA is a DNA of innovation.”**



1975: Launched the Akai Card (Red Card) and began using an in-store, on-the-spot approval system



2006: Began issuing EPOS cards on-the-spot in stores (the world’s first IC-chip-equipped Visa card to be issued in this manner)

Company or the industry, we remained bound by past successes. We were thus forced to admit that we had lost our ability to respond to changing social trends. Performance was deteriorating, no matter how hard we toiled to advance under our previous business model. In fact, maybe it would be more accurate to say that the more we toiled, the more our performance deteriorated. It was clear that creating further innovation would require us to incorporate fresh insight from outside the Company and even outside the industry. But, where were we to find this insight? The answer was right in front of our eyes—our customers.

We were professionals when it came to retailing and credit cards, and we approached our customers as such. It goes without saying that we knew more about these subjects than our customers. However, this caused dialogues with our customers to be one-sided, with us imposing our knowledge upon customers. We seemed to have forgotten the importance of listening to customers, asking them about their needs and trying to understand their perspective. Perhaps we were under the impression that, because we interacted with our customers on a daily basis, we must have understood them and their needs. Our desire to work together with our customers was born out of our reflections on this shortcoming.

On the sales floor, we are separated by our roles of seller and buyer, and it is difficult to break out of these roles. For this reason, we chose to meet on a different stage so that we could better turn our ears toward customers' true voices during discussions. These discussions were an eye-opening experience through which we learned of numerous customer needs that we were completely unaware of. It was then that we began to pursue innovation through a partnership with our customers.

Two items born out of these efforts are our private brand Rakuchin Kirei Pumps and EPOS Gold cards. Rakuchin Kirei Pumps were carefully crafted to address unmet customer needs related not only to design and price but also to comfort and size range, areas that the industry had been neglecting. These shoes have won strong support from customers, with total aggregate sales of more than 3.0 million pairs as of August 31, 2016, making them an unprecedented best seller.

With EPOS Gold cards, we wanted to make sure that members of the younger generation, our primary

customer group, would be able to carry these cards. For this reason, we chose to offer Gold cards with no annual fees to enable any regular customer to obtain such a card regardless of their age or yearly income. This decision has won strong support from youths, our main target, among other customers, and Gold cards have thus grown to represent more than 60% of total EPOS card transactions and are now driving growth in our credit card services business.

We are pursuing innovation together with our customers in all areas of our business, including products, lineups, tenant development, credit cards, advertisements, promotions, IT, and operations. We call these efforts "co-creation." The latest success of these co-creation efforts is Hakata Marui.

MARUI GROUP's first store to be opened in Kyushu, Hakata Marui was developed together with an aggregate total of 15,000 customers that participated in the store development process through more than 600 planning meetings as well as through our community website. Based on the concept of "a store in which customers can find what suits them best," we built this store through an ongoing dialectic process with customers. Hakata Marui



Hakata Marui opened in April 2016



Hakata Marui planning meetings held with customers

**“We view corporate value as being born out of the harmony between the interests and the happiness of all of our stakeholders.”**

has proved immensely popular as a result, with visitor and purchase numbers high from the start and new cardholder numbers at the time of the store's opening setting a new record for Marui store openings. In addition to being an amalgamation of initiatives conducted together with customers, Hakata Marui also marked the start of co-creation efforts with our business partners. The range of stakeholders we partner with in co-creation continues to expand steadily in this manner. Looking ahead, we hope to be able to engage in the co-creation of our corporate value together with all of our stakeholders.

We view corporate value as being born out of the harmony between the interests and the happiness of all of our stakeholders. It is often said that the interests of different types of stakeholders are at odds with one another. For example, prioritizing customer interests can lead to neglect of shareholder interests while an overemphasis on shareholder interests may force us to sacrifice the interests of employees. It is true that the pursuit of customer happiness will not naturally contribute to the interests of shareholders. It is therefore vital that we develop our business model in such a way that the happiness of customers aligns with the interests of shareholders. We believe that such a model can be created by our transition from a department store model to a real estate model. This transition has enabled us to respond to the shift in customer needs from physical goods to fulfilling lifestyles while simultaneously allowing us to act in the interests of our shareholders. One reason we are able to achieve both of these goals was the change in our key performance indicator, or KPI.

Under the department store model, our KPI was our profit margins in relation to sales amounts. The real estate model, meanwhile, has us now focusing on profit margins versus real estate market values, meaning that net operating income yield, or NOI yield, is our KPI. This change in our KPI cast light on something we had previously not considered. As NOI yield indicates yield versus the market value of real estate, the core element of our

business amounts to how effectively we are able to utilize the real estate on which our stores stand to generate income. This principle holds true whether we own the real estate or rent it.

One fact that must be considered about real estate, or, in other words, land, is that even the land we own today was received from someone else in the past. As such, it is possible that this land will be passed on to other hands in the future. Taking an extremely long-term perspective, you might be able to say that "our" land is actually just something we are borrowing from society. If this is the case, we users of land have the responsibility to pay a form of "interest" on this land by raising its value in line with society's expectations before returning it. This responsibility is represented by anticipated yield on NOI.

We also realized that the concept of effectively utilizing "borrowed" assets to increase their value before returning them mirrors our relationship with our stakeholders. The transition to a real estate model was made with the aim of responding to the shift in customer needs to more fulfilling lifestyles. However, this move also linked the improvement of NOI yield on real estate to increases in return on equity, which represents the yield on the capital we "borrow" from our shareholders.

To extend the scope of this idea of "borrowing," we could also say that our employees are borrowed from society. If this is true, then the Company must become a place in which employees are able to work in a manner that is beneficial to society. Taking this perspective, we see that the various stakeholders, whose standpoints and interests appeared to be in opposition, are actually interconnected. This realization then raises the question: If the connections between these stakeholders were made stronger, would that not make greater contributions to the interests of all parties?

At MARUI GROUP, we believe that the fundamental role of companies is to strengthen the connections between their various stakeholders, thereby expanding the intersection between their interests. The ability to

accomplish this task, then, is the measure of corporate value. The goal of our co-creation management is thus to advance the dialectic progress with all of our stakeholders to eliminate conflicts between their interests and bring these interests into harmony.

**Co-Creation of Corporate Value—  
Future of MARUI GROUP**

MARUI GROUP has kicked off a new medium-term management plan targeting the five-year period spanning the fiscal years ending March 31, 2017 to 2021. The first step of this new plan was to rearrange and redefine our businesses. Through this process, the previous three business segments of Retailing and Store Operation, Credit Card Services, and Retailing-Related Services were organized into two: the Retailing segment, which merges the Retailing and Store Operation and Retailing-Related Services segments, and the FinTech segment, which is the redefined successor to the Credit Card Services segment.

The Retailing segment comprises store, omni-channel retailing, and facility management and distribution operations. As we advance the transition to the real estate model for stores, we will integrate the directly managed specialty stores, private brand, and Internet sales operations that were traditionally part of our omni-channel retailing efforts. We thereby aim to evolve these efforts into a future-oriented retailing style that emphasizes Internet sales. The operations of the former Retailing-Related Services segment will be positioned as the foundations supporting stores and omni-channel retailing, and incorporated into retailing operations

based on a broad definition of this concept to further accelerate evolution in this field.

By redefining our Credit Card Services segment as the FinTech segment, we aim to achieve rapid growth in the operations of this segment. Since its founding, MARUI GROUP has continued to grow by innovating credit cards together with retailing. Going forward, we will develop a unique platform that combines the customer contact points created through our cardholder base of more than 6 million people, primarily youths, and our 29 brick-and-mortar stores. By utilizing this platform together with startups and various other companies, we will advance open innovation to create new value by fostering financial service innovations in an even wider range of fields.

**➡ □ P72 Redefinition and Reorganization of Businesses in the New  
Medium-Term Management Plan**

At the same time, we aim to co-create corporate value together with shareholders and other investors. Under the new medium-term management plan, we will seek to realize an optimal capital structure. Setting this goal constitutes our response to the requests from our investors to define the type of balance sheet we target. Over the past several years, MARUI GROUP has undergone a transformation from a company with growth driven by retailing to a company that grows through credit card operations. As a result, the asset portion of our balance sheet has changed greatly from the time of our founding, with operating receivables from credit card operations now exceeding fixed assets from retailing operations. The liabilities portion, meanwhile, looks very similar to when retailing drove our growth, creating a sort of imbalance to our balance sheet. The optimal capital

**“The goal of our co-creation management is thus to advance the dialectic progress with all of our stakeholders to eliminate conflicts between their interests and bring these interests into harmony.”**

**“I am convinced that discussing such management issues with shareholders and other investors will help us tackle these issues with a greater degree of success. This is because such exchanges with shareholders and other investors are the same as our interactions with customers.”**

structure we will pursue is aimed at optimizing our balance sheet in reflection of our change in business strategies. By advancing capital measures that ideally are in consideration of our business strategies, we are confident that we will be able to improve corporate value. However, capital measures are not the only area in which we must respond to requests from shareholders and other investors. ➡ □ P83 Target Balance Sheet

We have received requests to explain our retailing growth strategies for when the transition to the real estate model has been completed and inquiries about our ability to further grow Internet sales operations. We therefore have a lot of issues to incorporate into our business strategies. It is, of course, our job to resolve these issues. However, I am convinced that discussing such management issues with shareholders and other investors will help us tackle these issues with a greater degree of success. This is because such exchanges with shareholders and other investors are the same as our interactions with customers. It goes without saying that we know more about the Company and our industry than most stakeholders. Nevertheless, it is also easy for us to get caught up in past successes and industry norms, and it is difficult to broaden our perspective and view MARUI GROUP from the outside. Conversely, given the

fact that there are parallels between investment and management, our shareholders and other investors have been engaged with various companies in various industries around the world. They therefore possess a type of transcendental management insight that is valuable regardless of the industry or company. Through our interactions, we are able to bounce our carefully considered ideas off of this transcendental management insight of shareholders and investors to formulate even better ideas. We anticipate that this process will contribute to improved corporate value.

MARUI GROUP's co-creation of corporate value has only just begun. I eagerly look forward to co-creating our corporate value together with shareholders, other investors, customers, business partners, and communities from a future-oriented perspective.

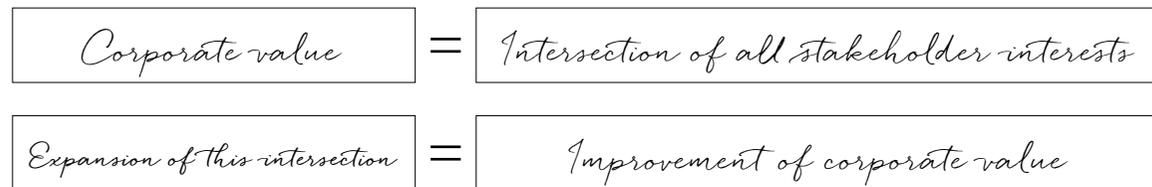
August 2016



## Harmonization of Stakeholder Interests

MARUI GROUP has numerous stakeholders of different types. While customers are emphasized the most in our practice of co-creation management, this does not change the fact that our business is supported by other stakeholders, including shareholders and investors as well as business partners, communities, and the greater society, not to mention our employees.

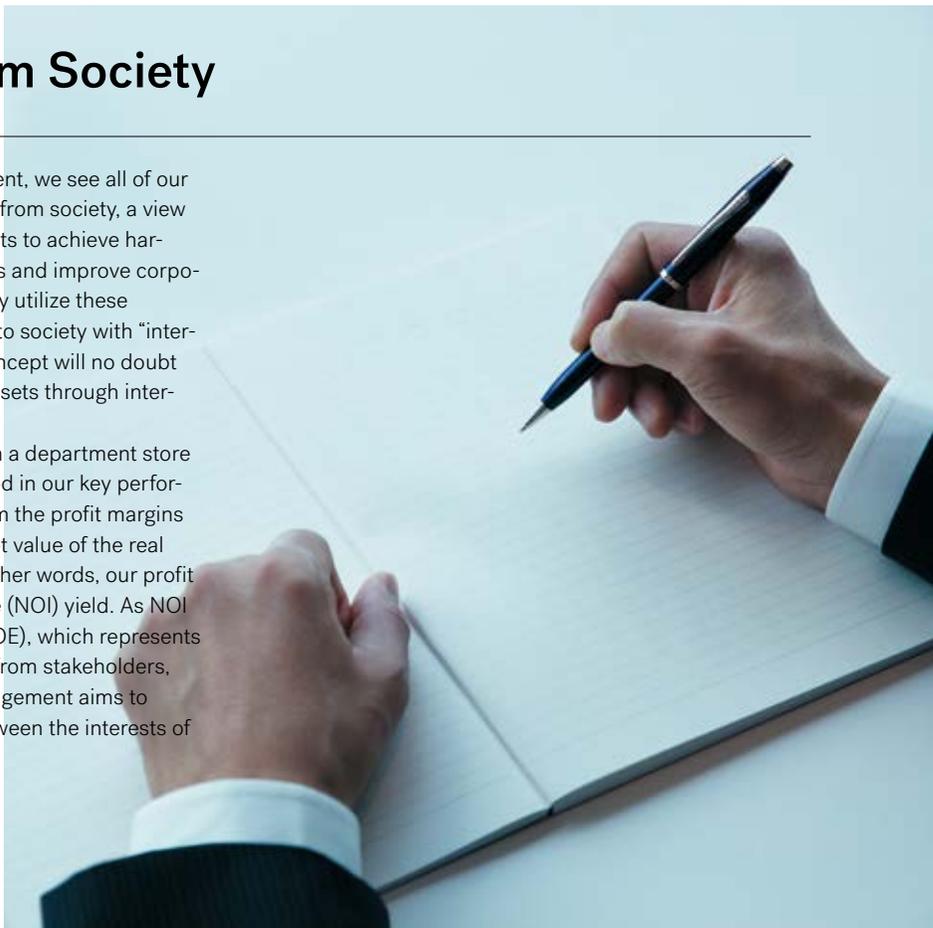
Although the interests of these various stakeholders are often seen to be in opposition, the reality is that there is a significant intersection at which the interests and values of different stakeholders overlap. At MARUI GROUP, we view this intersection as representing true value. We are confident that, by achieving harmony between these differing interests and expanding this intersection through co-creation management, we will be able to improve corporate value.



## Borrowings from Society

In practicing co-creation management, we see all of our business assets as being borrowed from society, a view that we believe will lend to our efforts to achieve harmony between stakeholder interests and improve corporate value. It is our duty to effectively utilize these "borrowings" and then return them to society with "interest." Management based on this concept will no doubt increase the value of all business assets through interconnected relationships.

For example, the transition from a department store model to a real estate model resulted in our key performance indicator (KPI) changing from the profit margins on sales to the margin on the market value of the real estate we borrow from society. In other words, our profit margin is now net operating income (NOI) yield. As NOI yield increases, return on equity (ROE), which represents the return on the capital borrowed from stakeholders, will also improve. Co-creation management aims to increase such interconnectivity between the interests of different stakeholders.



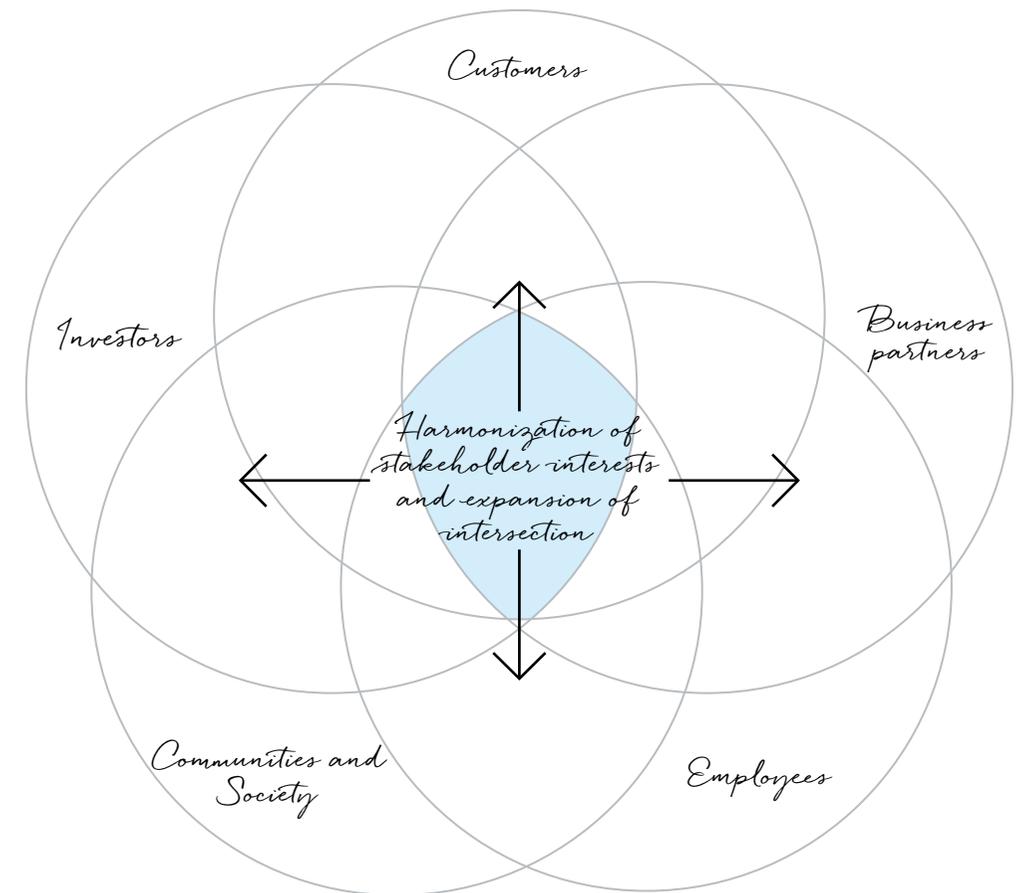
## Long Timeline for Discussing Co-Creation

Discussions with and between stakeholders are exceptionally important to our co-creation management as such communication helps harmonize stakeholder interests and form intersections of these interests. It is important that a long timeline with a forward-looking perspective is adopted in these discussions.

At the same time, it is crucial for MARUI GROUP to go beyond simply promoting such harmonization to

create business frameworks and procedures that actively increase the intersection of these interests. This pursuit will be driven by our DNA of innovation, which has continued to be passed onto all Group employees since our founding. The pioneering spirit born out of this DNA, a spirit that embraces change and relishes new challenges, will remain as a powerful driving force behind our co-creation management.

### MARUI GROUP's View of Corporate Value



As a long-term investor,  
I consider customer satisfaction  
to be the most important element  
of the companies I invest in.

Hideto Fujino

## Discussion of Co-Creation between Long-Term Investor and the President

### The Importance of Management's Timeline

Hideto Fujino, a master at aggressively managing Japanese stocks,  
and President Aoi discussed the perception of timelines,  
which are important to both management and investors,  
and the role of customers as a source of corporate value.

#### Hideto Fujino

President and Representative Director  
Rheos Capital Works Inc.



#### Hiroshi Aoi

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



The intersection between the joy of  
customers and the joy of  
shareholders and other  
investors is actually quite large.

Hiroshi Aoi



### Return to the Basics of Listening to Customers

**Fujino:** Japan has recently been witnessing the peak of consumption by the baby boom generation. At the same time, the spread of smartphones is bringing about substantial change in the consumption patterns of the younger generations. Moreover, the focus of consumption is shifting from physical goods to more fulfilling lifestyles. I understand that MARUI GROUP has been responding to these trends for quite some time now.

**Aoi:** We became aware of these changes around 2006. This is when we began having difficulty selling physical products, signifying the ineffectiveness of our previous business model. Progress in IT has driven forward the maturity of the market and the subsequent diversification of customer needs, creating a gap between us and our customers that grew quite large before we realized it. It was this realization that inspired us to return to the basics: listening to our customers.

### Co-Creation of Innovation Together with Customers

**Fujino:** MARUI GROUP is devoting its efforts to developing stores through a process of co-creation. Specifically, what initiatives are you undertaking in this regard?

**Aoi:** We are engaging in exhaustive conversations with our customers. For example, we hold planning meetings with customers at which we directly introduce our ideas for store concept, floor layouts, and even service and product development, asking for their opinions during this process. Should we discover that any of our ideas are flawed, we discuss the matter thoroughly to get us back on the right track. We have been practicing this approach for nearly a decade. With the innovations co-created with customers, we are striving to generate corporate value.

**Fujino:** That is a very original approach. What benefits has this approach created thus far?

**Aoi:** When we first adopted this approach, there were times when our pride as professionals and the successes

we had achieved up until that point got in the way of our efforts. Over the past couple of years, however, we have been feeling the benefits of this approach. These benefits are particularly apparent in Hakata Marui, which was opened in April 2016 as the culmination of more than 600 planning meetings with customers. Truly the product of our co-creation efforts with customers, Hakata Marui features a completely new design and represents a departure from the traditional concept of Marui stores. This refreshing design has proved immensely popular. By taking the lifestyle needs of people living in the surrounding community into consideration, we succeeded in creating a shopping center that can be enjoyed by people of all ages.

### Co-Creation Investment Oriented Around Customers

**Fujino:** Our long-term investment activities are based around the management and sale of stocks through the Hifumi Investment Trust, an active investment fund for Japanese stocks. When we conduct investments, the aspect of investment candidates we focus on the most is the candidate's customers. We use this approach because it is through transactions with customers that companies generate earnings, and it is these earnings that fund dividend payments. The Hifumi Investment Trust is currently managing shares of MARUI GROUP's stocks, and thus our biggest wish is for the Company's customers to become happier. If this happiness can advance improvements in MARUI GROUP's corporate value, the value of our fund will increase, allowing us to return profits to our customers.

**Aoi:** It makes me very glad that MARUI GROUP is being evaluated from that perspective. As a matter of fact, we have not only been focusing on exchanges with customers over the past couple of years, we have also been putting effort into interacting with shareholders and other investors—and we have learned much through these interactions. The intersection between the joy of customers and the joy of shareholders and other

investors is actually quite large. We therefore believe that we can improve corporate value by increasing the size of this intersection.

**Fujino:** Our fund is estimated to have approximately 150,000 customers. While these customers are shareholders, they are also standard consumers. For this reason, if MARUI GROUP's co-creation management succeeds and the Company is able to bring joy to its consumers in the regions it serves with its stores and EPOS cards, this success may also contribute to the happiness of our customers, as they too are such consumers. For this reason, our investment in MARUI GROUP could be seen as a type of co-creation investment. My support for MARUI GROUP is based on this belief.

### Importance of a Long Timeline for Management

**Fujino:** In increasing the intersection between the values sought by different types of stakeholders, your timeline becomes incredibly important. If both management and investors adopt long timetables, the intersection of the interests that they share will grow large. However, if these timelines are short, conflicts of interest will appear. The

pursuit of short-term gains will likely result in the interests of one party being sacrificed for the interests of the other. On the other hand, these conflicts can be reconciled through a long-term perspective looking five to 10 years into the future.

**Aoi:** I have experienced this principle in the past. If we become overly concerned with the short term, we end up being unable to gain customer support, which results in failure to improve our business performance and live up to the expectations of our shareholders. It is for this reason that we are committed to practicing management from a long-term perspective. At the same time, we will work to make the differing timelines of investors match up better through active interactions. Furthermore, we will submit our various opinions to the scrutiny of investors in order to build stronger management.

**Fujino:** This approach of pursuing co-creation management through an active dialogue with all stakeholders is truly an undertaking that is characteristic of MARUI GROUP. We at Rheos Capital Works look forward to supporting the Company over the long term, and we have high anticipations for your ongoing growth.



**Hideto Fujino**

President and Representative Director  
Rheos Capital Works Inc.

Mr. Fujino established Rheos Capital Works in 2003, after gaining experience in stock positions at Nomura Investment Advisory Co., Ltd. (currently Nomura Asset Management Co., Ltd.), Jardine Fleming (currently JP Morgan Fleming Asset Management), and Goldman Sachs Asset Management Co., Ltd. Beginning as chief investment officer (CIO), he became a director at Rheos Capital Works in 2009 before assuming his current position in October 2015. Mr. Fujino has an extensive career as a fund manager with abundant experience in the management of small-to-mid cap and emerging growth equity investments. He also serves as a teaching fellow at the JPX Academy.

## Conversation between ESG Specialist and MARUI GROUP

### MARUI GROUP's Approach toward ESG

MARUI GROUP's co-creation corporate culture of actively incorporating customer input has been extended to include gathering feedback from long-term investors. Such investors consider environmental, social, and governance (ESG) concerns in measuring corporate value. We thus invited ESG specialist Hiroko Tokuda to discuss the present state of and future direction for ESG at MARUI GROUP.

#### Hiroko Tokuda

ESG Specialist,  
Investment Research Group & Responsible Investment Group  
Tokio Marine Asset Management Co., Ltd.



#### Atsuko Toida

General Manager, CSR Promotion Department  
MARUI GROUP CO., LTD.



#### Asumi Kantake

Chief Manager, Investor Relations Department  
MARUI GROUP CO., LTD.



From left: Asumi Kantake, Hiroko Tokuda, and Atsuko Toida

### Investor Perception of ESG

**Tokuda:** In September 2015, the Government Pension Investment Fund of Japan, which manages the world's largest asset portfolio, became a signatory to the United Nations Principles for Responsible Investment, a set of principles that places emphasis on ESG concerns. Accordingly, the importance of ESG is being re-acknowledged in Japan.

Tokio Marine Asset Management also believes that it is crucial to consider ESG factors in judging the corporate value of companies over the medium-to-long term. We are currently working together with the dedicated CSR divisions of the Tokio Marine Group in order to develop systems for clearer incorporation of ESG factors into investment processes. In addition, in response to the 2014 adoption of Japan's Stewardship Code, we began ramping up efforts to bolster cross-division coordination within Tokio Marine, including establishing databases of interactions with companies so that this information may be shared.

### Approach toward ESG as a Company

**Kantake:** From my perspective as a representative in charge of investor relations, or IR, at MARUI GROUP, it seems as though the way that institutional investors view IR has been changing substantially over the past one or two years following the introduction of the Ito Review, Japan's Stewardship Code, and Japan's Corporate Governance Code. At MARUI GROUP, we established the Investor Relations Department as a dedicated IR organization in 2015, and we have been acting in earnest to step up interactions with investors through means such as formulating the MARUI GROUP Corporate Governance Guidelines (➡ P101-102). Nevertheless, I still cannot help but feel that our efforts are a bit lacking in terms of disclosure of non-financial information.

**Toida:** In terms of CSR, the role companies play in society is a topic that has been gaining more attention since the 2011 Great East Japan Earthquake. Therefore, we

have been transmitting information about the advances in MARUI GROUP's CSR activities through our main business. However, I often find myself wondering how we can get investors to better recognize this information as CSR-oriented. For this perspective, I have begun organizing the initiatives we have conducted to date based on the concept of ESG, and rethinking what type of information we should seek to communicate accordingly. At the moment, I am adopting an approach aimed at raising MARUI GROUP's reputation from a global standpoint, which has included examining evaluations of the Company by overseas ESG evaluation institutions.

**Tokuda:** The level of disclosure expected by ESG evaluation institutions is increasing. For institutional investors, meanwhile, I think it is important to prioritize information, first determining what information is truly important for judging particular companies, and then asking these companies to supply this information.

**Toida:** Recently, society has been placing additional emphasis on the importance of manufacturing operations that consider the entire supply chain. The Group, as well, has been working to enhance its CSR procurement initiatives, which help us to fulfill our social responsibilities across the supply chain. To this end, we established and disclosed the MARUI GROUP Procurement Policy in spring 2016. At the moment, we are visiting the factories we use to confirm on-site conditions, and we plan to formulate future measures together with our business partners.

**Tokuda:** As an investor, I think initiatives such as those you speak of are of great importance. In the future, I would like MARUI GROUP to actively disclose information on risks, such as how it views the social and environmental risks seen across the supply chain and the other business risks it faces, and how it intends to address these risks.

### ESG Conversations between Investors and Companies

**Kantake:** MARUI GROUP published an integrated report titled *Co-Creation Management Report 2015* last year.



We then held explanatory forums about this report on an experimental basis with the aim of better communicating the voices of employees at the frontline of operations to investors (➡ P102). The integrated report includes contents such as a comment from a junior member of our shoes sales staff and an introduction of the profession change system that allows for movement of personnel between our various Group companies and divisions, which all feature unique job descriptions. Prior to holding the explanatory forums, however, we were doubtful as to whether investors would have an interest in such topics. However, these forums proved immensely popular, with more investors attending than seen at past financial results briefings. Attendees expressed great interest even with activities that we advance simply as a standard part of operations. This experience reaffirmed my belief that, if we do not actively communicate such information, our efforts will remain invisible to investors.

**Tokuda:** MARUI GROUP's profession change system is something that you do not often see at other companies, and I have great interest in this system as an institutional investor. I am particularly interested because, from the perspective of medium-to-long-term growth, the development of a workplace environment in which employees are empowered to work energetically is a matter of importance to companies.

**Kantake:** The "E," "S," and "G" of ESG are all elements of operations that should contribute to income. This experience taught me the importance of sharing information on our daily work activities, the Company's growth, and our roadmap for this growth with people outside MARUI GROUP.

### Shared Vector of Companies and Investors

**Tokuda:** Corporate cultures are important to consider in analyzing and evaluating companies. MARUI GROUP has a corporate culture of incorporating input from customers as well as from institutional investors.

**Kantake:** Actually, the reason the Company established the Investor Relations Department was the idea that we should listen to investor input as we do to customer input. We report on the details of IR activities at meetings of the internal Medium-Term Management Visionary Committee, which employees are able to attend on a voluntary basis (➡ P63 *Activities of the Medium-Term Management Visionary Committee in the Corporate Culture of Co-Creation Management*). At the moment, a wide range of Group members are engaging in discussions with investors to help contribute to improved corporate value.

**Tokuda:** That is a spectacular approach. It is important than ever for both companies and investors to work to close the gap between one another in order to improve corporate value. At Tokio Marine Asset Management, we aim to contribute to the promotion of a prosperous society and spur economic development through responsible investment and asset management. MARUI GROUP's co-creation management principle of co-creating customer happiness through its business activities seems very similar to this philosophy. If society does not prosper, we cannot hope to realize long-term returns. In terms of the value of their existence to society, I feel that companies and institutional investors share the same vector.



**Hiroko Tokuda**

ESG Specialist, Investment Research Group & Responsible Investment Group  
Tokio Marine Asset Management Co., Ltd.

[www.tokiomarineam.com/about\\_us/pri.html](http://www.tokiomarineam.com/about_us/pri.html)

Ms. Tokuda completed a degree at the Graduate School of Finance, Accounting and Law, Waseda University, and has served as an inspection committee member of the Securities Analysts Association of Japan. In her current position, her work pertains to responsible investment and socially responsible investment funds. She has also been a member of the Ministry of the Environment's Investigation Commission for Creating and Invigorating Markets for Promoting Green Investment and Investigation Commission for Investment in Consideration of Sustainability Issues, as well as a judge for the Nikkei Annual Report Awards.



# CO-CREATION

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## MARUI GROUP's Co-Creation Management

What exactly is this “co-creation management” that MARUI GROUP is practicing?

In this section, we will introduce examples of MARUI GROUP co-creating value with customers, business and other partners, communities, and the greater society, with particular focus placed on store development initiatives related to Hakata Marui, which was opened in spring 2016.





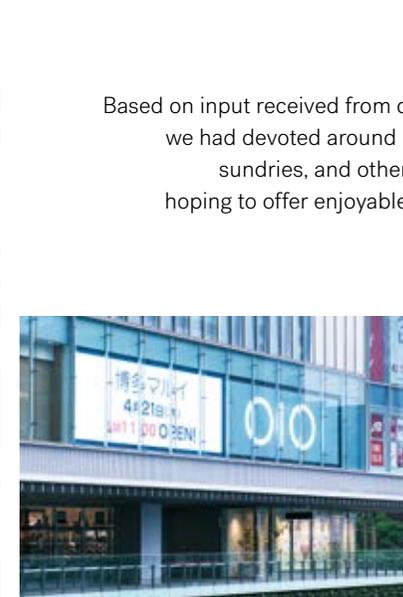
Documentary of Hakata Marui's Grand Opening

## Co-Created Next-Generation Marui Departing from Traditional Concept

Hakata Marui is an amalgamation of MARUI GROUP's co-creation efforts.  
This store proved that true innovation means departing from the traditional concept of Marui.



On April 20, 2016, the day before the opening of Hakata Marui, our first store in Kyushu, preparations for the opening progressed amid an atmosphere of uncertainty as to whether the customers of Hakata would be receptive toward this new Marui.



Based on input received from customers during planning meetings, we had devoted around 70% of the sales floor to food, sundries, and other lifestyle category items, hoping to offer enjoyable experiences to all customers.



The day of Hakata Marui's opening, April 21, 2016, was unfortunately met with rain. Nonetheless, we found a crowd waiting outside, some of whom had waited through the night. We therefore chose to hold the grand opening of the store 30 minutes earlier than planned.



More than 80,000 customers visited on the opening day. Numerous lines formed within the store, and the draw of this co-created store was palpable. Moving ahead from this successful opening, we must now tackle the true challenge: continuing to grow together with our customers in Hakata.



## Long-Awaited Opening of Hakata Marui: A Store Co-Created with Customers

Hakata Marui was built from the ideas and wishes of more than 15,000 customers over a period of roughly two years. Holding over 600 planning meetings with customers, we engaged in enthusiastic discussions with our customers on all aspects of the store. Topics discussed included the store's name, main considerations and concept, floor layouts, product lineups, product creation initiatives, EPOS card designs, and customer service.

The co-creation store development venture was started in October 2013 based on our desire to make Hakata Marui a store that members of the community would truly embrace. In July 2014, we began inviting customers to participate in planning meetings, hoping to gain their aid in making their ideal store. We launched our first community website in November of the same year to serve as a forum for a wide range of customers to take part in the co-creation process without being restricted by place or time.

Customers offered various opinions, with some stating that they wanted a store that could be visited daily while others expressed desires for a comforting atmosphere or options to enjoy activities aside from shopping. Advancing discussions driven by these

opinions, we eventually decided that the concept for Hakata Marui should be "a store in which customers can find what suits them best." Co-creation efforts were not limited to the store itself. We also utilized customer input to make original designs for Rakuchin Kirei Pumps (→ P56-57), the unique EPOS card based on traditional *Hakata Ori* fabric (→ P50), and various other Kyushu-based products and services. In determining the distribution of sales floors, it became apparent that customer interest in apparel was low. While Marui stores have previously devoted around 60% of their sales floor to apparel, only 30% of the sales floor at Hakata Marui was used for this category. The remaining 70% was allocated to lifestyle items, making Hakata Marui the first co-created next-generation lifestyle-oriented Marui store ever.

### Connections with Customers in the Kyushu Region



Aggregate total of customers participating in store development

More than **15,000**



Planning meetings held with customers

More than **600**



Number of customers visiting during first month after opening

**2.3 million**



Number of EPOS cardholders in Kyushu region at time of Hakata Marui opening

More than **130,000**



Hakata Marui community website (Japanese only)  
hakata-fan.0101.co.jp/



Customer participants of planning meetings in front of newly opened Hakata Marui (May 2016)



## Reunion with Customers Partnering in Co-Creation a Month after Opening

Planning meetings with customers took place over a span of two years. A month after the opening of Hakata Marui, the customers that had taken part in these meetings gathered once again to look back at past meetings and offer their opinions and impressions of the now-opened Hakata Marui.



**Miku Nagano** Sales Representative, Hakata Marui  
A month has passed since the opening of Hakata Marui. I recall that many of you were unfamiliar with Marui stores when you first participated in the planning meetings. Based on your input, we devoted around 70% of the floor space to dining and lifestyle categories. This structure is radically different from traditional Marui stores.



I am originally from Tokyo, so I, of course, had an understanding of what constituted a Marui store. However, none of my friends from Hakata knew about Marui. I was incredibly excited to be chosen to participate in the planning meetings. I now feel like somewhat of a "Marui Ambassador."



I was born and raised in Hakata, and I did not know about Marui previously. However, I have been intimately connected with Marui for nearly two years through the planning meetings, and I am quite attached to this store that we have made together. I have invited friends to join me on numerous excursions to Hakata Marui, and I even applied for an EPOS card. In particular, I feel a special attachment to REC COFFEE and the FAR EAST BAZAAR dried fruits store after becoming acquainted with the store managers during the planning meetings. This type of personal connection certainly adds something to my visits.



Thank you for your input. I feel that we were truly able to incorporate the opinions of everyone that participated in the planning meetings, including tenants. As a result of this support, tenants have been able to get off to a strong start, exceeding their goals.



Dashidokoro Hyoshiro is a great place to buy gifts, especially due to the small and visually appealing packages. I was quite vocal on this topic during the planning meetings as the prior product packages tended to be too large or have logos that just felt outdated. When the store opened, I was very pleased to see the products in the packages and with the logos that had been designed for Hakata Marui based on our feedback. This satisfaction was all the greater when I learned that these Hakata Marui-style packages and logos would be introduced at other stores.



Apparel and shoes sales floors are not distinguished by size, making it easy to go shopping with friends. Stores commonly divide their floors by size or taste, which can be a cause of concern when shopping with a friend. Hakata Marui, meanwhile, eliminates this concern. This completely new store has given me the opportunity to find exquisite products and allowed me to become friends with fellow planning meeting participants.



### Move from Customer to Sales Staff after Participating in Planning Meetings

**Miyuki Ishida**  
Sundry Sales Floor Staff, Hakata Marui  
By participating in planning meetings, I came to be aware of MARUI GROUP's strong commitment to invigorating the Hakata area, a sentiment that gave me great joy as someone born here. After Hakata Marui opened, I found myself wanting to make this store a bigger part of my life. I hope to help build an even more exciting Hakata together with customers as a staff member.



Interpersonal connections are important. In fact, one customer that participated in the planning meetings is now part of the sales staff at Hakata Marui.

There is a real aura of enthusiasm around the planning meeting members. Talking with people of all ages and genders at the meetings was an experience not found in my daily life. The meetings were consistently energizing as a result.



The atmosphere at planning meetings was always laid back, and this made it easy to speak frankly. The meeting proceedings themselves were shaped by our input, which really closed the gap between all members. I also often found myself posting ideas I had after getting home on the community website.



I felt a growing sense of anticipation every time I participated in a planning meeting. Many members stated that they wanted to see a store that is completely new to Kyushu, and that wish became a reality. It feels good to have your wishes fulfilled.

Hakata Marui's overall atmosphere is quite pleasant. It is open, and the lighting is superb. Even the music played in the store is excellent. I became so fond of this music that I actually play my original Hakata Marui CD at home on a regular basis.



Thank you all for joining us today. We made many new discoveries thanks to your input. We will continue to use your feedback to improve Hakata Marui going forward. Furthermore, we plan to develop other Marui stores through co-creation with customers and business partners in the future.



## Ajino Hyoshiro's Co-Creation Realizing Innovation, Uprooting Past Conventions



Ajino Hyoshiro and MARUI GROUP share a common trait in that they both have a corporate culture of listening to customer input that dates back to their founding. Co-creation is an innovation that goes beyond previous conceptions, uprooting past conventions to work together in creating customer happiness.

### Ajino Hyoshiro's Philosophy Dating Back to 1900

Ajino Hyoshiro was the first in the world to supply Japanese soup stock containing flying fish in a special paper package designed for easy cooking. This company practices a corporate philosophy of selflessness that inspires its employees to let go of their own interests to seek the heights of compassion, effectively forgetting themselves to serve others. For this reason, the greatest joy at Ajino Hyoshiro is found in the happiness of customers, particularly when a delicious taste coaxes out an unconscious smile. With an ear turned always to the voices of customers and a critical eye toward the taste of its products, Ajino Hyoshiro forges ahead with research and development aimed at responding to the ever-changing needs of its customers. These efforts are guided by a slogan of "simple, convenient, and tasty."

Ajino Hyoshiro's history can be traced back to Kappo Hyoshiro, a restaurant that the current president's grandfather opened in Fukuoka Prefecture in Kyushu in 1900. It was the joy of the owner to look out from the kitchen to catch a glimpse of customers' happy faces as they enjoyed culinary satisfaction. Hoping to deliver this taste to customer homes in a no-hassle manner, Ajino Hyoshiro developed special packages filled with Japanese soup stock containing flying fish in 1988, sealing an easy secret to heightening the flavor of meals in every package. When this product was launched, flying fish soup stock was not yet widely known in Japanese kitchens. Ajino Hyoshiro thus had to begin by traveling to department stores across the nation to promote sales through the provision of samples. The feedback received from customers, sometimes praise with a smile for the flavor of this product, other times criticism, served as the point of origin for Ajino Hyoshiro. Due to these efforts, this company's multipurpose soup stock is now a well-loved fixture in countless kitchens, where it helps users prepare authentic cuisine with ease.

### New History Born Out of Customer Input



**Yuri Yokote**  
Manager,  
Dashidokoro Hyoshiro

In setting up shop in Hakata Marui, Ajino Hyoshiro chose to take a new step and create Dashidokoro Hyoshiro, a store integrated with a dining establishment, which represents this company's debut in the restaurant industry. Ajino Hyoshiro first unveiled its menu for this establishment, a lineup of dishes that use the flying fish soup stock it prides itself on together with local Kyushu ingredients, at a planning meeting with customers held by MARUI GROUP, in November 2015. Unfortunately, the response from local customers was harsh, with comments stating that the dishes lacked a unique pull. This criticism extended to its standard products, which were deemed to have outdated package designs. Ajino Hyoshiro pursued improvements, but soon only three months remained before the opening of Hakata Marui.

Always remaining true to its flying fish soup stock traditions, Ajino Hyoshiro continued to refine its culinary creations through trial and error and was eventually able to complete its menu before opening. This menu won the approval of customers. The company also redesigned its product packages to more clearly signify its brand, making alterations to its historic logo in the process. Customers were surprised that Ajino Hyoshiro was able to complete both the menu and new packaging before the opening while also expressing their joy at having their feedback reflected. Ajino Hyoshiro remains committed to incorporating customer input to create smiles through delicious tastes.



Ajino Hyoshiro website (Japanese only)  
[ajino-hyoshiro.com/](http://ajino-hyoshiro.com/)



**Yuri Yokote**, Manager of Dashidokoro Hyoshiro (right)  
**Jun Nishino**, Store Manager of Hakata Marui (left)

## Accommodation of All Customers through Empathy and Store Environments

MARUI GROUP strives to help all customers enjoy its stores, regardless of their age or gender, and this sentiment of course extends to senior citizens, people with disabilities, non-Japanese people, and members of the LGBT community. At Hakata Marui, we took steps to develop the store from the perspectives of empathy (customer service) and store environment to accommodate all customers so that everyone could enjoy shopping with peace of mind.

### Store Developed Emphasizing the Comfort of All Customers

Hakata Marui was developed based on the input of specialists and customers to create a store environment that accommodates a diverse range of customers. We worked with Kyushu University and Lifestyle Design Lab\*1 to investigate and analyze the issues and concerns faced by people with disabilities. These investigations helped us find various ideas for improving customer convenience. We also invited individuals that use wheelchairs to take part in customer planning meetings in order to gather more input.

Furthermore, Mirairo Inc.\*2 performed a detailed inspection of the store from the perspective of people with disabilities, confirming the appropriateness of various facilities. Through accessibility verification, we were able to implement numerous improvements. For areas in which we could not adapt our store environment, we chose to respond by enhancing our empathy. Based on

this approach, we had employees take tests under Mirairo's Universal Manner Placement Examination program, which is aimed at teaching examinees how to understand other viewpoints. In addition, employees took part in this company's LGBT manner training to acquire basic knowledge about the LGBT community and how to address the needs of its members. Employees received special service caregiver training as well as training on catering to the needs of inbound travelers performed by non-Japanese lecturers. With the skills gained, we aim to foster an environment in which all customers can enjoy shopping.

#### ➡ P62 Accommodation of All Customers

\*1 Association that offers training programs taught by people with disabilities with the aim of providing people with disabilities unique opportunities to participate in society while conducting activities for improving the level of customer service and satisfaction at companies

\*2 Company that advocates the concept of Barrier Value (taking a disability and turning it into some kind of value or benefit), based on which it proposes universal design goods and services for providing comfort and ease to all



Signs displaying distance to restrooms and outlets for charging electric wheelchairs installed based on ideas from Kyushu University and Lifestyle Design Lab



Detailed inspection of Hakata Marui conducted prior to opening to confirm various facilities under the guidance of Mirairo

[www.mirairo.co.jp/company/en/profile](http://www.mirairo.co.jp/company/en/profile)

### Hakata Marui as Viewed from a Customer Using a Wheelchair

Aya Shinohara

I chose to participate in the Hakata Marui planning meetings as I felt it would be a good opportunity to help contribute to the growth of Hakata. I was also interested in seeing just how much our input would be incorporated into the store. I was pleasantly surprised. The finished store not only had wide passageways and multifunction restrooms on each floor, but also featured signs displaying the distance to restrooms and rest areas with outlets in a space designated for wheelchair charging. I think it is quite rare for shopping centers in Kyushu to offer these kinds of accommodations. This consideration is apparent in customer service as staff offer courteous service while coming down to my level of sight, offering a sense of ease. Hakata Marui is no doubt a store in which wheelchair-users like myself can enjoy their time in comfort.



### A Look Back at the Development of Hakata Marui

**Hirai:** I research inclusive design. In this field, we view the plights of people with disabilities not as physical limitations for them, but rather as social issues. We therefore look to include individuals that have traditionally been excluded from the use of products and services in various fields in the planning and development of new offerings from the early stages. By collecting input from these individuals and sharing recognition of issues in workshop format, we strive to include them in creating feasible designs that meet their needs. These initiatives mirror the concept of MARUI GROUP's co-creation and its focus on all of its customers.

**Toyama:** It is said that people with disabilities are not often given the opportunity to feel as though they are contributing to society. However, the opinions of these individuals come from different perspectives and are built on different thinking, and can therefore turn our eyes to things we did not previously see.

**Hirai:** In developing Hakata Marui, MARUI GROUP's employees worked with differently

abled individuals, discussing the issues faced around town and searching for solutions together. These solutions included improvements in store environment as well as in the ease of use of store facilities and in customer service, with improvements based on empathy. The resolution of these issues does not only benefit people with disabilities, it also makes the store more hospitable to senior citizens.

**Toyama:** When a store like Hakata Marui has charging spaces for electric wheelchairs, it removes some of the concerns faced by people in wheelchairs in leaving the house. In this manner, an increase in the number of such accommodating establishments would help promote participation in society by everyone. I therefore believe that MARUI GROUP's co-creation store development efforts are empowering to numerous people, and I hope that the Company will continue striving to live up to society's expectations going forward.



**Yasuyuki Hirai** (left)  
Professor, Department of Design Strategy  
Faculty of Design, Kyushu University

Professor Hirai is a leading authority on inclusive design in Japan. By considering the needs of all, he seeks to apply designs that are accommodating to everyone in public spaces.

**Shoko Toyama** (right)  
Representative Director, Coordinator, Lifestyle Design Lab

Ms. Toyama's work as a coordinator is aimed at helping people with disabilities view their disability as a strength and design a lifestyle in which they can be themselves.  
[www.facebook.com/ikikatanodesign](https://www.facebook.com/ikikatanodesign) (Japanese only)

## Development of EPOS Card: Collaboration Partners across Kyushu

Efforts to develop EPOS card operations have previously been based around Marui stores. Accordingly, cardholder numbers were primarily increased by recruiting customers that visited stores. However, MARUI GROUP adopted a completely new approach in Kyushu, deploying EPOS card initiatives prior to opening its first store in this region.

The decision to open Hakata Marui was made in 2013, and the Kyushu Office of Epos Card Co., Ltd., was established in the same year. A survey on the recognition of EPOS cards in Kyushu conducted in the following year found that a mere 9% of the population was aware of these cards. With two years left before the opening of Hakata Marui, we rolled out promotion campaigns to raise EPOS card recognition and began seeking out facilities to offer cardholder benefits.

One area of focus was developing collaboration partners among local companies and commercial facilities. In July 2014, HUIS TEN BOSCH became our first

partner, and five more companies subsequently followed. As a result, the number of EPOS cardholders in Kyushu climbed above 130,000 at the time of the opening of Hakata Marui, and EPOS card recognition exceeded 50%. These efforts enabled MARUI GROUP to set a new record for one-day credit card issuances of 1,182 cards at Hakata Marui.

New record for one-day credit card issuances

# 1,182 cards



HUIS TEN BOSCH Collaboration EPOS CARD  
(Available from July 2014)



Sasebo 5bangai EPOS CARD  
(Available from November 2014)



KYUDENKO EPOS CARD  
(Available from December 2014)



Club Hawks EPOS CARD  
(Available from February 2015)



JQ CARD EPOS CARD  
(Available from March 2015)



Tachibana EPOS CARD  
(Available from February 2016)

### KITTE Hakata EPOS CARD Co-Created with Customers



Many customers expressed their desire for an EPOS card with a design that felt unique to Hakata. We thus invited local designers to submit design proposals, which were then voted on by customers. This led to the birth of a new card inspired by *Hakata Ori* fabric.\*1

\*1 A type of silk fabric traditionally produced in Hakata. Reliefs on escalator sides at Hakata Marui are also inspired by *Hakata Ori* fabric.

# COVERAGE



### EPOS Card Collaboration Partners Promoting Use

## 6

We are promoting collaboration with local companies, theme parks, and other facilities and were able to partner first with HUIS TEN BOSCH and later with other organizations. We have 20 collaboration partners across Japan.



### Card Application Centers at Partner Facilities

## 4

EPOS Card staff are positioned full time at card application centers that have been established at HUIS TEN BOSCH, Sasebo 5bangai, AMU PLAZA OITA, and BonBelta Tachibana.



### Establishments Offering Benefits in Kyushu

## 300

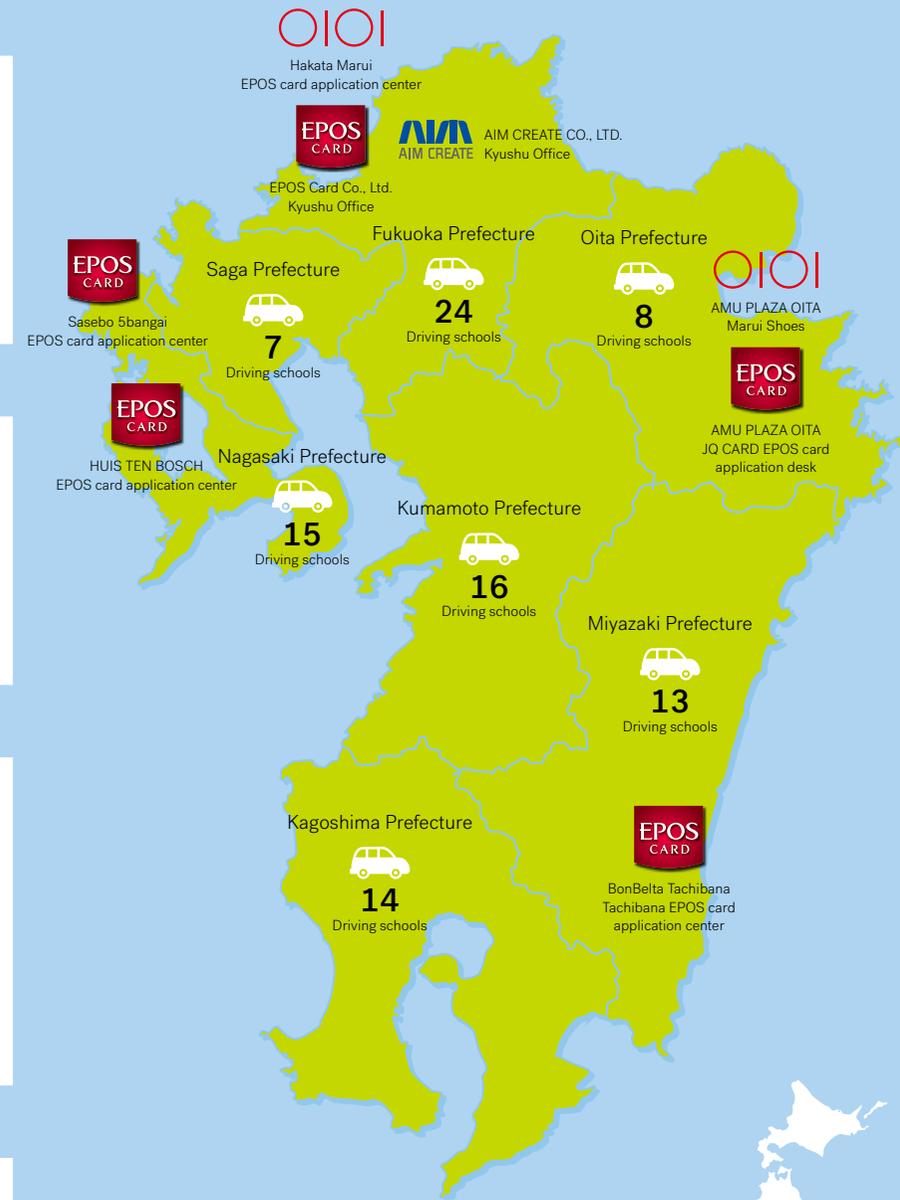
The number of establishments offering benefits to EPOS cardholders in Kyushu has risen to 300 and includes all restaurants operated by MONTEROZA Co., Ltd., as well as Big Man, a long-standing provider of local delicacy Sasebo Burgers. Benefits are available at approximately 7,000 establishments nationwide.



### Driving Schools Partnered in Providing License Acquisition Financing

## 97

MARUI GROUP has partnered with 97 of Kyushu's 169 driving schools.



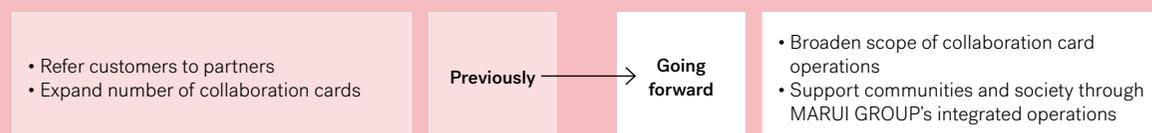
EPOS Card Recognition in Kyushu

9% → More than 50%  
2013 Opening of Hakata Marui



# Growing Range of Partners and New Businesses Achieved through Integrated Group Operations

Our staff of individuals with retailing experience is endeavoring to expand the range of commercial facilities, local companies, and theme parks that are collaboration partners with EPOS card. Moreover, we are pursuing the creation of new businesses by holding try-on events that unite Internet sales and physical stores (➡ P54 Marui-Style Omni-Channel Retailing) and regional development events through anime-related ventures.



**Support communities and society through MARUI GROUP's integrated operations**  
E.g., Try-on stores and anime, video games, and other content-related events

## Integrate Business Scope Expansion

EPOS cards allow all cardholders to receive the benefits provided by every partner company and facility, regardless of where they are issued. For this reason, an increase in the number of card application centers found across Japan will contribute to the interests of both customers and collaboration partners.

MARUI GROUP will continue to expand the scope of its collaboration card operations going forward. At the same time, we will hold events related to anime, video games, and other content and generate synergies with these events to realize integrated Group operations. We thereby aim to support the community and otherwise evolve our customer referral model.

## Regional Development Business Merging Cards and Anime

The Tachibana EPOS CARD is a card that we began offering in February 2016 through collaboration with BonBelta Tachibana, a commercial facility in Miyazaki Prefecture. The goal of this card is to aid in a drive to invigorate and increase the appeal of the surrounding area through a joint effort between this facility and the neighboring shopping district. Joining this effort, MARUI GROUP added in an anime-based initiative and thereby

created a new business that energizes shopping districts in order to contribute to regional value.

In March 2016, we took part in holding the "OSOMATSU ICHI in Miyazaki" event, a collaboration between Miyazaki City and popular anime series *Osomatsu-san*. In addition to sales of merchandise, the event also featured a riddle-solving activity in which hints for solving riddles were scattered throughout the shopping district. This event drew crowds on all days with 10,000 people visiting the Miyazaki area during the event's 21-day span, many of whom applied for a Tachibana EPOS CARD. More than half of the people that attended the event came from outside the prefecture, displaying the surprising power of regional development activities that use anime to attract people.

Aggregate number of customers attending "OSOMATSU ICHI in Miyazaki" event

Cumulative **10,000**



©FA/O



Customers lined up for the event

## Participation in Anime and Other Content-related Businesses

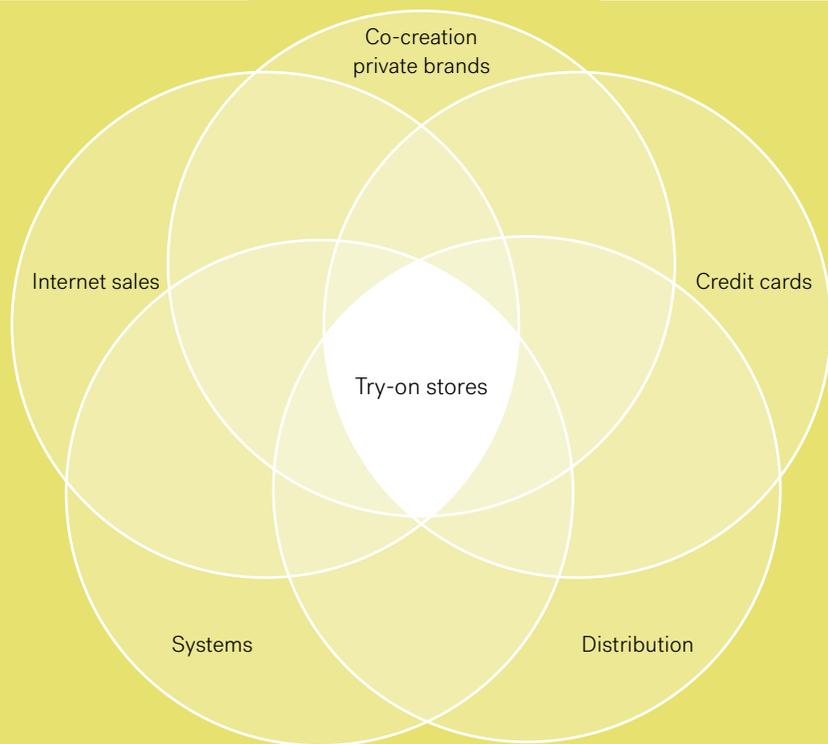
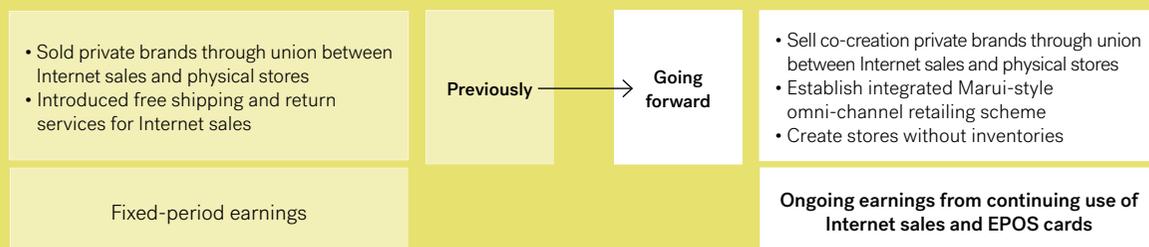
- Step 1: Investigate** — A survey of 2,100 EPOS cardholders and 3,200 Group employees revealed that amounts of spending on anime-related products were large and that the demand for regional events was high.
- Step 2: Advertise** — To inform fans of MARUI GROUP's entry into the anime business, we set up a booth at the Comic Market 89, a major event that drew around 520,000 people over its three-day span. This was the first time for us to participate in such an event.
- Step 3: Act** — Out of a desire to contribute to regional development, we collaborated with the BonBelta Tachibana EPOS card application center located inside the Miyazaki Prefecture department store of the same name to hold the "OSOMATSU ICHI in Miyazaki" event.
- Step 4: Collaborate** — Investment in content creation was commenced to develop a unique, new business model for MARUI GROUP. In addition, the Company joined the production committee for *Yell for the Blue Sky*, a movie that debuted in theaters in August 2016.
- Step 5: Profit** — Going forward, we will leverage synergies between anime, the Internet, and FinTech to encourage anime fans, which are known to be major consumers, to partake in the EPOS card and other services of our FinTech business.



*Yell for the Blue Sky* (Debuted in August 2016)  
Starring Tao Tsuchiya  
Directed by Takahiro Miki  
© 2016 TOHO / Hakuhodo DY music & pictures inc. / The Asahi Shimbun / Hakuhodo DY Media Partners / JR Kikaku / SHUEISHA / NIPPAN / KDDI / Tokyu Agency / HoriPro / MARUI GROUP / HAKUHODO / GYAO  
© Kazune Kawahara / SHUEISHA

# Inventory-less Try-on Stores for Shoes Uniting Internet Sales and Physical Stores

MARUI GROUP develops certain private brands together with its customers. A representative example of such a brand would be Rakuchin Kirei Pumps, a massive hit product launched in 2010. We refer to such brands as "co-creation private brands." We have recently commenced a new try-on store initiative geared toward offering customers new value with regard to these co-creation private brands. This initiative forms a union between Internet sales and physical stores and employs a scheme that integrates Group operations with regard to its proprietary systems and distribution functions.



## Try-on Store Uniting Internet Sales and Physical Stores

Try-on stores represent a new business model unique to MARUI GROUP that takes advantage of the frameworks of growing Internet sales. The ability to purchase items through the Internet is exceptionally convenient for customers. However, the inability to try on clothes to see how they feel and the difficulty in understanding the materials and sizes of products have been cause for dissatisfaction among customers. This is particularly true with regard to shoes, for which size and comfort are core concerns, a fact that has led to many customers refraining from purchasing such items online.

Our try-on stores address this issue by providing a lineup of samples that customers can try on as they please at short-term events designed to alleviate such concerns. When making purchases, customers can use one of the stores' dedicated tablets to order a product and have it sent to their home free of charge. As try-on stores are temporary stores operated over a limited period, they require less investment in store fixtures than would be necessary for opening a standard store and have lower fixed rent fees. In addition, as only samples are displayed, there is no need for inventories. Accordingly, these stores boast low costs and low risk. The first try-on store was a Rakuchin Kirei Pumps sampling event held at Nishitetsu-Fukuoka (Tenjin) Station in September 2015, after which we began to exhibit such stores across Japan.

## Unique MARUI GROUP Business Scheme

Of the customers that purchase co-creation private brand shoes at try-on stores, approximately 70% also register for Internet sales site accounts and roughly 40% apply for EPOS cards. Deploying products through try-on stores allows us to link them with Internet sales and credit cards, thereby expanding our repeating customer base and generating ongoing earnings growth by encouraging these customers to continue using our Internet sales and EPOS card services. Try-on stores are being set up in commercial facilities outside the business areas of Marui stores in locations across Japan.

These efforts are made possible by the platform supporting the try-on store scheme, which is formed by the tablet ordering system developed by M & C SYSTEMS CO., LTD., and the Internet sales distribution services of MOVING CO., LTD. Our ability to handle all of the elements within the Group is a significant advantage that has enabled us to create such try-on stores centered on the Internet, a business scheme that is completely unique to MARUI GROUP.

Percentage of try-on store customers who:

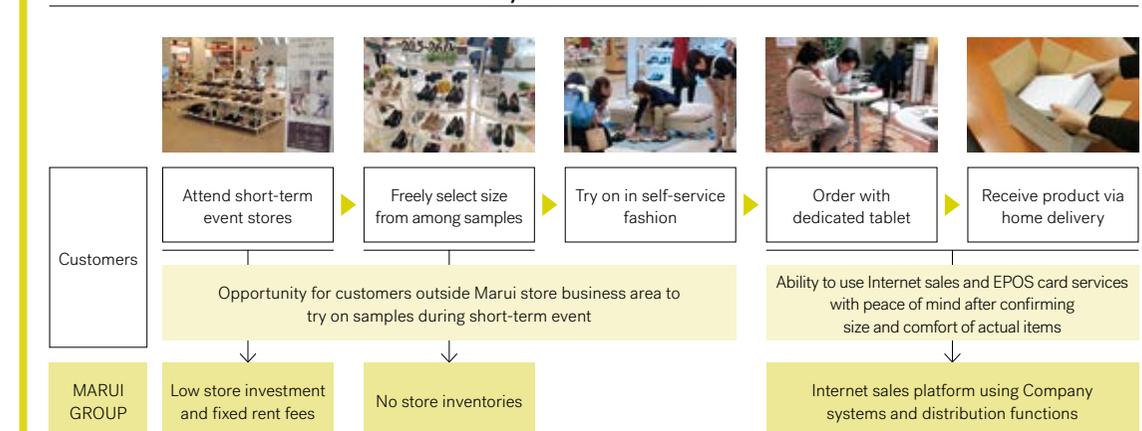
Register for Internet sales site accounts

Apply for EPOS cards

Approx. **70%**

Approx. **40%**

## Try-on Store Scheme



## Development of Co-Creation Private Brands Together with Customers

MARUI GROUP is involving customers in the process of developing private brand products with the goal of responding to the lifestyle needs of all customers. Only those products that meet the demanding standards of customers taking part in the co-creation process are commercialized.

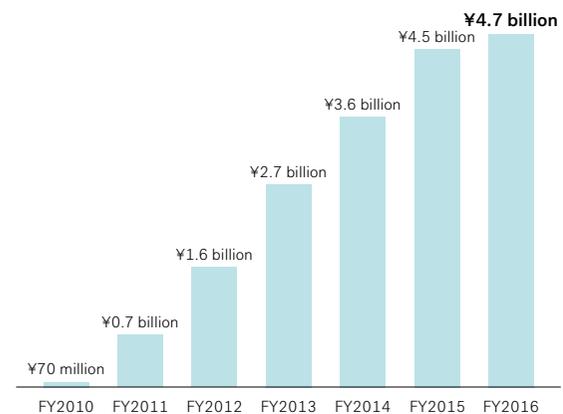
Shoes: Marui Rakuchin series shoes (Japanese only)  
[voi.0101.co.jp/voi/webshop/collabo\\_product/index.jsp](http://voi.0101.co.jp/voi/webshop/collabo_product/index.jsp)

Pants: ru apparel brand (Japanese only)  
[search-voi.0101.co.jp/voi/shop/ru/](http://search-voi.0101.co.jp/voi/shop/ru/)

The origin of MARUI GROUP's co-creation product development can be found in its Rakuchin Kirei Pumps, which were launched in 2010. The development process started with a survey of customers indicating that around 90% of them had felt discomfort with their shoes. Moreover, it was discovered that customers were unable to find pumps that satisfied all of their needs with regard to fashion, comfort, and affordability. We thus vowed to create just such pumps. We began by measuring customers' feet and analyzing the results to make original shoe trees. We then held product development meetings together with customers who had expressed dissatisfaction with the comfort of their shoes. Approximately 1,000 customers participated in the 60 meetings held each year, at which they tried on shoes and helped us in an ongoing cycle of checks and revisions. In addition, we expanded the number of sizes of these shoes; although prior shoe lines had only been available in seven sizes, Rakuchin Kirei Pumps are offered in 12 sizes, ranging 20.5 cm to 26.0 cm, providing an option for customers who had previously been unable to purchase such shoes due to a lack of sizes. As a result, Rakuchin Kirei Pumps proved to be a massive hit, selling an aggregate total of more than 3.0 million pairs\*<sup>1</sup> as of August 2016. Furthermore, we recently learned that many women feel similarly dissatisfied with pants sizes. We took action to address this issue by expanding the number of pants sizes offered in the Group's ru apparel brand from 10 to 12. This move won substantial customer support, thanks to which Hakata has been posting sales figures for women's pants that are six times higher than those at existing stores (as of June 30, 2016).

\*<sup>1</sup> Total aggregate sales of Rakuchin Kirei Pumps as well as sandals, boots, and other shoes in the Rakuchin Kirei series

Sales of Women's Shoes: Co-Creation Private Brands



## Power to Create Innovations for the Future

To cultivate a corporate culture of co-creation management throughout the Group, MARUI GROUP is pushing forward with human resource development programs that are blind to age and gender and spread across organizational boundaries. With a corporate philosophy that calls for us to “equate the development of our people with the development of our company,” we recognize the importance of stimulating the ongoing growth of every employee and ensuring that they possess the power to create innovations for the future. We believe that developing our employees in this manner will no doubt contribute to the co-creation of customer happiness.

### Corporate Culture Promoting Diversity



MARUI GROUP has defined the promotion of increased diversity as an important management policy, based on which it pursues the establishment of a highly productive corporate culture that is conducive to fostering innovation.

Innovation is crucial to further improvements in corporate value. As such, an organization that creates innovation with diversity is of extreme importance. This belief is based on the idea that innovation is born when various senses of value are present and are able to be seamlessly integrated.

When society as a whole is experiencing robust growth on a single continuum, it is possible to succeed simply by imitating other companies. However, in the current era of great social change, characterized by trends like globalization and the proliferation of IT, the senses of value of individuals vary, leading to the diversification of customer needs. Responding to contemporary needs and growing in this era will require employees to turn their eyes toward society and act autonomously to give rise to innovation. In this environment, MARUI GROUP had defined the promotion of increased diversity as an important management policy, based on which it pursued the establishment of a highly productive corporate culture that is conducive to fostering innovation. It is, of course, crucial to promote gender diversity, but we must also focus on developing human resources that are adept at responding to change by pursuing diversity in terms of age and individual talents. It was for this reason that we are installing frameworks for cross-organizational career development, cultivating a corporate culture that supports personal growth, and fostering a workplace environment that provides opportunities to all.

### Profession Change Framework



Profession changes provide an opportunity for employees to break away from their sense of normalcy and escape pre-conceptions to better practice a customer-first mentality and discover new ways of responding to customer needs.

MARUI GROUP has been implementing its profession change system since April 2013 with the aim of fostering the diversity of individual talents. Through this shared Groupwide system, we conduct personnel relocations that place employees in different divisions or Group companies. It is common for people, after having worked in a single profession for a number of years, to go about their jobs without putting much thought into their practices. Profession changes provide an opportunity for employees to break away from their sense of normalcy and escape preconceptions to better practice a customer-first mentality and discover new ways of responding to customer needs.

For example, when a member of our sales staff positioned in a sales office undergoes a profession change placing them in the FinTech business at EPOS Card, they are able to provide service in their new capacity while calling upon the retailing perspective they cultivated previously. Such cross-organizational utilization of talent contributes to improved productivity for the Group. The number of people changing professions is rising at sales offices, where staff members are increasingly relocating to sales floors for different products. A new sales floor results in interaction with new customers, which in turn leads to new discoveries.



Job Forum event at which employees from different Group companies explain their motivation toward their job and other work experiences



As of April 2016, a total of 1,418 employees (or approximately 25% of all Group employees) had undergone relocations to different Group companies. To promote profession changes and provide an opportunity for employees to think about their careers, the Company holds Job Forum events once every six months. In these forums, employees from different Group companies that have experienced various positions explain their motivation toward their job and other work experiences. As one facet of these Job Forum events, individual consultation events are held for each Group company. Furthermore, we distribute Job Books to all employees and otherwise support them in undertaking changes to new positions in order to stimulate their personal growth.



Job Forum Individual consultation event at which employees from each Group company can be asked questions about their job and otherwise consulted

### Total Number of Employees Changing Positions between Group Companies

	2013	2014	2015	2016
Employees changing positions	287	383	552	196
Aggregate total	287	670	1,222	1,418

Totals for number of employees changing positions in April and October of each year; April only for 2016

Ratio of employees changing positions between Group companies Aggregate total from April 2013–April 2016 (Excludes officers and managers)

Approx. **25%**



Job Book Booklet containing business and job descriptions from various divisions at Group companies as well as messages from employees working therein

Activities of the Diversity Project Team

This cross-Group project team will provide a venue for team members from different divisions to help them learn more about their peers.



Diversity Book  
Booklet published and distributed to employees to increase awareness regarding work-life balance support systems and to cultivate a workplace environment that fosters diversity

Open to all employees, the Diversity Project Team advances initiatives for the purpose of fostering a corporate culture in which all employees are accepting of one another and are properly motivated with opportunities to exercise their talents. In July 2015, a meeting was held among 46 members from across the Group that had been assembled through open application. Back at their workplaces, members have been sharing information on the matters discussed at this meeting to further advance the dialogue. These members are also central in promoting other efforts through coordination among different workplaces.

The Diversity Project Team will continue to be a place for discussions on how to make the Group a livelier organization that is highly productive and conducive to fostering innovation. At the same time, this cross-Group

project team will provide a venue for team members from different divisions to help them learn more about their peers.

As one facet of this project team's activities, February 2016 was designated as Diversity Promotion Month. During this month, Diversity Books were distributed to inform employees about the work-life balance support systems available to them. As a new initiative, meetings of the Supervisors Association (a diversity forum) were held at which the supervisors who are directly responsible for managing other employees met to exchange opinions on how to better utilize diversity in management.



Diversity Project Team members from the fiscal year ended March 31, 2016



Promotion of Women's Contributions

We are promoting the contributions of women by developing support systems and improving awareness.



As of March 31, 2016, MARUI GROUP had 2,685 female employees, representing 46% of its total 5,899 employees. We are promoting the contributions of women by developing support systems and improving awareness. In the fiscal year ended March 31, 2014, we defined women's empowerment indexes for measuring our progress in this regard and set targets to be achieved by the fiscal year ending March 31, 2021. A substantial change in the attitudes and behaviors of employees was witnessed over the two years since these indexes were introduced, as indicated by increases of more than 50 percentage points in the ratio of applicable male employees taking childcare leave and 30 percentage points in the ratio of female employees returning to work full time after taking childcare leave.

Initiative Results: Grand Prix Award in Ikuboss Award 2015 Program

Kazumi Abe, a director at MARUI CO., LTD., and the store manager of Omiya Marui, received the Grand Prix Award in the Ikuboss Award 2015 program, spearheaded by



the Ministry of Health, Labour and Welfare (MHLW). Reasons for Ms. Abe's selection included her management style that inspires her staff, as well as her consideration for the unique situations of her employees, which she achieves through meeting with them. Ms. Abe also received recognition for her efforts to cultivate a corporate culture encouraging employees to leave work on time and avoid overtime, in part by doing so herself, and to promote the use of childcare leave by male employees.

In addition, MARUI GROUP was awarded with a special encouragement award in the Ikumen Enterprise Award 2014 from the MHLW.

Platinum "Kurumin" Certification

In July 2016, MARUI GROUP received Platinum "Kurumin" certification in recognition of it being a company that actively supports children. Through the Platinum "Kurumin" program, the MHLW strives to recognize companies that have made exceptional progress in introducing and encouraging the use of systems for balancing work and child-rearing. It also aims to promote ongoing related efforts.



MARUI GROUP continues to build an environment that is even more conducive to balancing work and child-rearing and has established corporate targets and action plans to this effect.

Women's Empowerment Indexes

Fiscal years ended / ending March 31		FY2014	FY2015	FY2016	FY2017 (Target)	FY2021 (Target)
Awareness improvement and corporate culture cultivation	Recognition of contributions of female employees	37%	60%	74%	100%	100%
	Ratio of female employees pursuing upper-level positions	41%*1	64%*1	62%*1	60%	80%
	Ratio of applicable male employees taking childcare leave	14%	54%	66%	60%	100%
Promotion of women's contributions	Ratio of female employees returning to work full time after taking childcare leave*2	36%	55%	66%	70%	90%
	Number of female leaders	545	576	603	650	900
	Number of female managers	24	28	29	35	55
	Ratio of female managers	7%	8%	8.9%	11%	17%

\*1 Ratio of female employees pursuing upper-level positions is based on the results of surveys conducted in June 2014, June 2015, and April 2016.

\*2 Ratio of female employees returning to work full time after taking childcare leave is the ratio of female employees returning to work full time to the total number of female employees that returned to work shortened hours after childcare leave within a given year.

Activities of the Marui Future Project Team

The members of this cross-organizational project team think about the future of Japan and MARUI GROUP's role in this future.



A total of 59 representatives from stores and Group companies participate in the project team along with the store managers, deputy store managers, and section managers that support them

The Marui Future Project Team is a committee open to employee participation that was established in July 2015, with the aim of further evolving the social contribution activities that we have been conducting through our business in a project format since 2011. The committee features a diverse variety of members from various age groups and workplaces and differing stores and Group companies. Banding together, the members of this cross-organizational project team think about the future of Japan and MARUI GROUP's role in this future. Discussions began with seven themes for social issues that are closely related to our daily lives. Based on these themes, we considered how the Group could help resolve the issues

faced by society and what our customers expected of us, formulating and then implementing initiatives to accommodate senior citizens, people with disabilities, and all of our other customers.

Seven Themes of Discussion

1. Aging of society (population) and people with disabilities
2. Women's contributions, child-rearing, and the declining birthrate
3. Non-Japanese customers and inbound travelers
4. LGBT community
5. Tokyo 2020 Olympic and Paralympic Games
6. Global warming and other environmental issues
7. Regional development

Accommodation of All Customers

Almost all employees have undergone Service Care-Fitter training\*1 to learn how to accommodate elderly customers and customers with disabilities. These training programs are performed by nine employees that have acquired instructor qualifications.



Training for assisting customers using wheelchairs in which employees learn how to operate wheelchairs through actual use



Senior citizen simulation training in which employees wear special goggles to show how objects appear to someone with cataracts

\*1 Training program operated by The Nippon Care-Fit Education Institute



"LGBT Friendly" badge and Shibuya Modi during event period

MARUI GROUP took part in TOKYO RAINBOW PRIDE 2016, an event sponsored by TOKYO RAINBOW PRIDE\*2 in April 2016. During this event, the five buildings of the Marui and Modi stores located in Shinjuku and Shibuya participated, and rainbow flags were displayed on the front of these stores, garnering much attention. Prior to this event, 243 employees underwent LGBT manner training,\*3 and employees greeted customers while wearing "LGBT Friendly" badges during the event period.

\*2 Organization that seeks to help create a society in which LGBT individuals and other sexual minorities are able to live optimistically and to be themselves, while remaining free from discrimination and prejudice; the name "TOKYO RAINBOW PRIDE" is also used for the organization's events

\*3 Training offered by Mirairo Inc. that supplies knowledge about the LGBT community, provides specific examples of its members, and explains factors needing to be considered in addressing their needs

Activities of the Medium-Term Management Visionary Committee

Active discussion is conducted among members that are selected from the approximately 1,000 applications received for each meeting.



The Medium-Term Management Visionary Committee is a forum for discussing various topics that will be important to the future of Group management. In the past, meetings were primarily focused on explanations of management policies and other such matters. However, topics are now selected that require a medium-term perspective and for which initiatives will be advanced with a timeline of three-to-five years. While this committee was previously only open to members of Group management, from January 2016 any interested employee is able to apply for participation, and meetings have been held almost every month since. Active discussion is conducted among members that are selected from the approximately 1,000 applications received for each meeting. Furthermore, we regularly invite outside lecturers to conduct special lectures.

2016 Committee Meeting Discussion Topics

- January Corporate value as viewed by the market, special lecture Report on activities of Credit Card Evolution Project Team
- February Accommodation of all customers—LGBT community, special lecture
- March Corporate value as viewed by the market 2, special lecture
- April Analysis of MARUI GROUP's operating environment and future projections
- June Medium-term management plan for Retailing segment Medium-term management plan for FinTech segment Report on anime business activities
- July Hakata Marui co-creation initiatives Report on interactions with investors (investor relations activity report) Retailing business and MARUI GROUP as seen by analysts, special lecture



Lively question and answer sessions held after each lecture

COLUMN

Workplace Environment Supporting Energetic Sales Staff



Breaks are incredibly important to ensuring that members of our sales staff are able to work with vigor. It was for this reason that we spared no expense with regard to the employee breakrooms at Hakata Marui, which was opened in April 2016, and also took other steps to ensure a comfortable workplace environment.

This store features two break rooms with atmospheres much like a café that allow staff to have a more enriching break experience. Facilities include counter seats at which one may sit alone as well as tables where several people may sit together. Also, the breakrooms are equipped with automatic water heaters to remove any concern for hot water running out as well as powder rooms and smartphone chargers—additions made based on staff requests. These highly comfortable breakrooms are available to all sales staff members, including those of tenants.



Partitioned counter seats based on requests for a place where sales staff can comfortably enjoy time to themselves

## New Meaning of "Healthcare" for the Eye of the Company Physician

### Proactive and Preventive Healthcare

In MARUI GROUP's healthcare management, we strive to encourage employees, important partners in our co-creation management initiatives, to think through the lens of health in order to invigorate the organization and improve labor productivity and thereby increase corporate value and make social contributions.

**Ishii:** Part of MARUI GROUP's corporate philosophy is to "equate the development of our people with the development of our company." Of course, health is absolutely essential to the growth of employees. However, in addition to pursuing improvements in the numeric scores of employee health examinations, I think that empowering our employees to work energetically is also an important driver behind our co-creation management activities.

**Kojima:** One's state of health will always have an impact on their daily work performance. Health cannot be separated from one's daily growth at work.

**Ishii:** Four years ago, MARUI GROUP introduced a profession change system that actively promotes personnel relocations between Group companies and divisions. Immediately after such relocations, employees may temporarily face difficulties performing in their new

position, a situation that can prove stressful. Regardless of this potential stress, however, profession changes have become common at MARUI GROUP. This development is likely the result of the spread of a mentality that values changing oneself to adapt to a new environment and thereby furthering one's own capacity to grow. The dissemination of this system was spurred forward by your belief, Dr. Kojima, that growth requires both stress and rest.

**Kojima:** If one only rests, and is not subjected to stress, they may be able to maintain good mental health, but they will never grow more skillful. The healthcare measures of most companies are generally focused on a type of preventive healthcare approach. However, in order for people to keep growing, it is also important to implement proactive healthcare measures that are designed to

encourage employees to adapt to changes and think and act autonomously. At MARUI GROUP, I hope that the proactive measures of the Health Management Division will be accelerated, while coordinating with the preventive measures advanced by the Group's health insurance union.

**Ishii:** On the healthcare front, we introduced the Resilience Program in February 2016. We began this program by encouraging managers to develop lifestyle patterns that increase their energy with regard to their body (diet, exercise, and sleep), mood, thinking, and mental state. In addition, we have included positive questions on the surveys taken by all employees when undergoing health examinations, including "I understand the goal of my work" and "I am utilizing my strengths to take on new challenges." These initiatives have made it possible to perform cross-analyses of the degree of energy that employees are able to sustain in their work and of their diet, sleep habits, and other lifestyle patterns. We are utilizing this information in advancing proactive healthcare measures.

**Kojima:** As MARUI GROUP's operating sites are spread throughout the Tokyo metropolitan area and the rest of Japan, we hold self-care training sessions\*1 260 times a year. We are thereby endeavoring to cultivate a corporate culture that places increased emphasis on the importance of health management as an aspect of one's work and of working happily. By assembling a force of healthy and energetic employees, we can more easily contribute

to the creation of a livelier MARUI GROUP and a happier society. As health is what powers all of our activities, healthcare measures should not be seen as entailing costs. Rather, we ought to view these measures as a form of investment in the assets that are our people.

**Ishii:** The health of each individual employee represents a building block for the corporate value of the Company. Seeking to entrench this belief among members of MARUI GROUP and create a corporate culture that is ingrained with this sentiment, we set up the Healthcare Promotion Project together with relevant divisions. Through this program, we designate a Healthcare Month\*2 as a period for improving employee health awareness, position female healthcare promotion leaders throughout Japan, and participate in the KENKO Corporation Association.\*3 Acting in accordance with our corporate philosophy, I hope we can work together to enhance the effectiveness of our healthcare promotion efforts, which are fundamental to co-creation.

\*1 Type of training unique to MARUI GROUP that is aimed at helping employees to recognize their own health condition and think of ways to improve this condition

\*2 Initiative started in June 2016 to foster employee awareness of health and health improvement through stress checks, surveys about health and smoking, and other activities

\*3 Association consisting of 36 companies created with the goal of sharing information on healthcare promotion programs and expertise to enhance the effectiveness of healthcare promotion efforts

**"Of course, health is absolutely essential to the growth of employees."**

#### Tomoo Ishii

Director and Managing Executive Officer,  
and Chief Operating Officer  
Healthcare Promotion  
In charge of General Affairs,  
Personnel and Healthcare Promotion  
MARUI GROUP CO., LTD.



**"By assembling a force of healthy and energetic employees, we can more easily contribute to the creation of a livelier MARUI GROUP and a happier society."**

#### Reiko Kojima

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

# Employees Helping to Co-Create Customer Happiness

MARUI GROUP creates unique value by forming intrinsic links between the businesses and human resources of all Group companies to give rise to a united MARUI GROUP. The growth of all individual employees is absolutely essential to creating this value. We feel that this growth is best stimulated by our profession change system, which entails personnel relocations at different Group companies and divisions. This system was implemented to help employees continue to build upon their techniques and specialties and to develop human resources that are highly adept at responding to change. In this section, we will introduce some of the Group's employees, delivering messages in their own words to paint a picture of how they go about their daily duties.



**Miki Hiasa**

There are many obstacles that must be overcome in space production. However, when I see the finished stores and the smiles on the faces of our customers, I feel inspired to continue giving my very best during future projects.

2001 (Joined) Space Production Division  
AIM CREATE CO., LTD.

2016 (Current) Direction Section 5, Design Department  
Space Production Division  
AIM CREATE CO., LTD.



**Ryota Takahashi**

It brings me great joy when I am able to make my ideas a reality. The successes and failures I experienced in my previous position in sales promotion and planning are now providing the foundation for my success in my current position.

2009 (Joined) Menswear Sales Floor, Kokubunji Marui  
MARUI CO., LTD.

2016 (Current) Omni-Channel Retailing Section,  
Omni-Channel Retailing Division  
MARUI CO., LTD.



**Rie Ogasawara**

I feel the greatest joy when we first start up a new system. My job requires a capacity to consider the user's perspective, and I feel that I am making good use of my prior experience on the sales floor.

2008 (Joined) Interior Item Sales Floor, Omiya Marui  
MARUI CO., LTD.

2016 (Current) Operation Data, Operation System  
Development Department  
Operation System Development Division  
M & C SYSTEMS CO., LTD.



**Kiyotaka Kosuge**

I am currently responsible for dispatch and time management of trucks. I was previously a truck driver, and this experience helps smooth coordination with drivers.

1994 (Joined) Yokohama Distribution Center  
MOVING CO., LTD.

2016 (Current) Vehicle Management,  
Operation and Facility Management  
MOVING CO., LTD.



**Yuko Mizushina**

In my current position, I am making good use of the customer service techniques I learned on the menswear sales floor. I always do my best to provide customers visiting our card application centers with value that exceeds their expectations.

2012 (Joined) Menswear Sales Floor, Kashiwa Marui  
MARUI CO., LTD.

2016 (Current) EPOS Card Application Center,  
Yurakucho Marui  
Epos Card Co., Ltd.



**Takayuki Matsuzaka**

I strive to contribute to an environment in which all employees can feel energized in their daily work and to create opportunities for personal growth. I too hope to grow together with the individuals that I see continually tackling new challenges.

1999 (Joined) Casual Menswear Sales Floor, Ueno Marui  
(currently Marui City Ueno)  
MARUI CO., LTD.

2016 (Current) Personnel Section, Personnel Division  
MARUI GROUP CO., LTD.



**Yumi Saito**

I am responsible for returns and settlement of accounts. I remain always appreciative of the support of those around me as I do my part in handling the tasks that underpin operations.

2012 (Joined) Contract Section, Planning Division  
MARUI HOME SERVICE Co., Ltd.  
(Temporary employee since 2003)

2016 (Current) Contract Section, Planning Division  
MARUI HOME SERVICE Co., Ltd.



**Yukio Kaneda**

Helping new employees grow and develop is highly rewarding. I hope that younger employees will actively take on new challenges without fear of failure.

1989 (Joined) Facility Management,  
Oimachi Marui (closed in 2007)  
MARUI FACILITIES Co., Ltd.

2016 (Current) Facility Management Site,  
Marui Family Shiki  
MARUI FACILITIES Co., Ltd.



**Yoshimi Ishikawa**

I strive to understand the individual personalities of each differently abled employee I work with in order to be more considerate of their needs and better support them. Watching these employees grow fills me with joy.

2007 (Joined) Women's Accessory Sales Floor,  
Ueno Marui (currently Marui City Ueno)  
MARUI CO., LTD.

2016 (Current) Supply Management  
MARUI KIT CENTER CO., LTD.



**Takehide Nanbu**

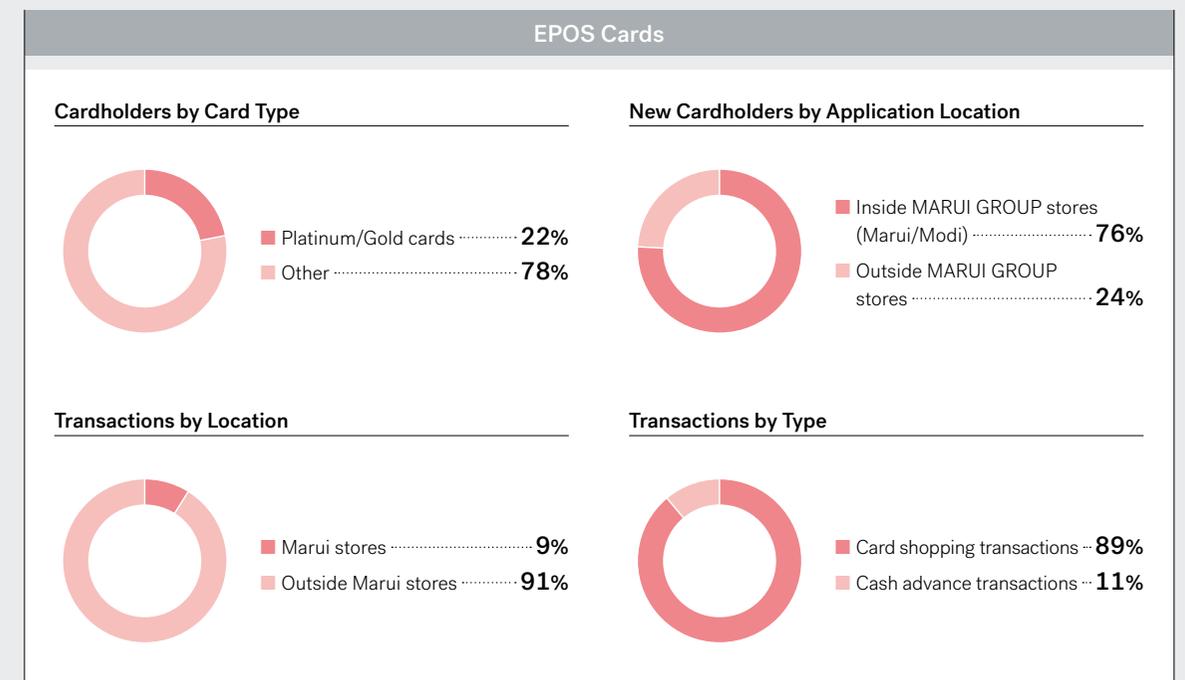
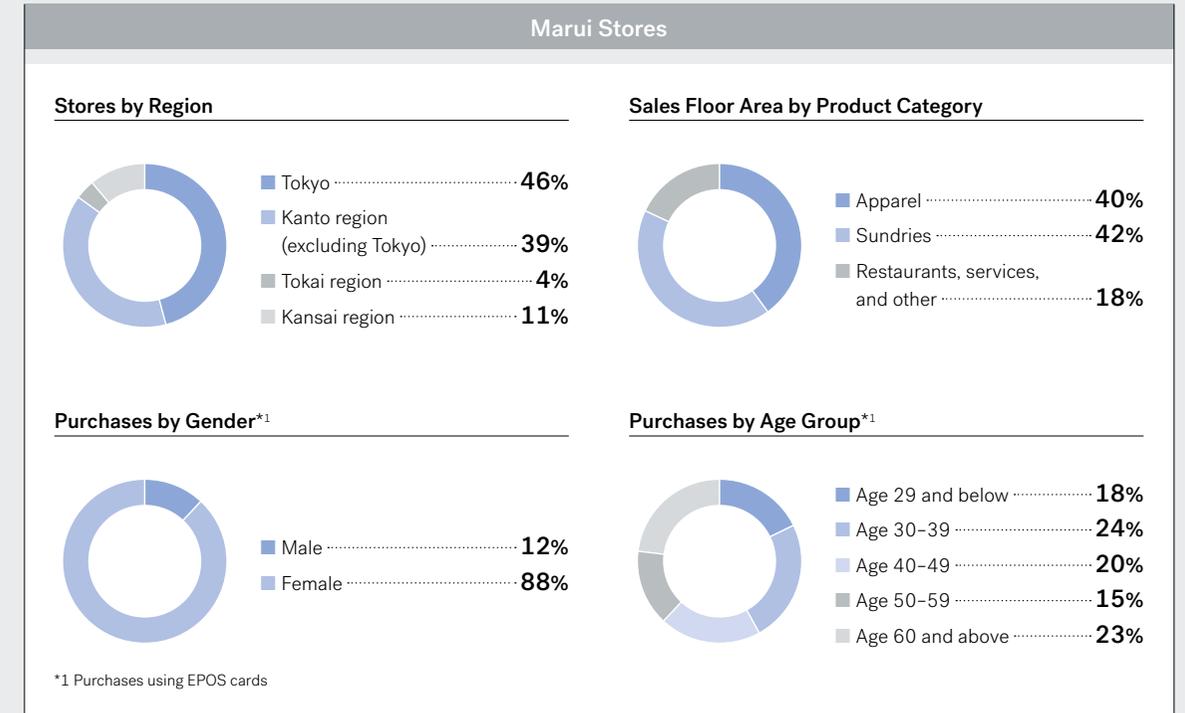
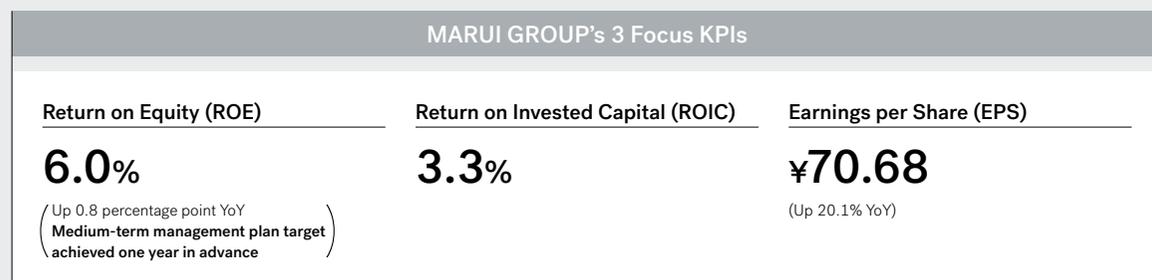
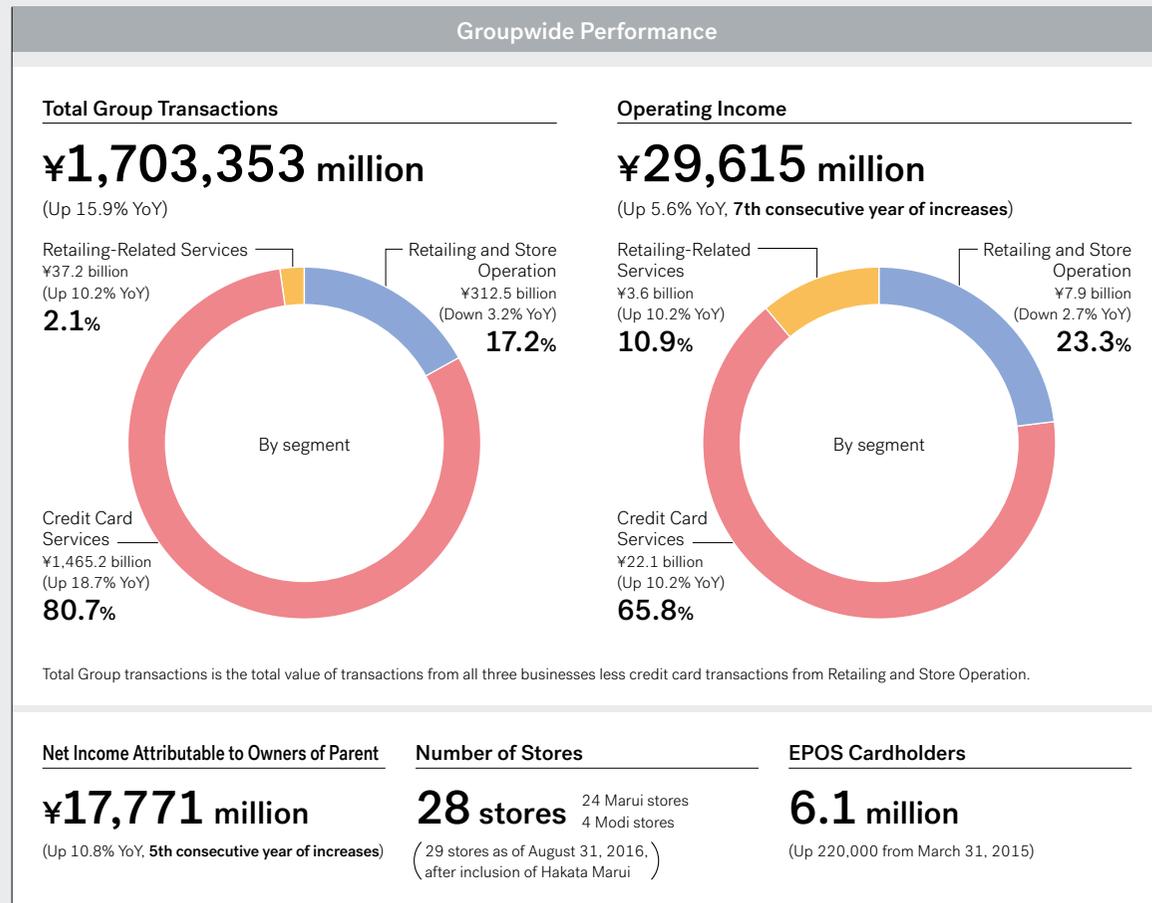
I propose payment plans to help customers get out of debt. I always listen carefully to the circumstances of customers falling behind on their payments and take a cooperative stance.

1995 (Joined) Womenswear Sales Floor,  
Oimachi Marui (closed in 2007)  
MARUI CO., LTD.

2016 (Current) Collection Section 1,  
Receivable Collection Division  
MRI Co., Ltd.

In the fiscal year ended March 31, 2016, total Group transactions for MARUI GROUP amounted to ¥1,703,353 million, of which 80.7% came from the Credit Card Services segment; 17.2% was generated in the Retailing and Store Operation segment; and 2.1% can be attributed to the Retailing-Related Services segment. Net income attributable to owners of parent rose for the fifth consecutive year, and the target of 6% for return on equity (ROE) was achieved one year in advance.

Please refer to MARUI GROUP's corporate home page for more detailed information.  
[www.0101maruigroup.co.jp/english.html](http://www.0101maruigroup.co.jp/english.html)





# Establishment of New Medium-Term Management Plan Emphasizing Corporate Value

Through Groupwide reforms brought about by business structure transformations, MARUI GROUP was able to achieve the target of 6% for ROE defined in the previous medium-term management plan in the fiscal year ended March 31, 2016, one year in advance. For this reason, we decided to establish a new five-year medium-term management plan. This plan was made to emphasize improved corporate value.

## Review of the Previous Medium-Term Management Plan

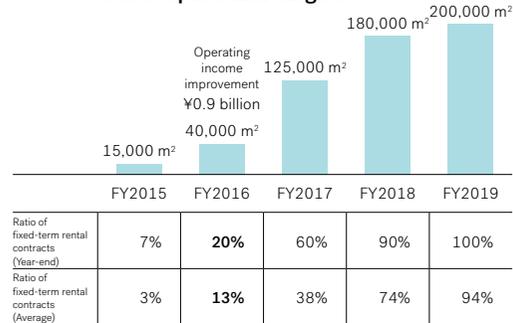
**Business overview:** Following the 2006 launch of the EPOS card, MARUI GROUP's business structure shifted in focus from retailing to credit cards, successfully creating a credit card-driven business structure. This structure proved capable of realizing stable growth. We then deployed the previous medium-term management plan. This plan targeted ROE of more than 6% and placed the Credit Card Services business as central to growth strategies, based on which we developed the Credit Card Services business nationwide.

In the Retailing and Store Operation business, meanwhile, we worked toward the development of lifestyle-oriented stores by transitioning to a shopping center model and the use of fixed-term rental contracts. Our current goal is to complete the transition to fixed-term

rental contracts by March 31, 2019. A ¥0.9 billion improvement in operating income was realized in the fiscal year ended March 31, 2016, as the transition reached 20% completion (see Figure 1). In our directly managed specialty stores, we selected product categories in which we excel to concentrate our efforts on. We also adjusted our Internet sales operations to focus more on strong-performing shoes and other accessories.

In the Credit Card Services business, we sought to recruit cardholders from across Japan, expanding the number of cardholders outside of the business areas of Marui stores. After deciding to open Hakata Marui, we positioned Kyushu as a strategic region, thereby increasing the number of cardholders in this region to more than 130,000 at the time of the store's opening (see Figure 2).

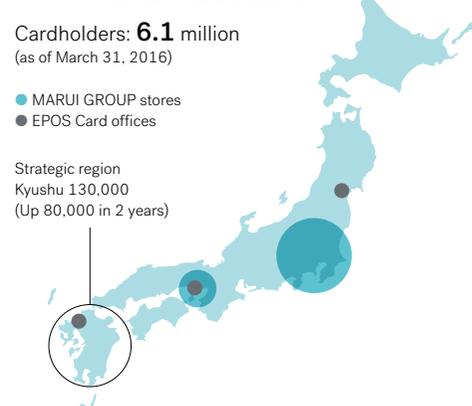
**Figure 1: Total Fixed-Term Rental Contract Floor Space and Targets**



Ratio of fixed-term rental contracts = Fixed-term rental contracted floor space ÷ Total floor space capable of being contracted as fixed-term rental  
 Sections not applicable for fixed-term rental contracts: Sections not applicable for fixed-term rental contracts based on requests of building owners, directly managed sales floors, event spaces, food sales floors, etc.

Fiscal year ended March 31, 2016:  
 Ratio of fixed-term rental contracts (year-end): 20%  
 Operating income improvement amount: ¥0.9 billion

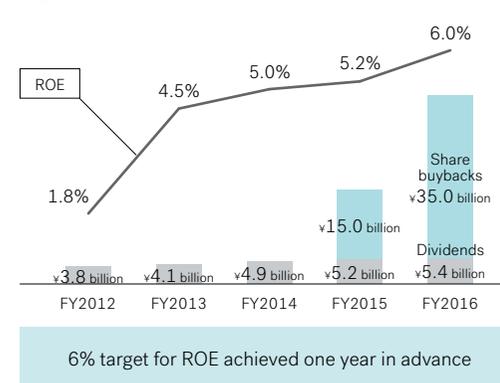
**Figure 2: Nationwide Development of Credit Card Services**



Total cardholders: Up 710,000 in 2 years  
 Number of cardholders outside of store business area: Up 1.5 times

**Early achievement of 6% ROE target:** In addition to business initiatives, we also actively conducted share buybacks, acquiring some ¥50.0 billion worth of Company shares in the two years leading up to March 31, 2016. As a result, ROE increased by 4.0 percentage points over a period of four years and reached 6% in the fiscal year ended March 31, 2016, reaching our target one year in advance (see Figure 3).

**Figure 3: Shareholder Returns and ROE**



**Massive improvement in Group productivity:** In conjunction with the transformation of the Group's business structure, we also began actively promoting inter-Group company personnel relocations to stimulate employee growth and give form to the concept of a united MARUI GROUP (see Figure 5).

By utilizing the retailing expertise of employees in the high-margin Credit Card Services and Retailing-Related

**Figure 5: Employee Numbers by Business**

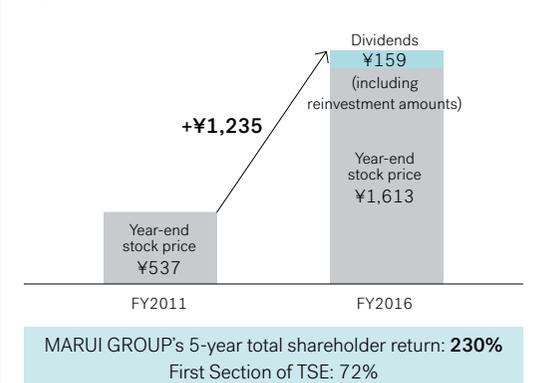
(Excluding temporary employees)

	FY2012	FY2016	Difference
Retailing-Related Services	4,539	3,566	-973
Credit Card Services	516	1,016	+500
Other	1,163	1,317	+154
<b>Total</b>	<b>6,218</b>	<b>5,899</b>	<b>-319</b>

Total number of employees changing positions: 1,418 (approx. 25%)  
 Aggregate total for fiscal years ended March 31, 2013-2016 (excluding officers and managers)

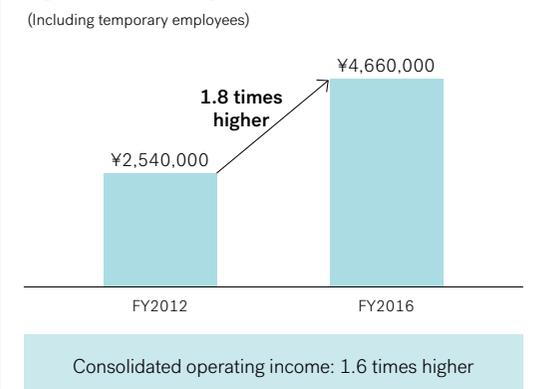
Consequently, total shareholder return, an indicator of shareholder value, was 230% over the five-year period ended March 31, 2016 (27% annual average). This level greatly exceeded the average of 72% (11% annual average) for companies listed on the First Section of the Tokyo Stock Exchange (see Figure 4).

**Figure 4: Total Shareholder Return**



Services, we realized a massive improvement in the Group's productivity. This increase in productivity resulted in operating income per employee being 1.8 times higher than in the fiscal year ended March 31, 2012, prior to our full-fledged promotion of inter-Group company personnel relocations, which led to consolidated operating income increasing 1.6 times compared with the fiscal year ended March 31, 2012 (see Figure 6).

**Figure 6: Operating Income per Employee**





**Redefinition and Reorganization of Businesses**

In conjunction with the start of the new medium-term management plan, we redefined our previous three business segments from a forward-looking perspective, reorganizing these segments into the Retailing and FinTech segments. With these redefined and reorganized business segments, we will advance initiatives in each business through integrated Group operations.

The reorganized Retailing segment comprises stores (shopping centers), omni-channel retailing (specialty stores, private brands, and Internet sales), and facility management and distribution operations (store renovation, distribution, building management, and other services). Meanwhile, the FinTech segment is responsible for credit cards (card shopping and cash advances), financial services (rent guarantees, insurance, and other services), and IT (system development). We believe that these segments better match the strengths and characteristics of the Group's businesses (see Figure 7).

**Redefined FinTech Business (Target Business Scope)**

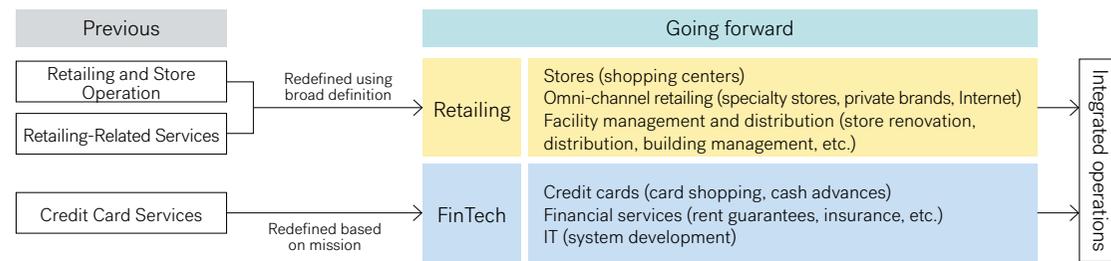
When looking at the customer groups in the financial services field, we will see that banks and other members of the conventional financial sector tend to serve customers that are large in terms of both income and scale (see left half of Figure 8). Meanwhile, the FinTech sector takes advantage of its ability to combine both finance and technology to provide services to customer groups that the conventional financial sector did not address. We view this type of democratization of finance as the mission of FinTech as well as the mission of the MARUI GROUP, which has traditionally provided financial services for enriching the lifestyles of younger generations. Looking ahead, we will seek to expand the scope of our FinTech business from physical to digital services and from urban areas to rural and other areas across Japan (see right half of Figure 8). We will thus continue to incorporate evolving technologies to drive this business scope expansion.

**Overview of the New Medium-Term Management Plan**

Under the new medium-term management plan, we will form intrinsic links between the Group's redefined and reorganized businesses and integrate their operations to improve corporate value. At the same time, we will create new business through the transformation of Group businesses and work toward the development of an optimal capital structure (➡ **P83 Target Balance Sheet**) and further

improvement of productivity. By advancing these measures, we will target ROE of more than 10%, ROIC of more than 4%, and earnings per share (EPS) of more than ¥130 in the fiscal year ending March 31, 2021, the final year of the new medium-term management plan.

**Figure 7: Redefinition and Reorganization of Businesses**



**Figure 8: Redefined FinTech Business (Target Business Scope)**



**New Medium-Term Management Plan with the Fiscal Year Ending March 31, 2021, as its Final Year**



**Specific Initiatives**

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



**Achieve ROE of more than 10%, ROIC of more than 4%, and EPS of more than ¥130 in the fiscal year ending March 31, 2021**



**Masao Nakamura**  
Director and Managing Executive Officer  
Responsible for Retailing Business

## RETAILING BUSINESS

**Going forward, I aim to further develop the Retailing business while generating synergies with other Group businesses.**

As Japanese society matures, the focus of individuals' values is changing from the accumulation of physical goods to the pursuit of more fulfilling lifestyles. The ensuing shift in consumption from goods to experiences is becoming all the more clear as IT advances, and this trend can be expected to continue into the future (see Figure 1).

Looking at trends in the amounts of sales by store type dating back to 1995, we will see that, as sales decline among store types using the traditional sale or return arrangement, performance has been strong for shopping centers. This is most likely due to the ability of these facilities to cater to needs for the consumption of experiences (see Figure 2).

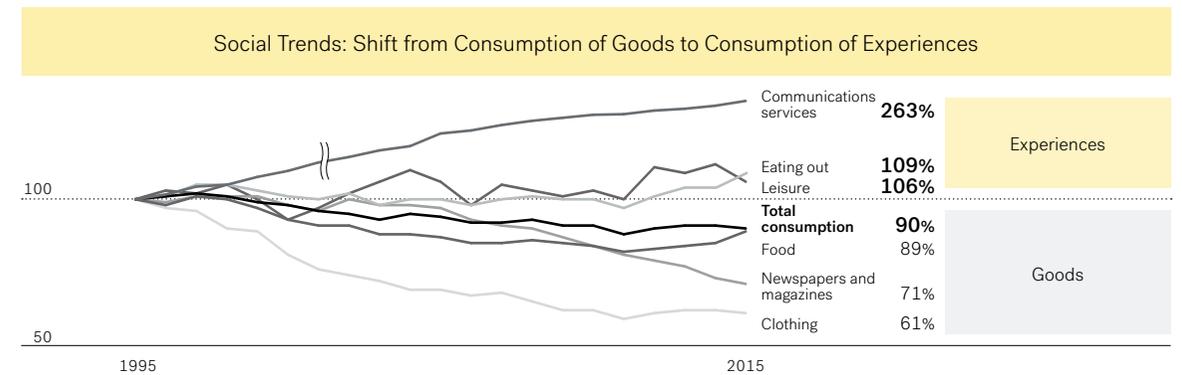
In light of this social change, MARUI GROUP's Retailing business is transitioning toward shopping centers and fixed-term rental contracts (see Figure 3).

This transformation represents a 180-degree turn away from our prior retailing frameworks in areas ranging from the form of contracts with business partners to

store operation methods. Accordingly, the decision to undertake this transformation was monumental. However, given MARUI GROUP's goal of developing stores through co-creation with customers, I am confident that this transformation will help restore the Retailing business to its former glory.

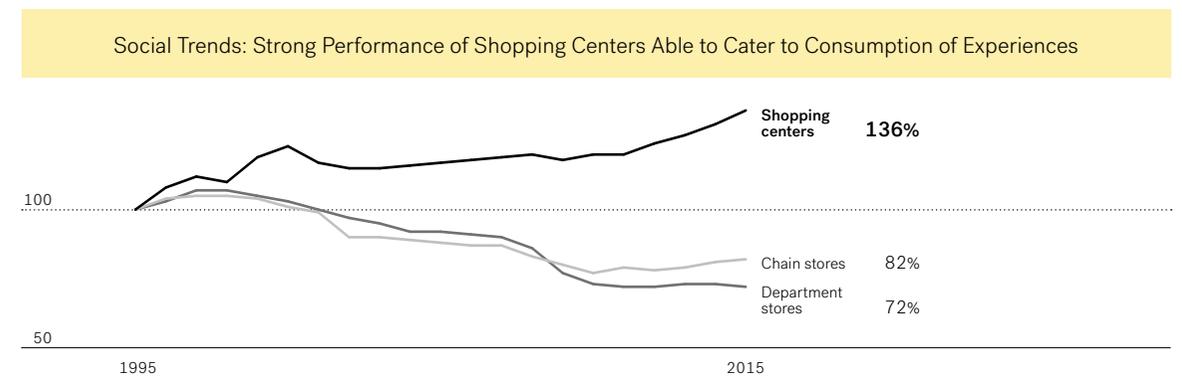
Promoting the shift toward shopping centers and fixed-term rental contracts for our stores will enable us to exercise increased flexibility in adjusting the balance of product and service categories available at our stores. This increased flexibility will no doubt be a powerful asset in developing stores that win customer support and provide joy. Retailing was the starting point for the Group's business, and even the credit card services that are now supporting our earnings are still steeped in the appeal of retailing. Going forward, I aim to further develop the Retailing business while generating synergies with other Group businesses.

**Figure 1: Consumption Expenditures** (1995 indexed to 100)



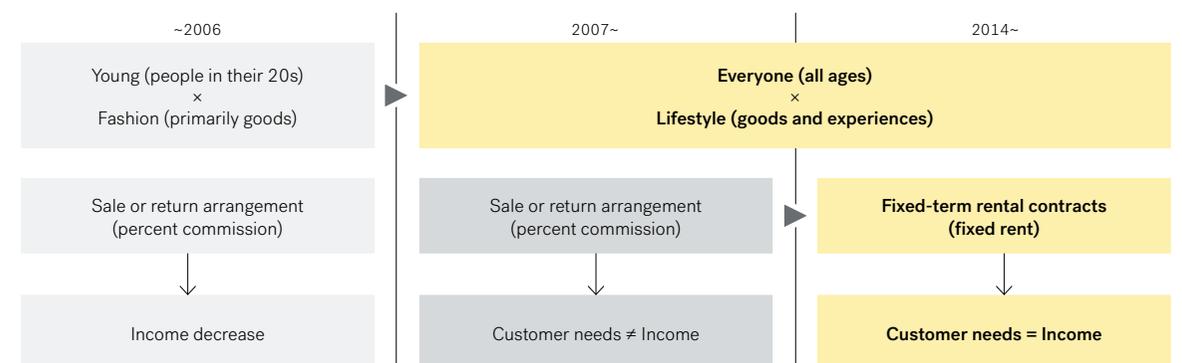
Source: Family Income and Expenditure Survey, Statistics Bureau, Ministry of Internal Affairs and Communications (two-or-more-person households in which head of household works, "food" excludes "eating out," "leisure" based on Company data)

**Figure 2: Sales Amounts by Store Type** (1995 indexed to 100)



Source: Japan Council of Shopping Centers, Japan Chain Stores Association, and Japan Department Stores Association

**Figure 3: MARUI GROUP's Business Model Based on Social Changes**



## RETAILING BUSINESS



**Hajime Sasaki**  
Senior Executive Officer  
President and Representative Director, MARUI CO., LTD.

**Our true worth will be put to the test in determining how we will provide customers with value and joy.**



Hakata Marui opened in April 2016

Our greatest mission in the Retailing business is to once again return our operations to a growth trajectory. The shift to shopping centers and fixed-term rental contracts and the promotion of omni-channel retailing are important strategies for accomplishing this goal. However, we must remember that these strategies are merely a means to an end and not an end unto themselves. Our ultimate goal should be to provide customers with products, services, and contact points that earn their support and thereby realize ongoing growth in income. Accomplishing this goal will require us to act from a forward-looking perspective with a view to five and 10 years in the future. It is crucial to think about how customer lifestyles will change in the future. Our true worth will be put to the test in determining how we will provide customers with value and joy amid these changes.

Hakata Marui, a store opened in April 2016, turned out to be a model example of the direction we should take with our stores in the future. Going forward, we will need to steadily create more successful examples of stores developed through co-creation processes conducted together with customers and business partners as well as with community members, society, and employees.

### KEY POINTS

#### Earnings Growth through Business Structure Transformation

The transformation of business structures in the Retailing business will be centered on the following three initiatives. By increasing earnings through the transition to fixed-term rental contracts and the promotion of omni-channel retailing, we will target operating income of more than ¥18.0 billion in the fiscal year ending March 31, 2021.

#### 1. Transition to Shopping Centers and Fixed-Term Rental Contracts

We are renovating existing stores as part of the transition. We plan to convert almost all of our stores, excluding certain stores that will not be converted based on requests from the owners, to fixed-term contracts by March 31, 2019. At Hakata Marui, the first new store to be established under this model, we deployed fixed-term rental tenants and competitive directly operated specialty shops in a balanced manner. This store is thus expected to achieve return on investment\*1 of 12% and net operating income yield\*2 of more than 4%. Hakata Marui will be positioned as a model for future co-creation initiatives.

#### 2. Promotion of Omni-Channel Retailing

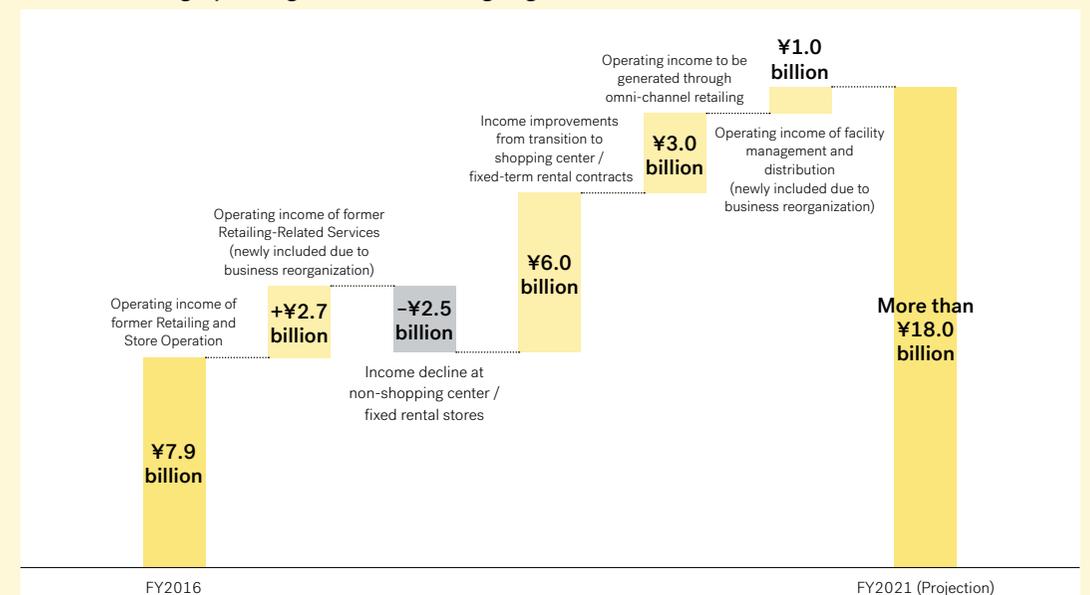
For specialty stores and private brands, we will optimize sales floor area and implement other selection and concentration measures. We will also expand the scope of our operations by creating unique business models, such as the try-on stores that leverage our bolstered accessory lineups for Internet sales and Group expertise, to grow earnings.

#### 3. Development of Facility Management and Distribution Operations

We aim to expand our business-to-business facility management and distribution operations by combining the operations of the prior Retailing-Related Services segment, which include store renovation, distribution, building management, and IT (system development) operations, with our unique expertise related to real-time management of store and Internet inventories.

\*1 Indicator of how much income is generated in comparison to the investment necessary for conducting business activities  
\*2 Indicator of earnings potential of real estate calculated by dividing net operating income by real estate market value

### Factors Affecting Operating Income in Retailing Segment





**Toshikazu Takimoto**  
Managing Executive Officer  
Responsible for FinTech Business

## FINTECH BUSINESS

**In the transition from Credit Card Services to FinTech, we are pursuing new possibilities through co-creation with customers.**

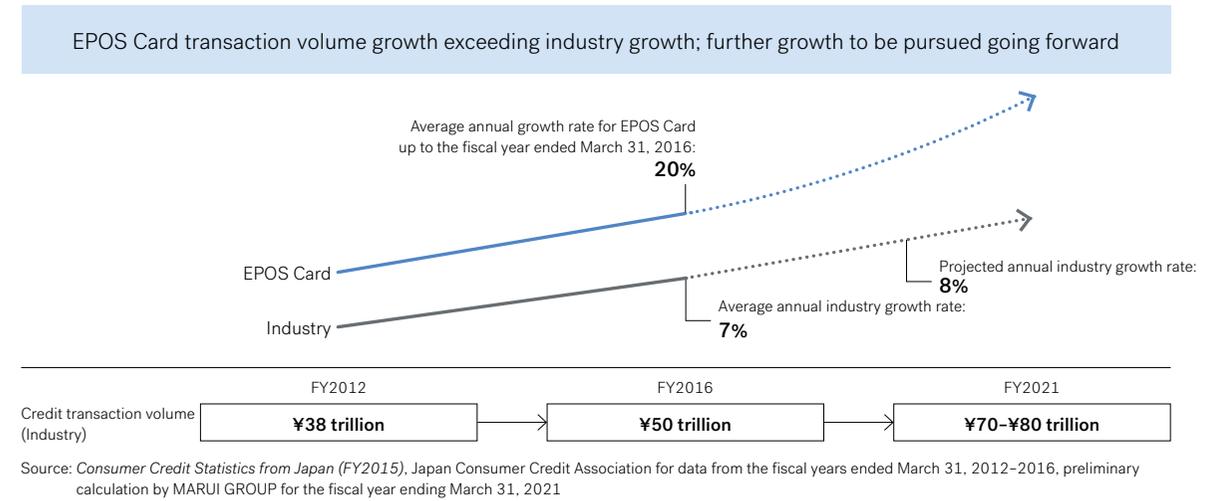
The Japanese credit card market is still developing. It is expected that the installation of infrastructure leading up to the Tokyo 2020 Olympic and Paralympic Games will stimulate average annual growth of 8% in this market and that annual transaction amounts will increase from the current ¥50 trillion to more than ¥70 trillion. The growth of EPOS card transactions is particularly strong, exceeding the industry average, and we will target further growth in the future (see Figure 1).

The number of cardholders of EPOS Card was roughly one-fourth that of other retail-type credit card companies, standing at only 6.1 million on March 31, 2016. Similarly, while EPOS card transactions have risen above ¥1 trillion, those of other companies' cards amount to more than ¥4 trillion. Nonetheless, the amount of operating income per active EPOS card is exceptionally high in comparison to rival cards, making for impressive profit margins (see Figure 2).

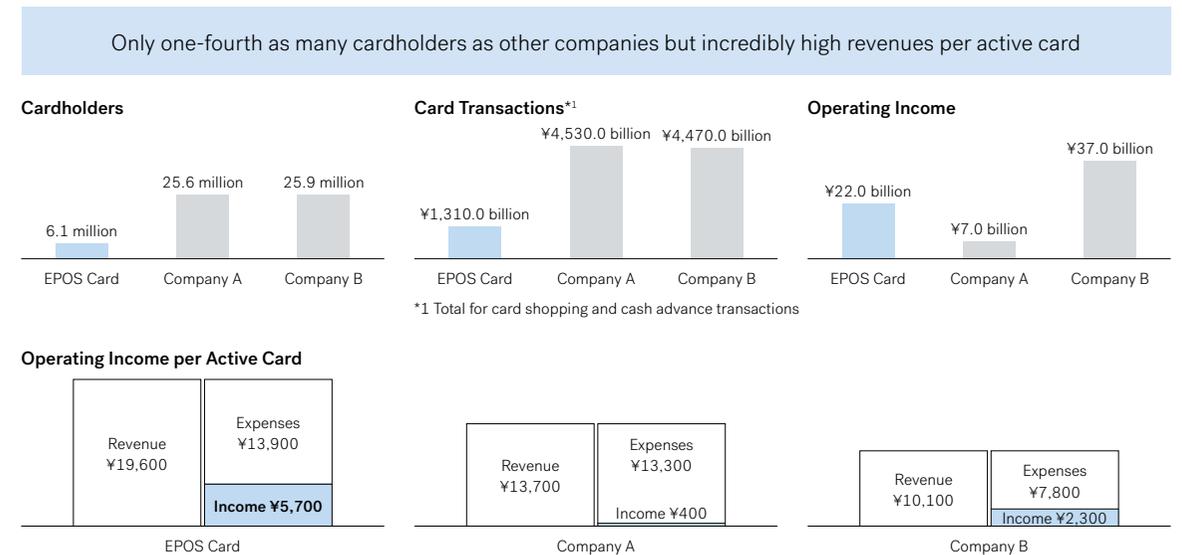
In consideration of the growth potential of the credit card market and the strengths of EPOS cards, MARUI GROUP embarked on a new endeavor in its credit card operations by undertaking the transition to the FinTech

business in April 2016. We have thus redefined, and effectively expanded, the target scope of our business with the aim of realizing ongoing growth. We will continue to evolve our services to make them easy to use by a wider range of customers, regardless of the differences in their income level or the region in which they live. To customers, the appeal of EPOS cards can be found in the ever-expanding range of unique services and benefits that make customers feel they made the right decision in using their card, provide peace of mind, and offer small joys. Recently, we have been collaborating with anime and video game companies to step up initiatives for expanding the range of cardholders among the younger generation, our primary target demographic. From a business perspective, we will strive to increase operating income and boost capital efficiency. These goals will be accomplished in part by developing a highly unique business through further coordination with other Group companies, such as M & C SYSTEMS, which is lending its strengths in system development. In addition, we will leverage our customer assets and expertise to expand our financial service operations (see Figure 3).

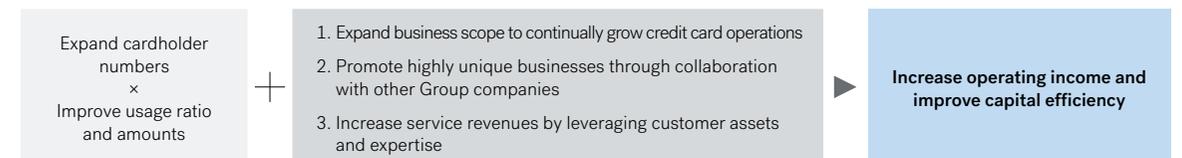
**Figure 1: Card Shopping Transaction Trends and Future Credit Card Market**



**Figure 2: Comparison with Competitors** (Figures from FY2016, segment based; Source: MARUI GROUP)



**Figure 3: FinTech Growth Strategies**



## FINTECH BUSINESS



**Yoshinori Saito**  
Senior Executive Officer  
President and Representative Director, Epos Card Co., Ltd.

**I hope to develop EPOS cards into cards that offer users joy and a sense of wonder.**



The expansion of the scope of the FinTech business driven by the EPOS card is supporting growth in cardholder numbers and increases in usage ratios and amounts. Over the past several years, we have been successful in achieving a massive increase in the number of cardholders in Kyushu through efforts positioning this area as a strategic region in preparation for the opening of Hakata Marui. In addition, we have been collaborating with various commercial facilities and companies to grow the number of cards issued outside of the Group, realizing a rise in cardholder numbers outside of business areas of Marui stores. Today, the number of EPOS card fans is on the increase across Japan, and the benefits are appearing steadily.

I hope to develop EPOS cards into cards that offer users joy and a sense of wonder with their ability to be used in a variety of everyday life situations. This quest will be supported by MARUI GROUP's sophisticated systems, which are founded on its unique credit management expertise and IT. By leveraging such strengths well into the future, we will continue to offer joy to customers while growing our business.

### KEY POINTS

#### FinTech Business Growth Strategies

In the FinTech business, we will expand the scope of collaboration with anime and video game companies and increase card usage rates and amounts, thereby targeting total transaction volumes of ¥2,500.0 billion in the fiscal year ending March 31, 2021, 1.7 times higher than the level in the fiscal year ended March 31, 2016. The strengths of the FinTech business, which centers on EPOS cards, are as follows.

#### 1. Ability to Improve Value for Collaboration Partners through Personnel with Retailing Experience

EPOS card application centers are staffed by full-time personnel that possess both retailing and card expertise. Such personnel are able to provide fine-tuned support to partners through means including offering advice on how sales staff can encourage customers to use or apply for credit cards. This support can help create fans of partner facilities, thereby improving the value of collaboration for our partners.

#### 2. IT Frameworks

EPOS cards are IC-chip-embedded VISA cards that can be issued on-the-spot at stores and are immediately usable. We have also introduced other frameworks taking advantage of cutting-edge IT, such as

our system for high-speed issuance of cards via tablets and our patented credit card application app. These frameworks help us limit costs while realizing high card usage ratios.

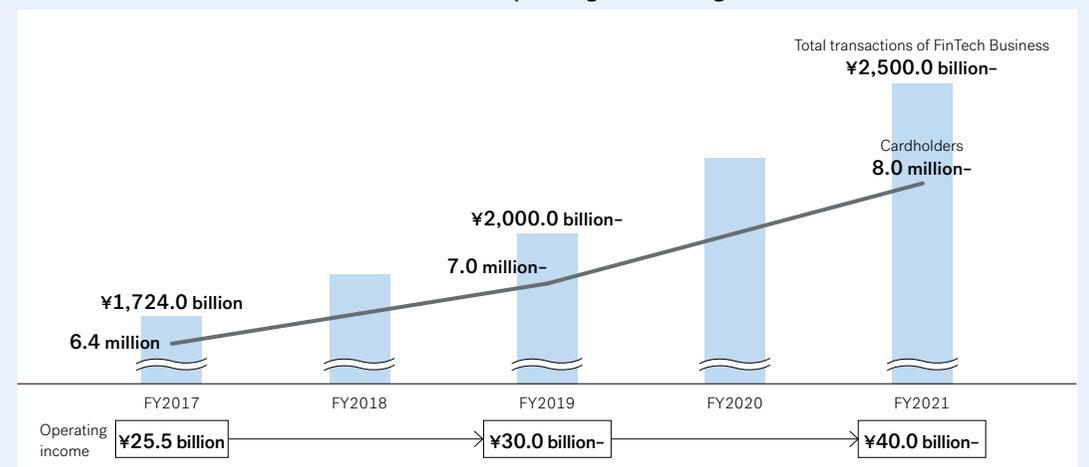
#### 3. Unique Credit Expertise and Customer Assets

Since its founding, MARUI GROUP has operated under the basic belief that creditability should be built together with customers. As opposed to being assigned based on a customer's age, profession, or income, we feel that credit should be shaped through a customer's usage and payment records. This belief is one of the reasons that our cardholder base is characterized by a large number of young people, who tend to have large demand for credit, and women.

#### 4. In-House Development of Systems

Our ability to exercise the strengths of the FinTech business is supported by MARUI GROUP's unique business model that integrates the operation of this business with that of the Retailing business. In addition, by working together with the Group's system development company, we have created an in-house structure capable of developing more than 100 systems a year. This type of inter-Group coordination drives the swift evolution of our business model.

#### FinTech: Medium-Term Transaction Volume and Operating Income Targets





**It is my goal to create a unique and optimal capital structure for MARUI GROUP.**

**Motohiko Sato**  
Senior Managing Executive Officer and CFO

Beginning in the fiscal year ending March 31, 2017, MARUI GROUP will adopt three key performance indicators (KPIs) for gauging Groupwide performance. These KPIs will include return on equity (ROE) and earnings per share (EPS), which are both indicators that have been selected based on our emphasis on improvements to medium-to-long-term corporate value. The last KPI is return on invested capital (ROIC), which is an indicator of the profitability of our main business.

It is, of course, important to steadily generate earnings over the medium-to-long term. However, it is at the same time crucial to set KPIs from a balanced perspective given the fact that improvements in ROIC, an indicator of business profitability, are linked to returns to shareholders as indicated by ROE. Each Group company and operating division has set its own KPIs based on the characteristics of its business, and the aggregates of these KPIs are the management indicators of the Group as a whole. With this recent establishment of Groupwide KPIs, I feel that we have made it clear the role that Group companies and operating divisions should play in accomplishing our overall goals.

In addition, we are working to transform our balance sheet to more ideally match the business and earnings

structures that the Group will utilize going forward in consideration of the changes to our business model that have been implemented thus far. Following the 2006 switch from an in-house credit card to a multipurpose credit card, the portion of our balance sheet accounted for by credit card operating receivables increased. However, our capital structure remained relatively unchanged from when our focus was retailing. To help rectify this situation, we established a vision for our ideal balance sheet in the fiscal year ending March 31, 2021. This vision was formulated using average balance sheets for both the retailing and credit card industry as a benchmark and then simulating the growth of the Group's Retailing and FinTech businesses over the next five years.

However, as long as we continue to operate under business models for which there is no precedent at other companies, we will always have to be thinking of what equally unique capital structure will be optimal for MARUI GROUP. The next round of growth strategies will be formulated based on the growth we are able to accomplish over the next five years and the initiatives we intend to implement thereafter. When we find the next pillar of growth, it goes without saying that our ideal capital structure will also change.

**History-Making Balance Sheet Change**

Transition from retailing to credit cards as main driver of growth after 2006 launch of EPOS card  
Creation of a credit card-driven business structure capable of achieving stable growth

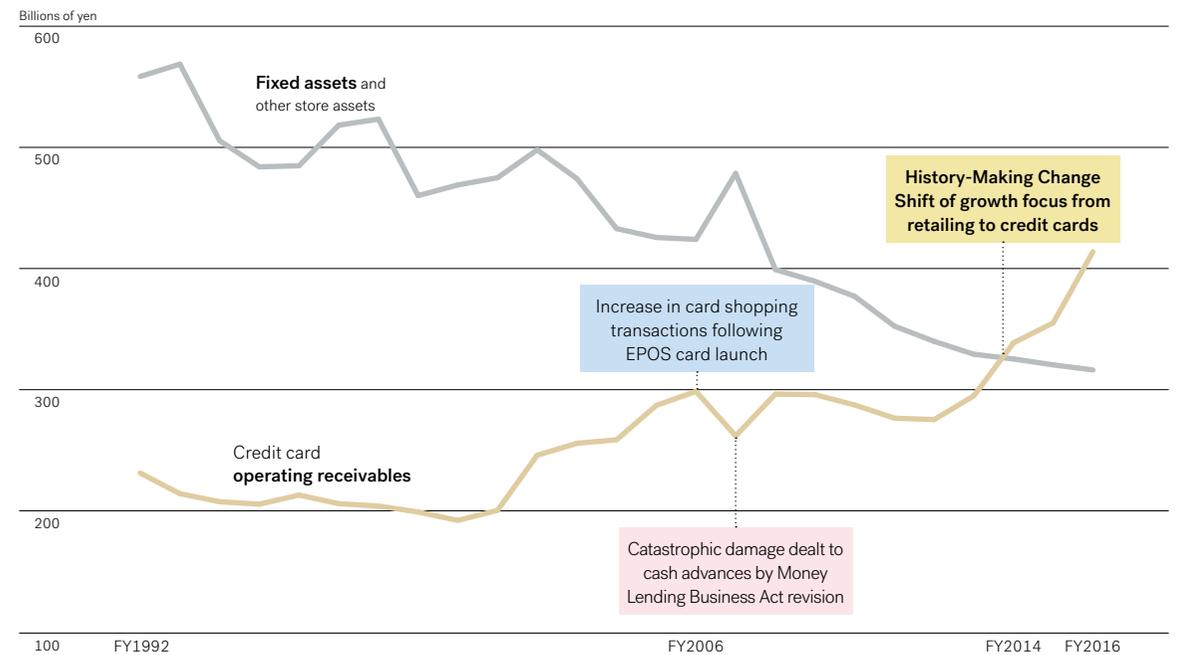
MARUI GROUP has continued to evolve its unique business model merging retailing and finance since its founding. In the past, it has been retailing that has driven growth while finance supported these operations. During this period, the credit cards offered by the Company were in-house cards only valid at Marui stores, and they primarily generated revenues through cash advances. However, the 2007 revision to the Money Lending Business Act greatly impacted these credit cards, catastrophically damaging cash advances as a revenue source.

We were able to overcome this trial thanks to the EPOS card, which was launched in 2006, one year prior to the regulatory revision. This new card enabled us to increase card shopping transactions, freeing us from past dependence on cash advances and shifting the focus of

growth from retailing to credit cards. By positioning credit card services operations, which were able to generate steady income, as the main proponent of its business, the Group was successful in creating a business structure that was capable of achieving stable growth.

This change was most apparent in the Company's balance sheet. While previously the asset portion of the balance sheet had primarily consisted of land, buildings, and other fixed assets for stores, in the fiscal year ended March 31, 2014, the balance of credit card operating receivables accounted for more than half of assets. These receivables thus took center stage on the balance sheet, representing a history-making change from the time of our founding.

**Balance Sheet Assets**

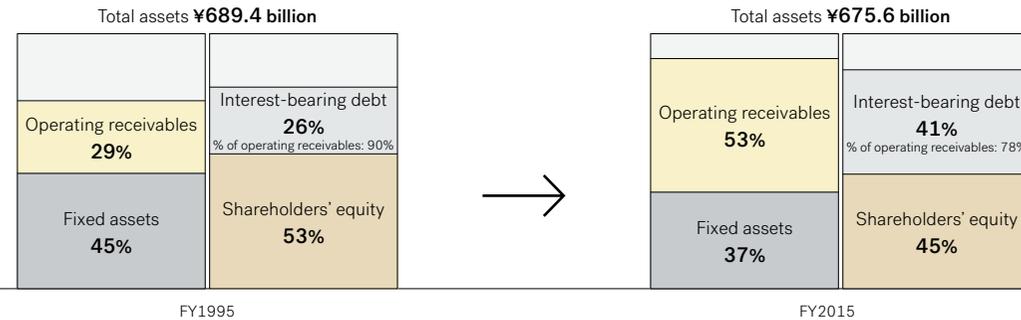


Previously

Going Forward

**Increase of Operating Receivables on Asset Portion**

Growth of operating receivables to represent more than half of assets despite total assets remaining relatively the same  
Increase of 15 percentage points in ratio of interest-bearing debt to total assets while maintaining high shareholders' equity

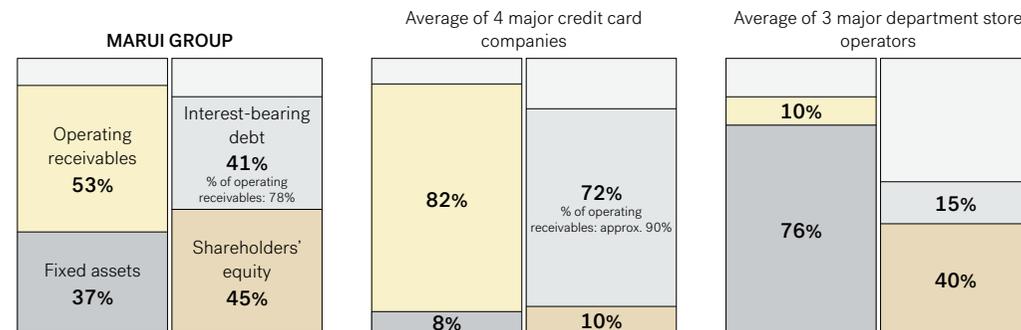


The amount of total assets on the balance sheet from the fiscal year ended March 31, 2015, was around the same level as that of the balance sheet from the year ended January 31, 1995, roughly 20 years ago. However, the structure of the balance sheet has changed as operating receivables, which represented less than

30% of assets in 1995, accounted for more than half of assets in 2015. Meanwhile, the increase in the ratio of interest-bearing debt to total assets was around 15 percentage points, and a high level of shareholders' equity has been maintained.

**Comparison of Balance Sheet to Industry Peers**

Imbalance between assets and liabilities on MARUI GROUP's current balance sheet  
Assets now oriented toward credit cards but liabilities still geared toward retailing



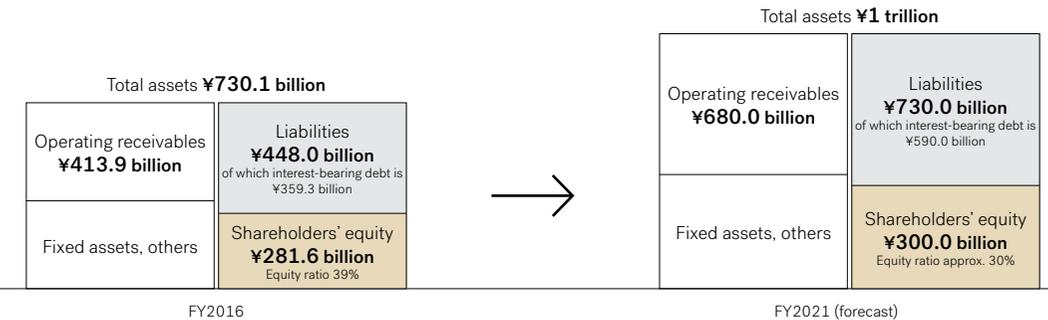
(Data from the fiscal year ended March 31, 2015; Source: MARUI GROUP)

Averaging the balance sheets of four major credit cards, we will see that their ratio of interest-bearing debt to operating receivables is around 90%. For MARUI GROUP, this ratio is 78%. Meanwhile, our shareholders' equity is equivalent to 45% of total assets, greatly above the average for the four credit card companies, which is 10%.

At the same time, the ratio of stores and other fixed assets to total assets on MARUI GROUP's balance sheet is 37%, about half the average ratio for the three major department store operators. Our level of shareholders' equity exceeds the average for these department stores.

**Balance Sheet Targeted by MARUI GROUP**

Total assets forecast to reach ¥1 trillion in the fiscal year ending March 31, 2021, due to increased operating receivables  
Optimal capital structure defined as having equity ratio of approximately 30%

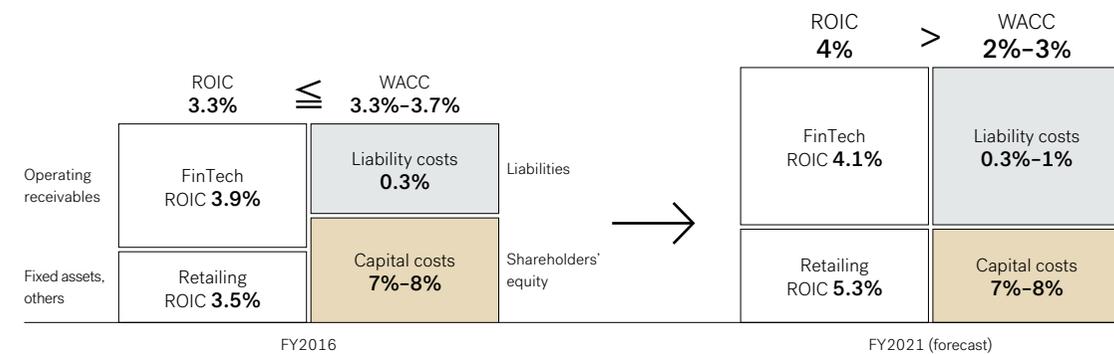


In order to achieve the balance sheet we target, we will work to bring the liabilities portion of the sheet in line with the Group's earnings structure. As operating receivables increase in the FinTech business, total assets are also expected to grow, reaching around ¥1 trillion in the

fiscal year ending March 31, 2021. Meanwhile, we will maintain a level of interest-bearing debt that is equivalent to 90% of operating receivables, while targeting an equity ratio of approximately 30%, the level we view as representing an optimal capital structure.

**Creation of Corporate Value through ROIC Exceeding WACC**

Development of structure in which ROIC consistently exceeds WACC by increasing consolidated ROIC from current 3.3% to 4.0% and lowering capital costs

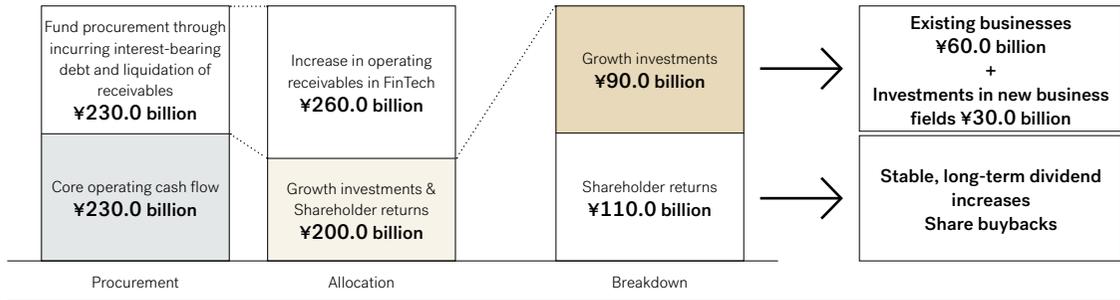


We will increase ROIC by growing financial service revenues in the FinTech business and transitioning to shopping centers and fixed-term rental contracts in the Retailing business. Meanwhile, we will deploy financial strategies of increasingly procuring funds in the growing

FinTech business through low-cost interest-bearing debt to reduce the overall capital costs of the Group and thereby develop a structure in which ROIC consistently exceeds WACC.

**Cash Flow Forecasts**

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



MARUI GROUP will use cash flows generated during the five-year period of the new medium-term management plan to conduct growth investments and enhance shareholder returns. Approximately 90% of the working capital requirements associated with the anticipated increase in operating receivables in the FinTech business will be funded through borrowings. Excluding this increase, core operating cash flow is expected to amount to ¥230.0 billion over the period of the plan. We plan to allocate ¥200.0 billion of this amount to growth investments and shareholder returns. Growth investments of ¥60.0 billion will be directed toward existing businesses to fund the

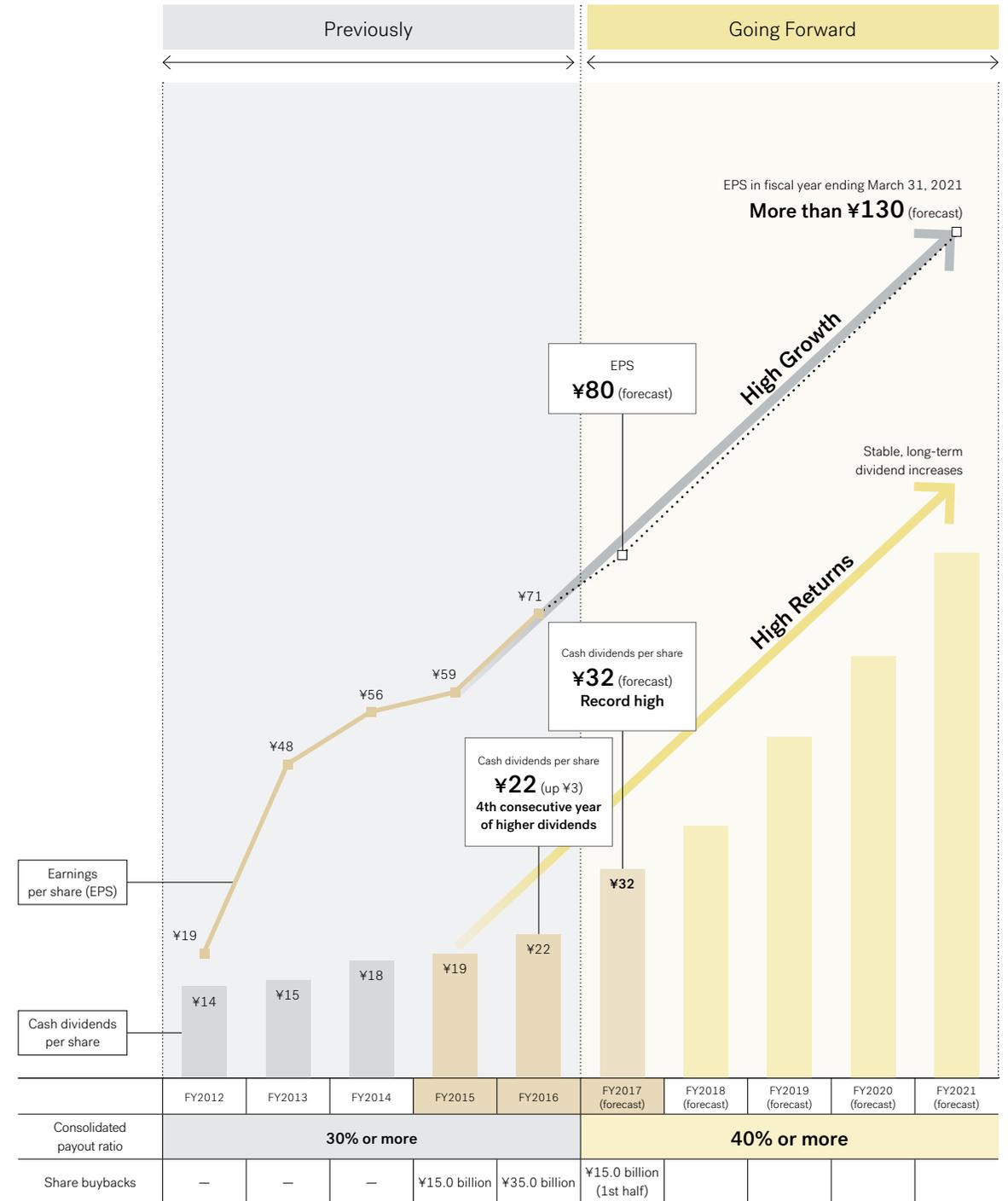
transition to shopping centers and fixed-term rental contracts and invest in IT systems. Meanwhile, ¥30.0 billion has been earmarked for investments in new business fields, and we are examining potential uses for this amount. We intend to use the remaining ¥110.0 billion for enhancing shareholder returns through stable, long-term dividend increases and share buybacks. We will comprehensively evaluate factors such as cash flows when considering share buybacks, targeting the ideal timing for improving capital efficiency and increasing shareholder returns. Acquired treasury stock will, in principle, be canceled.

**High Growth Coupled with High Returns**

Stable, long-term dividend increases in conjunction with income growth aimed at raising payout ratio from 30% or more to 40% or more

MARUI GROUP positions returning profits to shareholders as an important management priority. Our basic policy is to issue stable and appropriate returns, based on which we have continued to increase dividend levels while considering performance trends and financial conditions. We had previously targeted a consolidated payout ratio of 30% or more. However, we have since received numerous requests from long-term investors and private shareholders stating that they want the Company to reconsider dividend levels, rather than focusing only on share buybacks.

Based on this feedback, we have decided to raise the target payout ratio to 40% or more beginning with the fiscal year ending March 31, 2017. Accordingly, we intend to increase dividends in this year to ¥32 per share, which is ¥10 per share higher than was issued in the fiscal year ended March 31, 2016. This level will represent a record high for dividend payment and make for our fifth consecutive year of increased dividend payments. With the fiscal year ending March 31, 2021, as its final year of the new medium-term management plan targets high growth coupled with high returns to be realized through ongoing dividend increases based on long-term growth in EPS.





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## Management Systems / Corporate Information

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In this section, we will look at the corporate governance systems and frameworks that support MARUI GROUP's co-creation management as well as provide basic information on the Group.



From back left

**Takehiko Takagi**  
External Audit & Supervisory  
Board Member

**Tetsuji Sunami**  
Audit & Supervisory  
Board Member (Full time)

**Hirotsugu Kato**  
Director

**Tomoo Ishii**  
Director

**Hideaki Fujizuka**  
Audit & Supervisory  
Board Member (Full time)

**Tadashi Ooe**  
External Audit & Supervisory  
Board Member

From front left

**Masao Nakamura**  
Director

**Koichiro Horiuchi**  
External Director

**Hiroshi Aoi**  
President and  
Representative Director

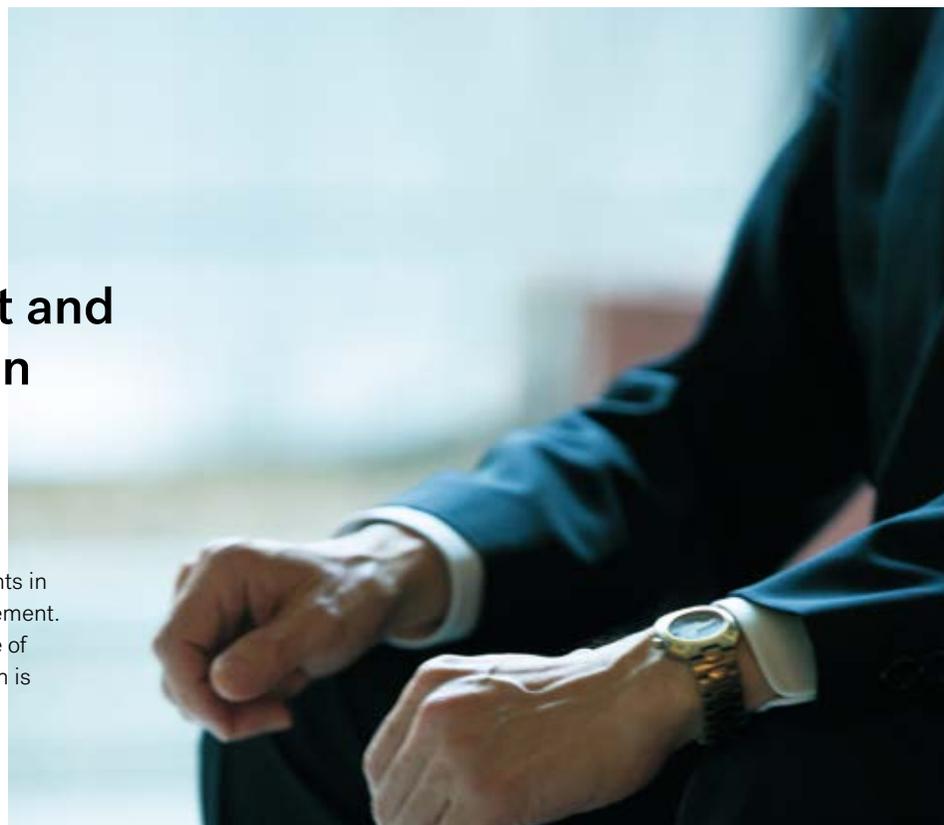
**Etsuko Okajima**  
External Director

## Co-Creation Management and DNA of Innovation as Seen by External Directors

### MARUI GROUP's Corporate Governance and Board of Directors

MARUI GROUP pursues medium-to-long-term improvements in corporate value through the practice of co-creation management.

The Company's two external directors discussed the type of deliberations that take place at the Board of Directors, which is charged with guiding management, and whether corporate governance systems were functioning effectively.



### Koichiro Horiuchi

External Director  
President and Representative Director, FUJI KYUKO CO., LTD.



### Etsuko Okajima

External Director  
President & CEO, ProNova Inc.



### A Board of Directors Engaged in Lively Debate

**Okajima:** I have been an external director at MARUI GROUP for two years now, and I have a very positive opinion of the atmosphere of the Board of Directors. With a total of six members, including us two external directors, the Company's Board is lean but highly conducive to lively debate.

Moreover, the Board of Directors does not just make decisions about important matters; it also engages in open, active, and constructive discussions of management issues from a medium-to-long-term perspective. While I specialize in management strategies and organizational development, retail and finance lie outside of my area of expertise. For this reason, I often ask somewhat naive questions, but the internal directors are always thoughtful enough to offer me a comprehensive answer to my inquiry.

**Horiuchi:** Discussions at MARUI GROUP's Board of Directors are practical, and the discussion processes are such that they ensure necessary decisions are made. You can plainly see that the Company has taken steps to make Board meetings a forum that is conducive to discussion, most likely out of a strong desire to invigorate the Board and make it a more meaningful body. The ratio of two internal directors to one external director is also ideal.

Since Ms. Okajima joined two years ago, the atmosphere of the Board of Directors has improved significantly. In the past, when the Board was all male, discussions tended to be a bit intense and were often locked in a single direction. However, with the advent of Ms. Okajima, the atmosphere has been more relaxed, and you have provided us with various ideas on how to make discussion livelier. Yes, there truly have been a lot of changes.

**Okajima:** Looking back over the past year, I can remember various discussions that were held at meetings of the Board of Directors. I have a particularly strong impression of the Company's passion with regard to Hakata Marui, which was opened in the spring of 2016. This opening was not seen simply as the establishment of a new store; it was treated as an opportunity to ask society its opinion on the future direction of Marui stores in general. The commitment to exercise the Group's strength in its entirety in this undertaking was palpable.

It was also through Hakata Marui that I was able to deepen my understanding of the Company's concept of co-creation management, which entails developing stores through an exhaustive process of incorporating customer feedback. This experience convinced me that the direction chosen by MARUI GROUP's management was right on target.

**Horiuchi:** What left a strong impression on me was the discussions related to the massive transformation that MARUI GROUP has been undergoing over the past several years, including the shift toward shopping center style stores. President Aoi was particularly passionate about the Company's corporate value-raising business model innovations. When providing an explanation as to why this transformation was being pursued now, the depth of his passion and commitment could not have been clearer.

At the same time, President Aoi exhibits exceptional leadership while exercising a sense of balance, first carefully listening to our opinions at meetings and then putting forth his thinking and final decisions. I suspect that the growth of MARUI GROUP's business and performance is due in part to these characteristics of its Board of Directors and the corporate governance systems enacted to achieve these characteristics.

**Okajima:** We also discussed human resources development at the Board of Directors. MARUI GROUP is actively utilizing its profession change system, which allows for personnel to be relocated among Group companies and divisions. I originally had misgivings regarding this

system, primarily out of concern that it might impede the accumulation of expertise within the organization.

However, over the course of our discussions on this topic, I grew to understand the merits of this system, such as how changes in professions offer new opportunities to junior employees while helping enhance the ability of veteran employees to adapt to different work situations. I also learned that this process thereby contributes to cross-divisional co-creation. In other words, it was an example of an initiative to "equate the development of our people with the development of our company," as described in the Company's corporate philosophy. The ability for us to discuss MARUI GROUP's policies for improving corporate value at meetings of the Board of Directors is truly meaningful.

### MARUI GROUP's Ongoing Process of Innovation

**Horiuchi:** Recently, the common consensus among investors and other people outside the Company is that "MARUI GROUP has changed." However, I feel a little differently. I have been an external director at the Company since 2008, and I do not get the impression MARUI GROUP underwent any drastic change.

MARUI GROUP has always had its eyes to the future, aware of the dangers that lie ahead and committed to transforming these dangers into opportunities. This is part of its corporate DNA. If, from the outside, it looks as though the Company has suddenly changed, this is most likely because the reforms that it has been advancing for

several years have finally begun producing results. MARUI GROUP undoubtedly has a corporate culture of tackling the challenge of innovation while also considering what constitutes the essence of the Company.

**Okajima:** I feel the same way. One of the roles external directors of Japanese companies are currently expected to fulfill is to support management with regard to taking appropriate risks while realizing long-term growth. However, this approach toward growth is already entrenched in MARUI GROUP.

For this reason, discussions at meetings of the Board of Directors are not based on precedent or pre-conceived notions. Rather, the atmosphere is one in which no topic of discussion is taboo, and you can feel the devotion to carrying out any decision made, leaving no measure incomplete. An ideal example of this devotion can be seen in the Company's committed stance toward co-creation management.

**Horiuchi:** Because of this devotion on the part of management, I feel that we, as external directors, are expected to verify the appropriateness of the strategies and measures MARUI GROUP is looking to advance and examine any risks it may face. I manage a land transport company, which operates in an industry where careful preparation for risks is exceptionally important. From this perspective, I tend to voice opinions from a conservative standpoint in my capacity as an external director at MARUI GROUP.

In the end, President Aoi is a manager that will also make decisions that target an ideal position from the perspective of all stakeholders. As he can be relied upon for this type of prudence, I am able to voice my opinions without unnecessary restraint.

**Okajima:** I believe that my expected role is a little bit different than yours, Mr. Horiuchi, especially given my relationship to the diversity of the Board of Directors. It is for this reason that I try to make suggestions to spur forward the growth of MARUI GROUP from my differing perspective as a woman as well as in terms of corporate management and human resources development.

As a management advisor, I have observed both successes and failures at numerous companies. I believe that this experience can be of use to MARUI GROUP in making aggressive management decisions. In addition, I hope to help promote innovation at MARUI GROUP and contribute to increased competitiveness from the perspective of human resources and organizational development, my areas of expertise.



## Directors

**Hiroshi Aoi**

President and Representative Director  
Shares held: 1,611,700  
Born: January 17, 1961

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

**Participation in committees:**

Management Committee (Chairman)  
Compliance Promotion Board (Chairman)  
Public Relations IR Committee (Chairman)  
Nominating and Compensation Committee

**Koichiro Horiuchi**

External Director  
Shares held: 0  
Born: September 17, 1960

Apr. 1983 Joined Long-Term Credit Bank of Japan  
Mar. 1988 Joined FUJI KYUKO CO., LTD. General Manager, Corporate Planning Division, FUJI KYUKO CO., LTD.  
Jun. 1988 Director, FUJI KYUKO CO., LTD.  
Feb. 1989 Senior Managing Director, FUJI KYUKO CO., LTD.  
Jun. 1989 Representative Director and Senior Managing Director, FUJI KYUKO CO., LTD.  
Sep. 1989 President and Representative Director, FUJI KYUKO CO., LTD. (Incumbent)  
Jun. 2008 External Director (Incumbent)  
Jun. 2012 External Audit & Supervisory Board Member, Yamanashi Chuo Bank, Ltd. (Incumbent)

**Participation in committees:**

Nominating and Compensation Committee

**Etsuko Okajima**

External Director  
Shares held: 0  
Born: May 16, 1966

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

**Participation in committees:**

Nominating and Compensation Committee

## Audit &amp; Supervisory Board Members

**Hideaki Fujizuka**

Audit & Supervisory Board Member (Full time)  
Shares held: 200  
Born: September 1, 1955

Apr. 1980 Joined Mitsubishi Bank Ltd. (currently The Bank of Tokyo Mitsubishi UFJ, Ltd.)  
Jan. 2001 Executive Officer and General Manager, General Affairs Dept., The Bank of Tokyo Mitsubishi UFJ, Ltd.  
Jun. 2010 President and Director, Chitose Kosan, Co., Ltd.  
Apr. 2012 Director, Senior Executive Managing Officer and Group President of Corporate Center, Olympus Corporation  
Apr. 2015 Director, Olympus Corporation  
Jun. 2015 Audit & Supervisory Board Member (Full time) (Incumbent)

**Participation in committees:**

Management Committee  
Compliance Promotion Board  
Public Relations IR Committee

**Tetsuji Sunami**

Audit & Supervisory Board Member (Full time)  
Shares held: 1,900  
Born: August 13, 1958

Mar. 1981 Joined the Company  
Jan. 2002 General Manager, Store Planning Division, Sales Promotion Headquarters  
Oct. 2004 General Manager, DM Business Division, Sales Promotion Headquarters  
Apr. 2006 Representative and CEO, Marui Voi, Co., Ltd.  
Oct. 2007 Managing Director, M & C SYSTEMS CO., LTD.  
Apr. 2011 Representative and CEO, MRI Co., Ltd.  
Jun. 2014 Audit & Supervisory Board Member (Full time) (Incumbent)

**Participation in committees:**

Compliance Promotion Board  
Internal Control Committee

**Masao Nakamura**

Director  
Shares held: 20,000  
Born: June 11, 1960

Apr. 1983 Joined the Company  
May 2003 General Manager, Store Planning Division, Sales Promotion Headquarters  
Apr. 2007 Executive Officer and General Manager, Group Business Promotion Division  
Jun. 2008 Director and Executive Officer, General Manager, Corporate Planning Division and General Manager, Business Development Division  
Apr. 2011 Managing Director and Managing Executive Officer President and Representative Director, MARUI CO., LTD.  
Apr. 2015 Director and Managing Executive Officer Responsible for Retailing and Store Operation Business President and Representative Director, MARUI CO., LTD.  
Apr. 2016 Director and Managing Executive Officer Responsible for Retailing Business (Incumbent) President and Representative Director, AIM CREATE CO., LTD. (Incumbent)

**Participation in committees:**

Management Committee  
Compliance Promotion Board  
Public Relations IR Committee

**Tomoo Ishii**

Director  
Shares held: 16,800  
Born: July 16, 1960

Apr. 1983 Joined the Company  
Oct. 2005 General Manager, Group Compliance Division  
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. 2016 Director and Managing Executive Officer, and Chief Operating Officer, Healthcare Promotion In charge of General Affairs, Personnel and Healthcare Promotion (Incumbent)

**Participation in committees:**

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

**Hirotugu Kato**

Director  
Shares held: 2,000  
Born: July 30, 1963

Mar. 1987 Joined the Company  
Apr. 2013 General Manager, Corporate Planning Division  
Apr. 2015 Executive Officer and General Manager, Corporate Planning Division  
Oct. 2015 Executive Officer and General Manager, Corporate Planning Division and IR Department  
Jun. 2016 Director and Senior Executive Officer General Manager, Corporate Planning Division and IR Department (Incumbent)

**Participation in committees:**

Management Committee  
Compliance Promotion Board  
Public Relations IR Committee  
Internal Control Committee  
Insider Trading Prevention Committee

**Tadashi Ooe**

External Audit & Supervisory Board Member  
Shares held: 68,400  
Born: May 20, 1944

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

**Takehiko Takagi**

External Audit & Supervisory Board Member  
Shares held: 2,400  
Born: January 23, 1945

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

## Executive Officers

**Hiroshi Aoi**

Representative Executive Officer  
Born: January 17, 1961

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

**Participation in committees:**

Management Committee (Chairman)  
Compliance Promotion Board (Chairman)  
Public Relations IR Committee (Chairman)  
Nominating and Compensation Committee

**Motohiko Sato**

Senior Managing Executive Officer  
Born: December 17, 1953

Mar. 1977 Joined the Company  
Jan. 2000 General Manager, Supply Chain and Logistics Management Division, Sales Promotion Headquarters  
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 (Incumbent)

**Participation in committees:**

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

**Masao Nakamura**

Managing Executive Officer  
Born: June 11, 1960

Apr. 1983 Joined the Company  
May 2003 General Manager, Store Planning Division, Sales Promotion Headquarters  
Apr. 2007 Executive Officer and General Manager, Group Business Promotion Division  
Jun. 2008 Director and Executive Officer, General Manager, Corporate Planning Division and General Manager, Business Development Division  
Apr. 2011 Managing Director and Managing Executive Officer  
President and Representative Director, MARUI CO., LTD.  
Apr. 2015 Director and Managing Executive Officer  
Responsible for Retailing and Store Operation Business  
President and Representative Director, MARUI CO., LTD.  
Apr. 2016 Director and Managing Executive Officer  
Responsible for Retailing Business (Incumbent)  
President and Representative Director, AIM CREATE CO., LTD. (Incumbent)

**Participation in committees:**

Management Committee  
Compliance Promotion Board  
Public Relations IR Committee

**Nariaki Fuse**

Senior Executive Officer  
Born: June 3, 1959

Mar. 1982 Joined the Company  
Feb. 2005 General Manager, Customer System Development Department, M & C SYSTEMS CO., LTD.  
Apr. 2007 Director, M & C SYSTEMS CO., LTD.  
Apr. 2011 Executive Officer  
Managing Executive Officer, M & C SYSTEMS CO., LTD.  
Apr. 2013 President and Representative Director, M & C SYSTEMS CO., LTD. (Incumbent)  
Jun. 2013 Director and Executive Officer  
Apr. 2015 Senior Executive Officer  
In charge of Audit and Information Systems  
Apr. 2016 Senior Executive Officer and CIO  
In charge of Audit (Incumbent)

**Participation in committees:**

Management Committee  
Compliance Promotion Board  
Internal Control Committee  
Personal Information Protection Promotion Committee (Chairman)

**Hajime Sasaki**

Senior Executive Officer  
Born: November 24, 1963

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

**Participation in committees:**

Management Committee  
Compliance Promotion Board  
Internal Control Committee  
Safety Control Committee (Chairman)

**Yoshinori Saito**

Senior Executive Officer  
Born: July 25, 1962

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

**Participation in committees:**

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

**Toshikazu Takimoto**

Managing Executive Officer  
Born: November 5, 1959

Mar. 1982 Joined the Company  
Oct. 2003 General Manager, Credit Card Planning Division, Zero First Co., Ltd.  
Mar. 2006 Director, Epos Card Co., Ltd.  
General Manager, Credit Card Services Division  
Mar. 2009 Executive Officer and General Manager, Group Profit Improvement Division  
Oct. 2009 Director, Epos Card Co., Ltd.  
Apr. 2011 Managing Director, Epos Card Co., Ltd.  
Apr. 2012 President and Representative Director, Epos Card Co., Ltd.  
President and Representative Director, Zero First Co., Ltd.  
Jun. 2012 Director and Executive Officer  
Apr. 2015 Managing Executive Officer  
In charge of Credit Card Services Business  
President and Representative Director, Epos Card Co., Ltd.  
Apr. 2016 Managing Executive Officer  
Responsible for FinTech Business (Incumbent)  
President and Representative Director, MARUI HOME SERVICE Co., Ltd. (Incumbent)

**Participation in committees:**

Management Committee  
Compliance Promotion Board  
Public Relations IR Committee

**Takashi Wakashima**

Managing Executive Officer  
Born: November 19, 1956

Mar. 1981 Joined the Company  
Jan. 2001 General Manager, Product Planning Division, Sales Promotion Headquarters  
Jun. 2006 Director, Deputy General Manager, Sales Promotion Headquarters and General Manager, Sales Planning Division  
Apr. 2011 Director and Executive Officer  
President and Representative Director, MOVING CO., LTD. (Incumbent)  
Apr. 2013 Director and Executive Officer  
In charge of CSR Promotion and Real Estate Business & Architecture  
President and Representative Director, Totsuka Commercial Buildings Management Co., Ltd. (Incumbent)  
Jun. 2013 President and Representative Director, Nakano Suncuore Co., Ltd. (Incumbent)  
Jun. 2015 Director and Managing Executive Officer  
In charge of CSR Promotion and Real Estate Business & Architecture (Incumbent)  
Director, AIM CREATE CO., LTD. (Incumbent)

**Participation in committees:**

Management Committee  
Compliance Promotion Board  
Environment CSR Promotion Committee (Chairman)

**Tomoo Ishii**

Managing Executive Officer  
Born: July 16, 1960

Apr. 1983 Joined the Company  
Oct. 2005 General Manager, Group Compliance Division  
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. 2016 Director and Managing Executive Officer, and Chief Operating Officer, Healthcare Promotion  
In charge of General Affairs, Personnel and Healthcare Promotion (Incumbent)

**Participation in committees:**

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

**Hirotugu Kato**

Senior Executive Officer  
Born: July 30, 1963

Mar. 1987 Joined the Company  
Apr. 2013 General Manager, Corporate Planning Division  
Apr. 2015 Executive Officer and General Manager, Corporate Planning Division  
Oct. 2015 Executive Officer and General Manager, Corporate Planning Division and IR Department  
Jun. 2016 Director and Senior Executive Officer  
General Manager, Corporate Planning Division and IR Department (Incumbent)

**Participation in committees:**

Management Committee  
Compliance Promotion Board  
Public Relations IR Committee  
Internal Control Committee  
Insider Trading Prevention Committee





**Yoshiaki Kogure**

Executive Officer  
 Born: September 5, 1960

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

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



**Masahiro Aono**

Executive Officer  
 Born: March 4, 1962

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

**Participation in committees:**  
 Management Committee  
 Management Committee  
 Compliance Promotion Board  
 Environment CSR Promotion Committee  
 Safety Control Committee



**Yuko Ito**

Executive Officer  
 Born: June 2, 1962

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

**Participation in committees:**  
 Management Committee  
 Compliance Promotion Board  
 Environment CSR Promotion Committee



**Mayuki Igayama**

Executive Officer  
 Born: June 19, 1964

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

**Participation in committees:**  
 Management Committee  
 Compliance Promotion Board  
 Personal Information Protection Promotion Committee



**Junko Tsuda**

Executive Officer  
 Born: May 25, 1972

Mar. 1995 Joined the Company  
 Apr. 2014 Store Manager, Nakano Marui, MARUI CO., LTD.  
 Apr. 2015 Executive Officer (Incumbent)  
 Director and Store Manager, Marui Family Shiki, MARUI CO., LTD. (Incumbent)

**Participation in committees:**  
 Management Committee  
 Compliance Promotion Board



**Miyuki Kawara**

Executive Officer  
 Born: August 6, 1963

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

**Participation in committees:**  
 Management Committee  
 Compliance Promotion Board  
 Personal Information Protection Promotion Committee

# Corporate Governance: Emphasizing Corporate Value

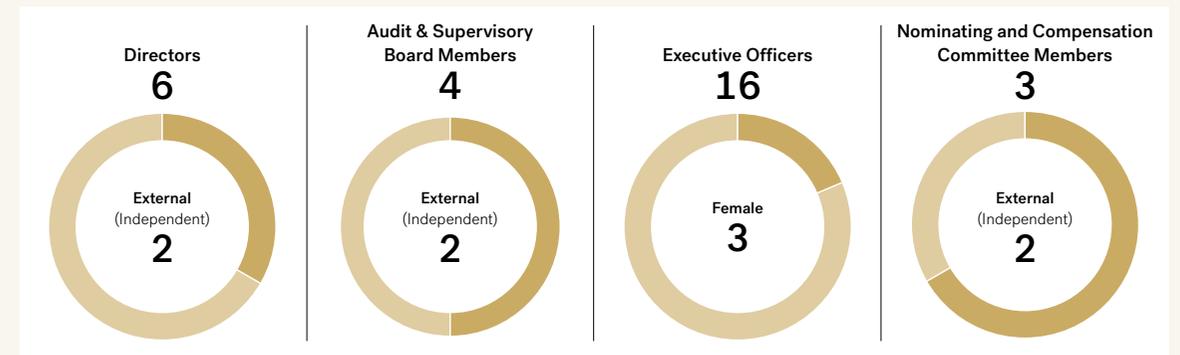
MARUI GROUP's corporate philosophy calls for us to "continue evolving to better aid our customers" and "equate the development of our people with the development of our company." Accordingly, we support the passion of all employees to aid our customers to create a virtuous cycle in which the growth of our people furthers the development of the Company, which in turn facilitates the further growth of our people. This cycle is part of our pursuit of improvements to corporate value. Given this approach, reinforcing corporate governance is a top priority, and we endeavor to practice sound management that is highly transparent and efficient to heighten earnings capacity.

In addition to its Board of Directors and Audit & Supervisory Board, MARUI GROUP has established the

Management Committee, which functions as the highest decision-making body and is composed of 16 executive officers. In the fiscal year ended March 31, 2016, the Company redefined the roles of the Board of Directors and the Management Committee, choosing to reduce the number of directors, and instituted other measures for reinforcing corporate governance. In addition, we formulated the MARUI GROUP Corporate Governance Guidelines to codify our stance toward corporate governance and our initiative policies.

MARUI GROUP Corporate Governance Guidelines  
[www.0101maruigroup.co.jp/pdf/cgg\\_en.pdf](http://www.0101maruigroup.co.jp/pdf/cgg_en.pdf)

Corporate Governance Report  
[www.0101maruigroup.co.jp/pdf/cgr\\_en.pdf](http://www.0101maruigroup.co.jp/pdf/cgr_en.pdf)



**Initiatives for Reinforcing Corporate Governance**

2007	Oct.	<b>Adopted a holding company system</b>	
2008	Jun.	<b>Appointed first external director</b> Mr. Koichiro Horiuchi has accumulated a wealth of management experience and insight from his long career at FUJI KYUKO CO., LTD., and actively offers opinions and advice from an independent and objective standpoint.	
		<b>Shortened the term of all directors to one year to clarify management responsibilities</b>	
2014	Jun.	<b>Appointed second external director</b> Ms. Etsuko Okajima has accumulated a wealth of management experience and insight at ProNova Inc. as well as a deep understanding of diversity issues and actively offers opinions and advice from an independent and objective standpoint.	
2015	Mar.	<b>Redefined roles of the Board of Directors and the Management Committee to separate management decision making and oversight from operational execution</b> The Board of Directors was defined as a forum for discussing important issues, and steps were taken to stimulate discussion centered on outside directors in order to enhance the Board's functionality as a venue for creating Groupwide strategies for improving corporate value. The Management Committee was delegated a wider range of decision-making authority from the Board of Directors in order to expedite management decisions.	
	Apr.	<b>Established Criteria for Independence of External Directors and Audit &amp; Supervisory Board Members</b> Criteria for Independence of External Directors and Audit & Supervisory Board Members <a href="http://www.0101maruigroup.co.jp/pdf/cgg_en.pdf">www.0101maruigroup.co.jp/pdf/cgg_en.pdf</a>	
	Jun.	<b>Reduced the number of directors from 10 to 6</b> We reduced the number of directors by four to reinforce the supervisory functions of the Board of Directors by making it easier for the opinions of the external directors to be incorporated into management practices.	
	Aug.	<b>Published Japanese-language version of first integrated report, Co-Creation Management Report 2015; English-language version published in October 2015</b>	
	Oct.	<b>Established dedicated investor relations department</b> MARUI GROUP strives to co-create corporate value together with shareholders and other investors. To this end, we conduct twice-yearly financial results briefings and also hold meetings with individual domestic and overseas shareholders and investors individually or in small groups. ➡ <a href="#">P141 MARUI GROUP Ranked High in the 2016 All-Japan Executive Team Rankings Released by U.S. Financial Industry Magazine Institutional Investor</a>	
	Nov.	<b>Formulated MARUI GROUP Corporate Governance Guidelines</b> The MARUI GROUP Corporate Governance Guidelines codify our stance toward corporate governance and our initiative policies, including those for improving corporate value. For example, it is stated that one-third of directors should be external directors (independent directors), that the Company is to conduct appropriate capital measures based on its business structure, and that the Company will not engage in cross-shareholdings except when necessary. MARUI GROUP Corporate Governance Guidelines <a href="http://www.0101maruigroup.co.jp/pdf/cgg_en.pdf">www.0101maruigroup.co.jp/pdf/cgg_en.pdf</a>	
		<b>Published Japanese-language Co-Creation CSR Report 2015, focusing on our connections with local communities and the greater society; English-language digest published in February 2016</b>	
	Dec.	<b>Held explanatory forum on Co-Creation Management Report 2015</b> MARUI GROUP held its first integrated report explanatory forum on Co-Creation Management Report 2015 for institutional investors, analysts, and members of the press to facilitate understanding of the report's contents. In this forum, President Aoi and representatives from each business explained co-creation management policies and examples of specific initiatives.	

2016	Mar.- May	<b>Conducted evaluation of the Board of Directors' effectiveness</b> All directors and Audit & Supervisory Board members completed a self-evaluation survey of the effectiveness of the Board of Directors. Based on these surveys, it was decided that the Board of Directors was functioning sufficiently. Areas applauded and issues identified included the following. <b>Areas Applauded</b> · Active discussion centered on external directors appointed by reducing the total number of directors · Respect for opinions of external directors · Incorporation of perspectives of shareholders, investors, and other stakeholders <b>Issues Identified</b> · Lack of successor development programs <sup>①</sup> · Failure to link director compensation to medium-to-long-term performance <sup>②</sup>
	May	<sup>①</sup> <b>Established Nominating and Compensation Committee with external directors as its primary members</b> Based on a resolution by the Board of Directors, the Nominating and Compensation Committee must consist of at least three members, two of whom must be outside directors. At a meeting of the Board of Directors held on May 12, 2016, three members were appointed: external directors Koichiro Horiuchi and Etsuko Okajima, and President Hiroshi Aoi. We believe that discussing matters related to the nomination and compensation of directors at a committee with external directors as its primary members will help ensure objectivity and transparency and thereby contribute to the enhancement of our corporate governance system.
	Jun.	<sup>②</sup> <b>Introduced performance-linked, stock-based compensation to serve as a medium-to-long-term incentive for directors and executives of the Company and directors of subsidiaries</b> Through the performance-linked, stock-based compensation system, applicable officers receive allocations of Company stock every three years that are adjusted via a coefficient within the range of 0% to 100% based on the KPI defined for that period (ROE, EPS, and ROIC for the first three-year period). The Company has adopted the Board Incentive Plan Trust scheme for this system. Accordingly, director compensation now consists of fixed basic compensation, performance-linked bonuses, and performance-linked, stock-based compensation. In addition, an incentive plan based on the Employee Stock Ownership Plan Trust scheme has been instituted for managers of Group companies to increase their motivation to contribute to medium-to-long-term improvements in performance and corporate value for the Company.

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

In October 2015, we established the IR Department, a dedicated organization consisting of seven members, who primarily engage in communication with institutional investors. In one year, we met with between 200 and 300 institutional investors, including those overseas. Through our discussions with these investors, we gain valuable insight into matters such as how to view corporate value and balance sheet policies. I feel that this input was effectively utilized in shaping MARUI GROUP's new medium-term management plan, which covers the period leading up to the fiscal year ending March 31, 2021. Corporate value certainly cannot be summed up in a single statement. Nevertheless, it is important for the Company to actively explain its view on corporate value and its efforts for improving this value. This is one of the main reasons we publish co-creation management reports. We also held explanatory forums on the 2015 report to delve into topics that were not completely covered in the report for that year. A number of junior employees from the frontlines of business took the stage at these events, providing energized perspectives of how co-creation efforts are contributing to corporate value or where they find motivation in their own work. Investors in attendance stated that these presentations greatly enhanced their understanding. Our initiatives over the past year bore results as the Securities Analysts Association of Japan identified MARUI GROUP as a company demonstrating a massive improvement in disclosure during the fiscal year ended March 31, 2016, and the Company ranked high in the 2016 All-Japan Executive Team Rankings released by U.S. financial industry magazine *Institutional Investor*. Going forward, we will continue to provide inclusive explanations of our activities to deepen stakeholder understanding.



**Hirotsugu Kato**  
Director and Senior Executive Officer  
General Manager,  
Corporate Planning Division and IR Department

**Retailing**



In the Retailing business, MARUI is transitioning toward a unique shopping center style store model to devote more of its stores' floor space to sundries, restaurants, and other high-demand areas that support all lifestyles.

The long-awaited opening of Hakata Marui, our first store in Kyushu, took place in April 2016.

**MARUI CO., LTD.**



Established	October 1, 2007	Number of Employees	3,370
Capital	¥100 million	Head Office	3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
President and Representative Director	Hajime Sasaki	Telephone	03-3384-0101 (Receptionist)
Business Activities	Retailing and Marui store operation, Internet sales, specialty store business (operation and development of directly managed sales floors and private brands)	Homepage	www.0101.co.jp.e.ex.hp.transer.com

**FinTech**



MARUI GROUP issued Japan's first credit card. In the fiscal year ended March 31, 2015, card transactions exceeded ¥1 trillion for the first time since EPOS cards were launched in 2006. By leveraging the expertise gained through the Group's long history, Epos Card is working to expand the number of cardholders, improve usage rates, increase usage amounts, and strengthen operating foundations.

**Epos Card Co., Ltd.**



Established	October 1, 2004	Number of Employees	1,052
Capital	¥100 million	Head Office	3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
President and Representative Director	Yoshinori Saito	Telephone	03-4574-0101 (Receptionist)
Business Activities	Credit card business, credit loan business	Homepage	www.eposcard.co.jp (Japanese only)

**Space Production, Commercial Facility Management, and Advertising**



By leveraging MARUI GROUP's expertise, AIM CREATE provides comprehensive proposals for design, construction, planning, promotion, advertising, and operation of commercial facilities and other places customers gather. The company strives to create facilities that bring joy to visitors.

**AIM CREATE CO., LTD.**



Established	August 4, 1959
Capital	¥100 million
President and Representative Director	Masao Nakamura
Business Activities	Design and construction of commercial facilities, advertisement planning and production, property management, Modi retailing, and store operation
Number of Employees	401
Head Office	34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Telephone	03-5340-0101 (Receptionist)
Homepage	www.aim-create.co.jp (Japanese only)

**Apparel Distribution / Internet Sales Support**



By combining MARUI GROUP's Internet sales know-how with leading-edge distribution operations, MOVING provides powerful support for customers' businesses by responding to their various needs.

**MOVING CO., LTD.**



Established	October 25, 1960
Capital	¥100 million
President and Representative Director	Takashi Wakashima
Business Activities	Trucking business, forwarding, and other businesses
Number of Employees	312
Head Office	5-1, Bijogihigashi 2-chome, Toda-shi, Saitama 335-0032, Japan
Telephone	048-233-1000 (Receptionist)
Homepage	www.moving.co.jp (Japanese only)

**IT Systems**



M & C SYSTEMS operates high-quality systems utilizing data centers equipped with exceptionally safe facilities and provides system support for the Retailing and FinTech businesses.

**M & C SYSTEMS CO., LTD.**



Established	September 1, 1984
Capital	¥234 million
President and Representative Director	Nariaki Fuse
Business Activities	Software development, IT systems operation
Number of Employees	109
Head Office	3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
Telephone	03-5343-0100 (Receptionist)
Homepage	www.m-and-c.co.jp (Japanese only)

## Total Building Management



MARUI FACILITIES offers comprehensive operation and management services for large-scale commercial facilities that include security, facility maintenance and management, janitorial, and food court operation services to improve facility value while creating comfortable environments.

MARUI FACILITIES Co., Ltd.

MARUI FACILITIES

Established	July 1, 1987
Capital	¥100 million
President and Representative Director	Yoshiaki Kogure
Business Activities	Total building management business
Number of Employees	349
Head Office	34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Telephone	03-3229-0101 (Receptionist)
Homepage	www.marui-facilities.co.jp (Japanese only)

## Real Estate Rental



MARUI HOME SERVICE manages rental condominiums in operations founded on the reliability and trust cultivated by MARUI GROUP. In addition, MARUI HOME SERVICE is coordinating with Epos Card to solicit its ROOM iD advanced-payment rent guarantee service.

MARUI HOME SERVICE Co., Ltd.

OIOI HOME SERVICE

Established	October 1, 2007
Capital	¥100 million
President and Representative Director	Toshikazu Takimoto
Business Activities	Real estate rental business
Number of Employees	61
Head Office	34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Telephone	03-6361-0101 (Receptionist)
Homepage	www.marui-hs.co.jp (Japanese only)

## Loan Collection



The greatest strengths of MRI's business are the claim collection expertise MARUI GROUP has developed as a pioneer and the ability to communicate with customers refined through its retailing operations. MRI provides reliable and trustworthy services by consulting with customers regarding their individual situations.

MRI Co., Ltd.

MRI  
SERVICER

Established	November 25, 2004
Capital	¥500 million
President and Representative Director	Kazutoshi Masuda
Business Activities	Collection and management of receivables business, credit check business
Number of Employees	50
Head Office	34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Telephone	03-4574-4700 (Receptionist)
Homepage	www.mri-s.co.jp (Japanese only)

## Small-Amount Short-Term Insurance Policy Business



Epos Small Amount and Short Term Insurance's ROOM GUARD comprehensive renters' insurance plans support rental housing tenants by providing coverage for personal belongings, repairs, and indemnity.

Epos Small Amount and Short Term Insurance Co., Ltd.



Established	February 1, 2013
Capital	¥300 million (including paid-in capital)
President and Representative Director	Izumi Aso
Business Activities	Small-amount short-term insurance policy business
Number of Employees	8
Head Office	34-28, Nakano 3-chome, Nakano-ku, Tokyo 164-0001, Japan
Telephone	03-4546-0101 (Receptionist)
Homepage	www.epos-ssi.co.jp (Japanese only)

## Support for Group Companies



MARUI KIT CENTER provides pickup services for supplies, conducts product inspections and office work, and operates supply dispatch and storage centers. These tasks are performed by people with disabilities, creating employment opportunities for such individuals while helping them achieve independence.

MARUI KIT CENTER CO., LTD.

OIOI Kit Center

Special subsidiary established to employ people with disabilities

Established	October 1, 2003
Capital	¥42.5 million
President and Representative Director	Takeo Horiguchi
Business Activities	Supply pickup, product inspection, various printing services
Number of Employees	52
Head Office	Toda Product Center, Second Building, 5-1, Bijogihigashi 2-chome, Toda-shi, Saitama 335-0032, Japan
Telephone	048-421-7351 (Receptionist)



Group of new university students supported in the fiscal year ending March 31, 2017

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: ¥1,690 million  
 Total number of students supported: 1,508 (As of April 2016)

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



MARUI GROUP CO., LTD., and its consolidated subsidiaries

Fiscal years ended March 31	Millions of yen										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Group transactions	—	—	—	—	—	—	—	—	1,297,250	1,469,111	1,703,353
Retailing and Store Operation	—	—	—	—	—	—	—	—	338,705	322,866	312,511
Credit Card Services	—	—	—	—	—	—	—	—	1,054,706	1,234,339	1,465,227
Retailing-Related Services	—	—	—	—	—	—	—	—	34,695	33,816	37,279
Eliminations*1	—	—	—	—	—	—	—	—	(130,857)	(121,910)	(111,664)
Total operating revenues*2	—	—	—	—	—	—	—	—	253,077	249,847	245,867
Revenue*2	561,539	552,140	493,533	447,400	419,255	406,472	412,408	407,366	416,460	404,947	—
Gross profit	209,347	210,288	177,565	160,125	149,926	144,736	147,240	148,172	156,642	159,448	160,035
Selling, general and administrative expenses	164,641	166,599	159,382	150,986	139,488	129,940	129,224	123,886	129,495	131,406	130,419
EBITDA*3	62,322	61,415	36,870	28,522	29,695	30,457	33,085	35,237	37,134	38,338	39,286
Operating income	44,705	43,688	18,183	9,138	10,438	14,795	18,015	24,285	27,146	28,042	29,615
Net income (loss) attributable to owners of parent	23,983	4,248	7,603	(8,750)	5,104	(23,638)	5,251	13,255	15,409	16,036	17,771
Segment income:											
Retailing and Store Operation	24,245	19,309	10,645	1,252	37	2,110	7,547	9,885	10,562	8,074	7,856
Credit Card Services	19,818	21,892	5,740	6,725	10,272	13,704	10,619	13,177	15,634	20,126	22,186
Retailing-Related Services	4,429	6,913	6,772	3,740	2,509	1,568	2,567	3,792	4,523	3,333	3,674
Total assets	722,578	740,373	695,491	685,351	664,357	628,910	615,130	624,173	664,019	675,627	730,126
Shareholders' equity	432,695	402,610	336,445	310,818	312,188	284,526	289,975	303,637	315,446	306,795	281,610
Installment sales accounts receivable	40,045	51,310	73,781	88,761	95,871	111,760	142,995	171,187	213,466	227,121	279,763
Consumer loans outstanding	258,488	248,464	222,534	207,117	191,486	158,707	132,280	123,739	125,215	128,030	134,107
Interest-bearing debt	201,175	239,308	277,537	292,061	283,676	264,692	245,175	243,762	264,824	277,839	359,324
Net cash provided by (used in) operating activities	36,116	23,828	13,919	15,316	30,811	30,280	24,897	5,111	(9,227)	12,310	(35,310)
Net cash provided by (used in) investing activities	(33,846)	(28,025)	3,134	(18,234)	(13,034)	(7,033)	(3,913)	435	(6,791)	(3,867)	(4,063)
Net cash provided by (used in) financing activities	(12,956)	6,300	(32,241)	2,409	(14,519)	(22,926)	(23,660)	(5,571)	16,141	(7,267)	40,719
Cash and cash equivalents	42,619	44,722	29,535	29,026	32,283	32,603	29,928	29,940	30,053	31,229	32,575
Capital investments	25,812	30,293	23,649	24,073	17,398	14,332	7,941	7,665	11,238	9,786	12,882
Depreciation and amortization	17,616	17,727	18,686	19,384	19,257	15,661	15,069	10,951	9,988	10,296	9,670
Earnings (loss) per share (yen)	70.39	12.92	24.91	(31.90)	18.65	(86.36)	19.19	48.43	56.29	58.87	70.68
Net assets per share (yen)	1,286	1,233	1,207	1,135	1,140	1,039	1,059	1,109	1,152	1,166	1,161
Cash dividends per share (yen)	28.0	28.0	28.0	28.0	14.0	14.0	14.0	15.0	18.0	19.0	22.0
Payout ratio (%)	39.8	216.7	112.4	—	75.1	—	73.0	31.0	32.0	32.3	31.1
Total return ratio (%)	144.4	646.1	911.3	—	75.1	—	73.0	31.0	32.0	125.3	227.5
Operating income margin (%)*4	8.0	7.9	3.7	2.0	2.5	3.6	4.4	6.0	10.7	11.2	12.0
Return on equity (%)	5.5	1.0	2.1	(2.7)	1.6	(7.9)	1.8	4.5	5.0	5.2	6.0
Return on invested capital (%)	—	—	—	—	—	—	—	—	—	3.3	3.3
Return on assets (%)	6.4	6.1	2.4	1.1	1.5	2.2	2.8	3.9	4.3	4.2	4.1
Equity ratio (%)	59.9	54.4	48.4	45.4	47.0	45.2	47.1	48.6	47.5	45.4	38.6
Stock price at year-end (yen)	2,325	1,445	1,061	523	678	537	690	975	885	1,365	1,613
Market capitalization (including treasury stock) (billions of yen)	857.1	532.7	338.0	166.6	216.0	171.1	219.8	310.6	282.0	380.3	449.4
Price earnings ratio (times)	33.0	111.8	42.6	—	36.4	—	36.0	20.1	15.7	23.2	22.8
Price book-value ratio (times)	1.8	1.2	0.9	0.5	0.6	0.5	0.7	0.9	0.8	1.2	1.4
Number of common shares issued (including treasury stock)	368,660,417	368,660,417	318,660,417	318,660,417	318,660,417	318,660,417	318,660,417	318,660,417	318,660,417	278,660,417	278,660,417
Number of shares of treasury stock	32,217,405	42,222,840	39,913,811	44,918,979	44,941,174	44,946,398	44,947,345	44,948,289	44,901,353	15,588,364	36,270,334
Total number of employees	8,156	8,154	7,147	7,085	6,847	6,492	6,218	6,101	5,966	5,918	5,899
Ratio of female employees (%)	39.4	39.9	44.4	44.6	44.7	44.4	44.4	44.3	44.5	44.6	45.5
Total number of stores	31	28	25	25	25	26	27	27	27	27	28
Total sales floor area (thousand m <sup>2</sup> )	381.4	381.4	381.4	444.8	453.3	457.8	458.4	453.1	446.5	444.0	441.8
Environment preservation expenditure (thousands of yen)	—	588,300	660,600	731,900	633,700	893,700	1,165,400	1,141,300	924,500	1,281,000	837,400
Electricity consumption (thousands of kWh)	—	—	—	—	259,800	244,800	204,484	204,825	214,905	199,700	196,196
CO <sub>2</sub> emissions (Scope 1 and 2) (t-CO <sub>2</sub> )*5	150,975	142,006	125,628	122,136	130,600	114,900	96,300	104,299	113,227	109,528	101,278
CO <sub>2</sub> emissions (Scope 3) (t-CO <sub>2</sub> )*5	—	—	—	—	—	—	—	—	550,612	530,595	509,070

\*1 Eliminations under total Group transactions represent the deduction of credit card transactions recorded in Retailing and Store Operation.

\*2 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.

\*3 EBITDA (earnings before interest, taxes, and depreciation and amortization) = Operating income + Depreciation and amortization

\*4 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.

\*5 Scope 1 and 2 represent CO<sub>2</sub> emissions from the Group. Scope 3 represents CO<sub>2</sub> emissions from areas including raw material procurement, transportation, and use by customers. Emissions calculations are verified by Mizuho Information & Research Institute, Inc.

## Consolidated Balance Sheets

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries  
As of March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>Assets</b>			
Current assets:			
Cash and deposits (Notes 6 and 21)	¥ 31,240	¥ 32,586	\$ 290,946
Notes and accounts receivable-trade (Note 6)	6,453	7,459	66,598
Accounts receivable-installment (Notes 4 and 6)	227,121	279,763	2,497,883
Operating loans (Notes 5 and 6)	128,030	134,107	1,197,383
Allowance for doubtful accounts (Note 6)	(8,110)	(7,800)	(69,642)
	353,495	413,530	3,692,232
Inventories	16,834	12,759	113,919
Deferred tax assets (Note 11)	6,444	5,569	49,723
Other	18,738	21,594	192,803
<b>Total current assets</b>	<b>426,753</b>	<b>486,040</b>	<b>4,339,642</b>
Property and equipment (Note 13):			
Land	99,665	99,683	890,026
Buildings and structures	256,707	261,491	2,334,741
Construction in progress	488	420	3,750
Other	35,146	34,523	308,241
Accumulated depreciation	(219,313)	(221,121)	(1,974,294)
Property and equipment, net	172,694	174,996	1,562,464
Investments and other assets:			
Investment securities (Notes 6 and 7)	24,389	19,610	175,089
Investments in unconsolidated subsidiaries and affiliates	772	772	6,892
Intangible assets	6,237	6,502	58,053
Leasehold and other deposits (Note 6)	35,824	34,895	311,562
Deferred tax assets (Note 11)	6,348	4,619	41,241
Other	2,606	2,688	24,000
<b>Total investments and other assets</b>	<b>76,178</b>	<b>69,088</b>	<b>616,857</b>
<b>Total assets</b>	<b>¥ 675,627</b>	<b>¥ 730,126</b>	<b>\$ 6,518,982</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable-trade (Note 6)	¥ 27,002	¥ 24,318	\$ 217,125
Short-term loans payable and current portion of long-term loans payable (Notes 6 and 10)	56,839	48,324	431,464
Current portion of bonds payable (Notes 6 and 10)	17,000	30,000	267,857
Commercial paper (Notes 6 and 10)	10,000	10,000	89,285
Income taxes payable (Notes 6 and 11)	3,340	4,731	42,241
Provision for bonuses	3,763	3,756	33,535
Provision for point card certificates	4,590	6,586	58,803
Provision for loss on redemption of gift certificates	153	159	1,419
Other	28,593	30,601	273,223
<b>Total current liabilities</b>	<b>151,281</b>	<b>158,477</b>	<b>1,414,973</b>
Non-current liabilities:			
Bonds payable (Notes 6 and 10)	85,000	80,000	714,285
Long-term loans payable (Notes 6, 8, and 10)	109,000	191,000	1,705,357
Deferred tax liabilities (Note 11)	1,516	1,855	16,562
Provision for loss on interest repayment	12,652	6,078	54,267
Provision for loss on guarantees	140	164	1,464
Asset retirement obligations (Note 12)	548	881	7,866
Other	8,232	9,567	85,419
<b>Total non-current liabilities</b>	<b>217,090</b>	<b>289,547</b>	<b>2,585,241</b>
<b>Total liabilities</b>	<b>368,371</b>	<b>448,025</b>	<b>4,000,223</b>
Contingent liabilities (Note 14)			
<b>Net assets</b> (Note 15)			
Shareholders' equity:			
Capital stock	35,920	35,920	320,714
Authorized: 1,400,000,000 shares of common stock			
Issued: 278,660,417 shares as of March 31, 2015 and 2016			
Capital surplus	91,307	91,307	815,241
Retained earnings	197,875	210,237	1,877,116
Treasury stock (Note 26)			
15,588,364 shares as of March 31, 2015 and 36,270,334 shares as of March 31, 2016	(19,290)	(54,238)	(484,267)
<b>Total shareholders' equity</b>	<b>305,813</b>	<b>283,226</b>	<b>2,528,803</b>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	982	(1,616)	(14,428)
<b>Total accumulated other comprehensive income</b>	<b>982</b>	<b>(1,616)</b>	<b>(14,428)</b>
Subscription rights to shares (Note 22)	39	53	473
Non-controlling interests	420	437	3,901
<b>Total net assets</b>	<b>307,255</b>	<b>282,101</b>	<b>2,518,758</b>
<b>Total liabilities and net assets</b>	<b>¥ 675,627</b>	<b>¥ 730,126</b>	<b>\$ 6,518,982</b>

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, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>Consolidated Statements of Income</b>			
Revenue (Notes 3 and 13)	¥249,847	¥245,867	\$2,195,241
Cost of sales (Notes 3, 13 and 16)	90,398	85,832	766,357
Gross profit	159,448	160,035	1,428,883
Selling, general and administrative expenses (Notes 3, 13 and 17)	131,406	130,419	1,164,455
Operating income	28,042	29,615	264,419
Non-operating income (expenses):			
Interest income	110	86	767
Dividend income	446	370	3,303
Gain on bad debt recovered	1,275	1,190	10,625
Gain on sale of investment securities	12,094	972	8,678
Interest expenses	(1,870)	(1,797)	(16,044)
Financing expenses	(179)	(296)	(2,642)
Loss on retirement of property and equipment (Note 18)	(1,097)	(1,920)	(17,142)
Loss on interest repayment	(390)	—	—
Provision for loss on interest repayment	(12,652)	(1,201)	(10,723)
Other, net (Note 19)	(1,776)	(113)	(1,008)
	(4,041)	(2,709)	(24,187)
Income before income taxes	24,001	26,905	240,223
Income taxes (Note 11)			
Income taxes-current	6,193	5,676	50,678
Income taxes-deferred	1,745	3,434	30,660
	7,938	9,110	81,339
Net income	16,062	17,794	158,875
Net income attributable to non-controlling interests	25	23	205
Net income attributable to owners of parent	¥ 16,036	¥ 17,771	\$ 158,669
<b>Per share data</b> (Note 25)		Yen	U.S. dollars (Note 1)
	2015	2016	2016
Net income per share:			
Basic	¥ 58.87	¥ 70.68	\$ 0.63
Diluted	58.86	70.67	0.63
Cash dividends	19.00	22.00	0.19
Net assets per share	1,166.20	1,161.81	10.37

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>Consolidated Statements of Comprehensive Income</b>			
Net income	¥16,062	¥17,794	\$158,875
Other comprehensive income (Note 20):			
Valuation difference on available-for-sale securities	(4,794)	(2,598)	(23,196)
<b>Total other comprehensive income</b>	<b>(4,794)</b>	<b>(2,598)</b>	<b>(23,196)</b>
<b>Comprehensive income</b>	<b>¥11,268</b>	<b>¥15,196</b>	<b>\$135,678</b>
Comprehensive income attributable to:			
Owners of parent	¥11,242	¥15,172	\$135,464
Non-controlling interests	25	23	205

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, 2015 and 2016

	Millions of yen									
	Shareholders' equity					Accumulated other comprehensive income		Subscription rights to shares	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Total			
<b>Balance as of April 1, 2014</b>	¥35,920	¥91,307	¥236,274	¥(53,832)	¥309,669	¥ 5,776	¥ 5,776	¥39	¥402	¥315,889
Changes of items during period:										
Dividends from surplus			(4,927)		(4,927)					(4,927)
Net income attributable to owners of parent			16,036		16,036					16,036
Purchase of treasury stock				(15,002)	(15,002)					(15,002)
Disposal of treasury stock		(6)		43	36					36
Retirement of treasury stock		(49,500)		49,500	—					—
Transfer from retained earnings to capital surplus		49,507	(49,507)		—					—
Net changes of items other than shareholders' equity						(4,794)	(4,794)	0	17	(4,776)
Total changes of items during period	—	—	(38,398)	34,541	(3,856)	(4,794)	(4,794)	0	17	(8,633)
<b>Balance as of April 1, 2015</b>	¥35,920	¥91,307	¥197,875	¥(19,290)	¥305,813	¥ 982	¥ 982	¥39	¥420	¥307,255
Changes of items during period:										
Dividends from surplus			(5,391)		(5,391)					(5,391)
Net income attributable to owners of parent			17,771		17,771					17,771
Purchase of treasury stock				(35,002)	(35,002)					(35,002)
Disposal of treasury stock		(17)		54	36					36
Retirement of treasury stock					—					—
Transfer from retained earnings to capital surplus		17	(17)		—					—
Net changes of items other than shareholders' equity						(2,598)	(2,598)	13	16	(2,568)
Total changes of items during period	—	—	12,361	(34,947)	(22,586)	(2,598)	(2,598)	13	16	(25,154)
<b>Balance as of March 31, 2016</b>	¥35,920	¥91,307	¥210,237	¥(54,238)	¥283,226	¥(1,616)	¥(1,616)	¥53	¥437	¥282,101

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

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity					Accumulated other comprehensive income		Subscription rights to shares	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Total			
<b>Balance as of April 1, 2015</b>	\$320,714	\$815,241	\$1,766,741	\$(172,232)	\$2,730,473	\$ 8,767	\$ 8,767	\$348	\$3,750	\$2,743,348
Changes of items during period:										
Dividends from surplus			(48,133)		(48,133)					(48,133)
Net income attributable to owners of parent			158,669		158,669					158,669
Purchase of treasury stock				(312,517)	(312,517)					(312,517)
Disposal of treasury stock		(151)		482	321					321
Retirement of treasury stock					—					—
Transfer from retained earnings to capital surplus		151	(151)		—					—
Net changes of items other than shareholders' equity						(23,196)	(23,196)	116	142	(22,928)
Total changes of items during period	—	—	110,366	(312,026)	(201,660)	(23,196)	(23,196)	116	142	(224,589)
<b>Balance as of March 31, 2016</b>	\$320,714	\$815,241	\$1,877,116	\$(484,267)	\$2,528,803	\$(14,428)	\$(14,428)	\$473	\$3,901	\$2,518,758

## Consolidated Statements of Cash Flows

MARUI GROUP CO., LTD. and Its Consolidated Subsidiaries  
For the fiscal years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 24,001	¥ 26,905	\$ 240,223
Depreciation and amortization	10,296	9,670	86,339
Increase (decrease) in provision for point card certificates	1,777	1,996	17,821
Increase (decrease) in provision for allowance for doubtful accounts	670	(310)	(2,767)
Increase (decrease) in provision for loss on interest repayment	5,781	(6,574)	(58,696)
Increase (decrease) in provision for bonuses	(253)	(7)	(62)
Interest and dividend income	(556)	(457)	(4,080)
Interest expenses	1,870	1,797	16,044
Loss (gain) on retirement of property and equipment	604	655	5,848
Loss (gain) on sale of investment securities	(12,094)	(972)	(8,678)
Decrease (increase) in notes and accounts receivable-trade	(129)	(1,006)	(8,982)
Decrease (increase) in accounts receivable-installment	(13,655)	(52,641)	(470,008)
Decrease (increase) in operating loans	(2,815)	(6,076)	(54,250)
Decrease (increase) in inventories	1,964	4,145	37,008
Increase (decrease) in accounts payable-trade	(2,973)	(2,683)	(23,955)
Other, net (Note 19)	2,839	(2,657)	(23,723)
Subtotal	17,328	(28,215)	(251,919)
Interest and dividend income received	475	388	3,464
Interest expenses paid	(1,906)	(1,811)	(16,169)
Income taxes paid	(3,721)	(5,741)	(51,258)
Income taxes refund	135	68	607
Net cash provided by (used in) operating activities	12,310	(35,310)	(315,267)
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(10,874)	(9,058)	(80,875)
Purchase of investment securities	(17,931)	(678)	(6,053)
Proceeds from sale of investment securities	22,684	3,340	29,821
Payments for leasehold and other deposits	(70)	(619)	(5,526)
Proceeds from collection of leasehold and other deposits	2,165	1,485	13,258
Other, net	159	1,467	13,098
Net cash provided by (used in) investing activities	(3,867)	(4,063)	(36,276)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	(29,985)	(6,042)	(53,946)
Proceeds from long-term loans payable	45,000	97,000	866,071
Repayments of long-term loans payable	—	(17,500)	(156,250)
Proceeds from issuance of bonds	19,897	24,875	222,098
Redemption of bonds	(20,000)	(17,000)	(151,785)
Net increase (decrease) in commercial paper	(2,000)	—	—
Purchase of treasury stock	(15,016)	(35,035)	(312,812)
Cash dividends paid (Note 15)	(4,927)	(5,391)	(48,133)
Other, net	(234)	(185)	(1,651)
Net cash provided by (used in) financing activities	(7,267)	40,719	363,562
Net increase (decrease) in cash and cash equivalents	1,176	1,345	12,008
Cash and cash equivalents at beginning of period	30,053	31,229	278,830
Cash and cash equivalents at end of period (Note 21)	¥ 31,229	¥ 32,575	\$ 290,848

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

**1. BASIS OF PRESENTATION**

The accompanying consolidated financial statements of MARUI GROUP CO., LTD. ("the Company") and its consolidated subsidiaries (collectively, "the Group") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations as well as in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥112 = \$1, the approximate rate of exchange at March 31, 2016, 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 year ended March 31, 2016 and 2015, 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, 2015 and 2016, there was no subsidiary or affiliate accounted for using the equity method. Investments in the remaining unconsolidated subsidiaries and affiliates are stated at cost. If the equity method of accounting was applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation.

The fiscal year-end of all consolidated subsidiaries is March 31, the same as that of the Company.

**(2) Foreign currency translation**

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the consolidated balance sheet dates. All revenues and expenses associated with foreign currencies are translated into Japanese yen at the exchange rates prevailing when such transactions were made. The resulting exchange gains or losses are credited or charged to income.

**(3) Cash and cash equivalents**

In preparing the consolidated statements of cash flows, the Group considers cash on hand, readily available deposits, and highly liquid short-term investments with maturities of three months or less when purchased that are exposed to an insignificant risk of changes in value to be cash and cash equivalents.

**(4) Investment securities**

Investment securities held by the Group are all classified as available-for-sale securities.

Available-for-sale securities with a determinable market value are stated at fair value based on the market value at the balance sheet date, and unrealized gains or losses, net of applicable income taxes, are reported as a separate component of net assets. Cost of securities sold is computed based on the moving-average method. Available-for-sale securities without a determinable market value are stated at cost determined by the moving-average method.

Investments in unconsolidated subsidiaries and affiliates are stated at cost determined by the moving-average method.

**(5) Inventories**

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

**(6) Depreciation and amortization**

Property and equipment (excluding leased assets) are depreciated by the straight-line method.

Intangible assets are amortized by the straight-line method. Capitalized computer software costs for internal use are amortized by the straight-line method over the estimated useful lives (within five years).

For finance leases which do not transfer ownership of the leased assets to the lessee, leased assets are depreciated by the straight-line method over the lease terms with no residual value.

**(7) Allowance for doubtful accounts**

The allowance for doubtful accounts is stated at the amount determined based on the historical experience of bad debt with respect to ordinary receivables ("general reserve"), plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables of customers experiencing financial difficulties ("specific reserve").

**(8) Provision for bonuses**

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

**(9) Provision for point card certificates**

Credit points are awarded to customers when they make purchases using the Group's member card 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 card members outstanding at the fiscal year-end.

**(10) Provision for loss on redemption of gift certificates**

The monetary value of gift certificates and other certificates that have not been redeemed for a set period of time after issuance is recognized as income. However, some gift certificates and other certificates can be redeemed after the recognition of income.

The provision for loss on redemption of gift certificates is provided at the estimated amount to be redeemed in the future based on historical experience.

**(11) Provision for loss on interest repayment**

The provision for loss on interest repayment is provided to the estimated amount of repayment claims on consumer loan interests at the fiscal year-end.

**(12) Provision for loss on guarantees**

The provision for loss on guarantees is provided at the estimated amount of loss arising from the Group's guarantee obligations of customers' liabilities in relation to loans to individuals from financial institutions with which the Group has guarantee service arrangements.

**(13) 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.

**(14) 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.

**(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. CHANGES IN ACCOUNTING POLICIES****(a) Business combinations and others**

Effective from the fiscal year ended March 31, 2016, the Group adopted the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), and changed the presentation of net income and used the term "non-controlling interests" instead of "minority interests." Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

**(b) Revenue recognition**

In the Retailing and Store Operation segment, certain sales are made under a sale or return arrangement with tenants. Under the arrangement, a good is purchased from a tenant when the good is sold to a customer and the Group does not bear substantial risk on inventory since the title of the good remains with the tenant until the good is sold to a customer.

The Group previously recognized revenue from such arrangement by recording both operating revenues and cost of sales. However, effective from the fiscal year ended March 31, 2016, the Group comprehensively applied JICPA Accounting Practice Committee Research Report No. 13, the "Research Report on Revenue Recognition in Japan (Interim Report)—considerations in light of IAS 18 'Revenue'" and changed its accounting treatment to recognize a profit, net of cost of sales, as revenue.

In response to changes in the consumer market environment, the Group has been moving away from its traditional retailing business and developing shopping centers of its own unique style, in accordance with the medium-term management plan. The change of revenue recognition described above will enable the Group to not only disclose the results of operations more appropriately and thus monitor the progress of implementation of the management plan, but to also use the amount of revenue as a more practical KPI.

Thus, the Group changed the account name from "Total operating revenues" to "Revenue" on the consolidated statements of income.

Regarding expenses arising from a tenant with a fixed term lease contract, the Group previously accounted for fixed expenses such as depreciation of retail space as cost of sales in correspondence with rent revenue. However, effective from the fiscal year ended March 31, 2016, the Group changed the treatment to account for the expenses arising from a tenant with a sales-based rent agreement as selling, general and administrative expenses. This is consistent with the treatment for expenses arising from the sales or return arrangement described above, which are accounted for as selling, general and administrative expenses. Thus, the results of operations will be more clearly stated.

The Group applied this accounting policy retroactively and restated the consolidated financial statements for the fiscal year ended March 31, 2015. As a result, revenue and cost of sales for the fiscal year ended March 31, 2015 decreased by ¥155,100 million (\$1,384,821 thousand). There was no impact on gross profit, operating income, and income before income taxes. In addition, there was no accumulated impact on the beginning balance of net assets for the fiscal year ended March 31, 2015.

In addition, due to the change in presentation, an amount of ¥1,303 million (\$11,633 thousand) included in cost of sales on the consolidated statements of income for the fiscal year ended March 31, 2015 was reclassified to selling, general and administrative expenses.

Impacts on segment information are stated in Note 23, "SEGMENT INFORMATION."

**(c) Accounting standard issued but not yet applied**

The "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016)

**(i) Overview**

Following the framework in Auditing Committee Report No. 66, the "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets," which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

**(ii) Effective date**

Effective from the beginning of the fiscal year ending March 31, 2017

**(iii) Effects of application of the Guidance**

The Company is currently evaluating the effects of application.

**4. ACCOUNTS RECEIVABLE-INSTALLMENT**

The following balances for lump sums receivable and revolving receivable were securitized and are therefore excluded from the consolidated balance sheets as of March 31, 2015 and 2016:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
Card shopping:			
Lump sums receivable	¥53,000	¥55,000	\$491,071
Revolving receivable	13,526	13,928	124,357

## 5. LOAN COMMITMENTS

Certain consolidated subsidiaries that operate in the Credit Card Services segment provide consumer loan services to customers.

The unused balance of loans contingent with the loan commitments was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
Total loan limits	¥1,081,117	¥1,090,691	\$9,738,312
Amount executed as loans	128,030	134,107	1,197,383
Unused balance	¥ 953,086	¥ 956,583	\$8,540,919

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.

## 6. 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, 2015 and 2016, are summarized below. Financial instruments for which the fair value is difficult to estimate are excluded from the following table (See Note 2 below).

	2015			2016		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1) Cash and deposits	¥ 31,240	¥ 31,240	¥ —	¥ 32,586	¥ 32,586	¥ —
(2) Notes and accounts receivable–trade	6,453	6,453	—	7,459	7,459	—
(3) Accounts receivable–installment	227,121			279,763		
Allowance for doubtful accounts *1	(5,198)			(5,246)		
	221,923	249,151	27,227	274,517	312,365	37,847
(4) Operating loans	128,030			134,107		
Allowance for doubtful accounts *2	(2,231)			(2,114)		
	125,798	142,766	16,968	131,993	152,737	20,744
(5) Investment securities:						
Available-for-sale securities	24,152	24,152	—	19,329	19,329	—
(6) Leasehold and other deposits	9,493	9,312	(180)	8,404	8,324	(80)
Assets, total	¥419,062	¥463,077	¥44,015	¥474,290	¥532,801	¥58,510
(1) Accounts payable–trade	¥ 27,002	¥ 27,002	¥ —	¥ 24,318	¥ 24,318	¥ —
(2) Short-term loans payable and current portion of long-term loans payable	56,839	56,839	—	48,324	48,324	—
(3) Current portion of bonds payable	17,000	17,000	—	30,000	30,000	—
(4) Commercial paper	10,000	10,000	—	10,000	10,000	—
(5) Income taxes payable	3,340	3,340	—	4,731	4,731	—
(6) Bonds payable	85,000	85,860	860	80,000	80,650	650
(7) Long-term loans payable	109,000	109,046	46	191,000	191,382	382
Liabilities, total	¥308,181	¥309,089	¥ 907	¥388,374	¥389,407	¥ 1,032
Derivative transactions	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

\*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)		
	2016		
	Carrying value	Fair value	Difference
(1) Cash and deposits	\$ 290,946	\$ 290,946	\$ —
(2) Notes and accounts receivable–trade	66,598	66,598	—
(3) Accounts receivable–installment Allowance for doubtful accounts	2,497,883 (46,839)		
	2,451,044	2,788,973	337,919
(4) Operating loans Allowance for doubtful accounts	1,197,383 (18,875)		
	1,178,508	1,363,723	185,214
(5) Investment securities Available-for-sale securities	172,580	172,580	—
(6) Leasehold and other deposits	75,035	74,321	(714)
Assets, total	\$4,234,732	\$4,757,151	\$522,410
(1) Accounts payable–trade	\$ 217,125	\$ 217,125	\$ —
(2) Short-term loans payable and current portion of long-term loans payable	431,464	431,464	—
(3) Current portion of bonds payable	267,857	267,857	—
(4) Commercial paper	89,285	89,285	—
(5) Income taxes payable	42,241	42,241	—
(6) Bonds payable	714,285	720,089	5,803
(7) Long-term loans payable	1,705,357	1,708,767	3,410
Liabilities, total	\$3,467,625	\$3,476,848	\$ 9,214
Derivative transactions	\$ —	\$ —	\$ —

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, their future cash flows adjusted for their credit risk identified in the credit control process. With regard to bad receivables and loans, allowance for doubtful accounts is estimated based on the present value of their estimated future cash flows. The fair value approximates the amount of carrying value less allowance for doubtful accounts. Thus, the amount of carrying value less allowance for doubtful accounts is used as fair value.

(5) Investment securities

The fair value is based on quotes on an exchange.

(6) Leasehold and other deposits

The fair value is determined as their present value by discounting future cash flows at the risk-free rate adjusted for credit risk premium. The amount includes the current portion of leasehold and other deposits.

Liabilities:

(1) Accounts payable–trade, (2) Short-term loans payable and current portion of long-term loans payable, (3) Current portion of bonds payable, (4) Commercial paper, and (5) Income taxes payable

The fair value approximates their carrying value because of their short maturities.

(6) Bonds payable

The fair value is based on the present value calculated by discounting the sum of principal and interests using an interest rate, for which credit risk and redemption periods are taken into account.

(7) Long-term loans payable

The carrying value of long-term loans payable with a floating interest rate approximates its fair value since the interest rate reflects the market rate in the short term. Thus, carrying value is used as its fair value. The fair value of long-term loans payable hedged by interest rate swaps under special accounting treatment is calculated by discounting the sum of principal and interests accounted for together with interest rate swaps using a reasonably estimated interest rate applied to similar borrowings. The fair value of long-term loans payable with fixed interest rates is calculated by discounting the sum of principal and interests using an interest rate that would be applied to similar new borrowings.

Derivative transactions

See Note 8, "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)
	2015	2016	2016
Unlisted stocks	¥ 877	¥ 921	\$ 8,223
Part of security deposits	27,915	28,103	250,919

Unlisted stocks are not included in (5) Investment securities in the table above, as there were no market prices available and it is extremely difficult to determine the fair value. Similarly, part of security deposits is not included in (6) Leasehold and other deposits.

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

	Millions of yen			
	2015			
	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	¥ 31,240	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	6,453	—	—	—
Accounts receivable-installment	129,841	66,160	19,638	11,481
Operating loans	62,466	65,005	486	72
Leasehold and other deposits	1,515	3,654	2,843	1,480
<b>Total</b>	<b>¥231,516</b>	<b>¥134,820</b>	<b>¥22,968</b>	<b>¥13,034</b>

	Millions of yen			
	2016			
	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	¥ 32,586	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	7,459	—	—	—
Accounts receivable-installment	154,581	83,294	23,502	18,386
Operating loans	62,913	70,885	245	63
Leasehold and other deposits	1,352	2,986	2,218	1,846
<b>Total</b>	<b>¥258,892</b>	<b>¥157,166</b>	<b>¥25,966</b>	<b>¥20,296</b>

	Thousands of U.S. dollars (Note 1)			
	2016			
	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	\$ 290,946	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	66,598	—	—	—
Accounts receivable-installment	1,380,187	743,696	209,839	164,160
Operating loans	561,723	632,901	2,187	562
Leasehold and other deposits	12,071	26,660	19,803	16,482
<b>Total</b>	<b>\$2,311,535</b>	<b>\$1,403,267</b>	<b>\$231,839</b>	<b>\$181,214</b>

See Note 10, "SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT," for the schedule of aggregate annual maturities of long-term loans payable and long-term debt.

## 7. INVESTMENT SECURITIES

## (1) Information on available-for-sale securities as of March 31, 2015 and 2016, is as follows:

	Millions of yen					
	2015			2016		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Carrying value exceeding acquisition cost:						
Stocks	¥18,783	¥16,468	¥2,314	¥ 9,072	¥ 8,510	¥ 562
<b>Subtotal</b>	<b>18,783</b>	<b>16,468</b>	<b>2,314</b>	<b>9,072</b>	<b>8,510</b>	<b>562</b>
Carrying value not exceeding acquisition cost:						
Stocks	5,369	6,319	(950)	10,256	12,544	(2,287)
<b>Subtotal</b>	<b>5,369</b>	<b>6,319</b>	<b>(950)</b>	<b>10,256</b>	<b>12,544</b>	<b>(2,287)</b>
<b>Total</b>	<b>¥24,152</b>	<b>¥22,787</b>	<b>¥1,364</b>	<b>¥19,329</b>	<b>¥21,054</b>	<b>¥(1,725)</b>

	Thousands of U.S. dollars (Note 1)		
	2016		
	Carrying value	Acquisition cost	Difference
Carrying value exceeding acquisition cost:			
Stocks	\$ 81,000	\$ 75,982	\$ 5,017
<b>Subtotal</b>	<b>81,000</b>	<b>75,982</b>	<b>5,017</b>
Carrying value not exceeding acquisition cost:			
Stocks	91,571	112,000	(20,419)
<b>Subtotal</b>	<b>91,571</b>	<b>112,000</b>	<b>(20,419)</b>
<b>Total</b>	<b>\$172,580</b>	<b>\$187,982</b>	<b>\$(15,401)</b>

Unlisted stocks in the amount of ¥237 million and ¥281 million (\$2,508 thousand) as of March 31, 2015, and 2016, respectively, are not included in the table above since their market price is not readily available and it is extremely difficult to determine their fair value.

**(2) Information on sale of available-for-sale securities for the fiscal years ended March 31, 2015 and 2016 is as follows:**

	Millions of yen					
	2015			2016		
	Proceeds from sales	Gains	Losses	Proceeds from sales	Gains	Losses
Stocks	¥22,684	¥12,094	¥—	¥3,340	¥972	¥0
Total	¥22,684	¥12,094	¥—	¥3,340	¥972	¥0

	Thousands of U.S. dollars (Note 1)		
	2016		
	Proceeds from sales	Gains	Losses
Stocks	\$29,821	\$8,678	\$0
Total	\$29,821	\$8,678	\$0

**(3) When the fair value of investment securities declines by 30% to 50%, the Group recognizes an impairment loss after comprehensively evaluating the recoverability of the market price. For the fiscal year ended March 31, 2015, the Group recognized an impairment loss on available-for-sale securities but omitted its disclosure since the amount was immaterial. No significant impairment loss on investment securities was recognized for the fiscal year ended March 31, 2016.**

## 8. DERIVATIVE TRANSACTIONS

For the fiscal years ended March 31, 2015 and 2016, 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

	2015			2016			2016		
	Millions of yen			Thousands of U.S. dollars (Note 1)					
	Contract amount	Contract amount	Fair value	Contract amount	Contract amount	Fair value	Contract amount	Contract amount	Fair value
	Total	Due after one year		Total	Due after one year		Total	Due after one year	
	¥17,000	¥17,000	*	¥27,000	¥22,000	*	\$241,071	\$196,428	*

\* 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.

## 9. LEASES

### (As a Lessee)

The Group capitalizes leased assets under finance leases that do not transfer ownership. These assets mainly consist of build-ings and properties in connection with the Retailing and Store Operation segment and software.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
Within one year	¥ 3,960	¥ 4,782	\$ 42,696
Over one year	18,469	25,136	224,428
Total	¥22,429	¥29,919	\$267,133

### (As a Lessor)

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
Within one year	¥ 3,452	¥ 7,049	\$ 62,937
Over one year	8,859	9,485	84,687
Total	¥12,311	¥16,534	\$147,625

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

Short-term loans payable and current portion of long-term loans payable as of March 31, 2015 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
Short-term loans payable	¥39,339	¥33,324	\$297,535
Current portion of long-term loans payable	17,500	15,000	133,928
Total	¥56,839	¥48,324	\$431,464

Annual weighted-average interest rates of short-term loans payable were 0.42% and 0.36% and those of current portion of long-term loans payable were 0.88% and 0.42% for the fiscal years ended March 31, 2015 and 2016, respectively.

Annual weighted-average interest rates of commercial paper, due within a year, were 0.10% and 0.001% for the fiscal years ended March 31, 2015 and 2016, respectively.

Long-term debt as of March 31, 2015 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
0.38% long-term loans from banks and others due through 2028, excluding current portion	¥109,000	¥191,000	\$1,705,357
13th series unsecured 1.51% corporate bond, due 2017	10,000	10,000	89,285
16th series unsecured 1.01% corporate bond, due 2015	12,000	—	—
18th series unsecured 0.97% corporate bond, due 2017	10,000	10,000	89,285
19th series unsecured 0.58% corporate bond, due 2015	5,000	—	—
20th series unsecured 0.79% corporate bond, due 2017	10,000	10,000	89,285
21st series unsecured 0.57% corporate bond, due 2017	10,000	10,000	89,285
22nd series unsecured 0.85% corporate bond, due 2019	5,000	5,000	44,642
23rd series unsecured 0.342% corporate bond, due 2016	10,000	10,000	89,285
24th series unsecured 0.582% corporate bond, due 2018	10,000	10,000	89,285
25th series unsecured 0.344% corporate bond, due 2019	10,000	10,000	89,285
26th series unsecured 0.562% corporate bond, due 2021	10,000	10,000	89,285
27th series unsecured 0.337% corporate bond, due 2020	—	15,000	133,928
28th series unsecured 0.543% corporate bond, due 2022	—	10,000	89,285
Lease obligation	2,047	1,868	16,678
	213,047	302,868	2,704,178
Less: Current portion	17,178	30,149	269,187
Total	¥195,869	¥272,719	\$2,434,991

The aggregate annual maturities of long-term debt subsequent to March 31, 2016, 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
2017	¥ 15,000	¥ 30,000	¥ 149	\$ 133,928	\$267,857	\$ 1,330
2018	10,000	20,000	149	89,285	178,571	1,330
2019	31,000	10,000	149	276,785	89,285	1,330
2020	32,000	15,000	149	285,714	133,928	1,330
2021 and thereafter	118,000	35,000	1,272	1,053,571	312,500	11,357
Total	¥206,000	¥110,000	¥1,868	\$1,839,285	\$982,142	\$16,678

## 11. DEFERRED TAX ACCOUNTING

Major components of deferred tax assets and deferred tax liabilities as of March 31, 2015 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
Deferred tax assets:			
Depreciation	¥ 6,339	¥ 6,016	\$ 53,714
Impairment loss	5,586	5,232	46,714
Provision for loss on interest repayment	4,478	2,114	18,875
Provision for point card certificates	1,624	2,291	20,455
Net operating loss carried forward	1,494	1,105	9,866
Net unrealized loss on non-current assets	1,372	1,357	12,116
Provision for bonuses	1,324	1,293	11,544
Other	6,055	4,990	44,553
Subtotal	28,275	24,403	217,883
Valuation allowance	(7,684)	(7,192)	(64,214)
Total deferred tax assets	¥20,590	¥17,210	\$153,660
Deferred tax liabilities:			
Reserve for special account for advanced depreciation of non-current assets	¥ 8,737	¥ 8,523	\$ 76,098
Valuation difference on available-for-sale securities	380	4	35
Other	197	350	3,125
Total deferred tax liabilities	¥ 9,315	¥ 8,877	\$ 79,258
Deferred tax assets, net	¥11,275	¥ 8,332	\$ 74,392

(Change in presentation)

As of March 31, 2016, the amount of allowance for doubtful account, which was previously shown as one of major components of deferred tax assets, became immaterial and was included in other. Accordingly, the allowance for doubtful accounts of ¥1,423 million as of March 31, 2015 was reclassified to other to conform to the classification used in 2016.

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

	2015	2016
Statutory tax rate	35.6%	33.1%
Adjustments:		
Permanent differences such as entertainment expenses, etc.	0.4	0.3
Permanent differences such as dividends	(0.3)	(0.1)
Change in valuation allowance	(4.7)	(0.8)
Inhabitants' tax	0.6	0.6
Adjustments due to changes in tax rate	1.9	0.4
Other	(0.4)	0.4
Effective tax rate	33.1%	33.9%

On March 29, 2016, amendments to the Japanese tax regulations were enacted in the Diet session. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed from 33.1% to 30.9% and 30.6%, respectively, as of March 31, 2016.

As a result of this change, deferred tax assets (after deducting deferred tax liabilities) decreased by ¥110 million (\$982 thousand), valuation difference on available-for-sale securities decreased by ¥6 million (\$53 thousand) and income taxes-deferred increased by ¥104 million (\$928 thousand) as of March 31, 2016.

## 12. ASSET RETIREMENT OBLIGATIONS

### (1) Asset retirement obligations recognized in the consolidated balance sheets

The Group's asset retirement obligations mainly include the cost of restoring the store sites to their original condition under the real estate lease contracts of stores. The Group calculated its asset retirement obligations by assuming the lease period as the expected period of use and applying discount rates of 0.00% to 1.38%.

Asset retirement obligations as of March 31, 2015 and 2016, consisted of the following:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars (Note 1)
Beginning balance	¥549	¥635	\$5,669
Increase due to acquisition of property and equipment	—	348	3,107
Increase due to change in estimate *1	87	80	714
Adjustments due to passage of time	2	2	17
Decrease due to fulfillment of obligation	(13)	(93)	(830)
Other increase (decrease)	9	—	—
Ending balance	¥635	¥974	\$8,696

\*1 The reasonable estimate of obligation became available for stores to be closed.

### (2) Asset retirement obligations other than those recognized in 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.

## 13. 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, 2015 and 2016, was ¥3,824 million and ¥5,320 million (\$47,500 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 were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars (Note 1)
Carrying value *1:			
Beginning balance	¥32,285	¥32,367	\$288,991
Changes during the year	81	12,873	114,937
Ending balance	¥32,367	¥45,240	\$403,928
Fair value *2	¥66,959	¥95,079	\$848,919

\*1 Carrying value represents the amount on the consolidated balance sheets which is carried at the acquisition costs less the accumulated depreciation.

\*2 Fair value is based on the appraised value provided by third-party real estate appraisers.

## 14. CONTINGENT LIABILITIES

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

As of March 31, 2015 and 2016, the amounts of the Group's guarantee obligations were ¥19,327 million and ¥23,018 million (\$205,517 thousand), respectively.

## 15. NET ASSETS

Under the Companies Act of Japan ("the Act"), the entire amount paid for new shares is required to be designated as capital stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The Act provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus (other than additional paid-in capital) and retained earnings (other than legal earnings reserve) be transferred to additional paid-in capital and the legal earnings reserve, respectively, until the total of additional paid-in capital and the legal earnings reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders' meeting, or by resolution of the Board of Directors if certain conditions are met.

Under the Act, additional paid-in capital and the legal earnings reserve may not be distributed as dividends; the Act allows all additional paid-in capital and all legal earnings reserve to be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

The following tables summarize the dividends paid for the fiscal years ended March 31, 2015 and 2016:

		2015					
Resolution	Class of share	Total amount of dividend (Millions of yen)		Dividend per share (Yen)		Record date	Effective date
Annual general meeting of shareholders held on June 26, 2014	Common stock	¥2,463		¥9		March 31, 2014	June 27, 2014
Board of Directors' meeting held on November 6, 2014	Common stock	2,464		9		September 30, 2014	December 4, 2014
		2016					
Resolution	Class of share	Total amount of dividend		Dividend per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)	(Yen)	(U.S. dollars) (Note 1)		
Annual general meeting of shareholders held on June 25, 2015	Common stock	¥2,630	\$23,482	¥10	\$0.08	March 31, 2015	June 26, 2015
Board of Directors' meeting held on November 6, 2015	Common stock	2,761	24,651	11	0.09	September 30, 2015	December 4, 2015

Dividends with a record date during the fiscal year ended March 31, 2016, but with an effective date subsequent to the fiscal year ended March 31, 2016, were as follows:

Resolution	Class of share	Total amount of dividend		Source	Dividend per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars) (Note 1)		(Yen)	(U.S. dollars) (Note 1)		
Annual general meeting of shareholders held on June 29, 2016	Common stock	¥2,666	\$23,803	Retained earnings	¥11	\$0.09	March 31, 2016	June 30, 2016

## 16. COST OF SALES

For the fiscal years ended March 31, 2015 and 2016, cost of sales included the revaluation loss on inventories in the amounts of ¥43 million and ¥94 million (\$839 thousand), respectively.

## 17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars (Note 1)
Advertisement	¥ 14,781	¥ 13,941	\$ 124,473
Provision for point card certificates	4,590	6,586	58,803
Provision for allowance for doubtful accounts	7,748	7,289	65,080
Salaries and allowances	33,165	32,770	292,589
Provision for bonuses	3,533	3,513	31,366
Rent	15,775	15,782	140,910
Depreciation and amortization	9,165	8,614	76,910
Other	42,647	41,920	374,285
	¥131,406	¥130,419	\$1,164,455

## 18. LOSS ON RETIREMENT OF PROPERTY AND EQUIPMENT

Loss on retirement of property and equipment for the fiscal years ended March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars (Note 1)
Buildings and structures	¥ 515	¥ 546	\$ 4,875
Furniture and fixtures	582	1,374	12,267
	¥1,097	¥1,920	\$17,142

## 19. IMPAIRMENT LOSS

For the fiscal year ended March 31, 2016, the amount of impairment loss was immaterial and the disclosure was omitted. An impairment loss recognized for the fiscal year ended March 31, 2015 was included in *other, net* under non-operating income (expenses) on the consolidated statements of income and *other, net* under cash flows from operating activities on the consolidated statement of cash flows. The details are as follows:

Use	Location	Type of assets	Millions of yen
Stores, etc.	Kyoto Marui	Buildings and structures	¥1,787
	Kyoto City, Kyoto	Other	71
		Total	¥1,859

The Group has grouped its fixed assets by either store or rental property, which are the minimum cash-generating units. 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, the Group evaluates that the fair value less costs to sell is zero.

## 20. COMPREHENSIVE INCOME

	Millions of yen		Thousands of
	2015	2016	U.S. dollars (Note 1)
Valuation difference on available-for-sale securities:			
Amounts incurred for the year	¥ 5,473	¥(2,117)	\$ (18,901)
Reclassification adjustments	(12,094)	(972)	(8,678)
Before tax effect adjustment	(6,621)	(3,089)	(27,580)
Tax effect	1,827	491	4,383
Valuation difference on available-for-sale securities	(4,794)	(2,598)	(23,196)
Total other comprehensive income	¥ (4,794)	¥(2,598)	\$ (23,196)

## 21. CASH FLOW STATEMENTS

Reconciliations of cash and cash equivalents in the consolidated statements of cash flows to accounts and amounts in the accompanying consolidated balance sheets as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars (Note 1)
Cash and deposits	¥31,240	¥32,586	\$290,946
Time deposits with maturity in excess of three months	(11)	(11)	(98)
Cash and cash equivalents	¥31,229	¥32,575	\$290,848

## 22. SUBSCRIPTION RIGHTS TO SHARES

For the fiscal years ended March 31, 2015 and 2016, the amounts of costs incurred for subscription rights to shares ("stock options") were ¥36 million and ¥50 million (\$446 thousand), respectively, and were included in selling, general and administrative expenses.

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

	2013	2014	2015	2016
Date of resolution	June 27, 2012	June 26, 2013	June 26, 2014	June 25, 2015
Title and number of grantee	7 Directors and 5 Executive Officers of the Company	7 Directors and 5 Executive Officers of the Company	8 Directors and 5 Executive Officers of the Company	4 Directors and 12 Executive Officers of the Company
Type and number of shares to be issued upon exercise of stock options	Common stock 52,000 shares	Common stock 38,400 shares	Common stock 43,500 shares	Common stock 32,000 shares
Granted date	August 3, 2012	July 11, 2013	July 11, 2014	July 10, 2015
Vesting conditions	No provision	No provision	No provision	No provision
Eligible service period	No provision	No provision	No provision	No provision
Exercise period	From April 1, 2013 to March 31, 2023	From April 1, 2014 to March 31, 2024	From April 1, 2015 to March 31, 2025	From April 1, 2016 to March 31, 2026

The following table describes the scale and changes in stock options that existed during the fiscal year ended March 31, 2016. The number of stock options is translated into the number of shares.

	2013		2014		2015		Number of shares 2016	
	Yen	U.S. dollars (Note 1)	Yen	U.S. dollars (Note 1)	Yen	U.S. dollars (Note 1)	Yen	U.S. dollars (Note 1)
Before vested:								
As of March 31, 2015	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	32,000	—
Forfeited	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	32,000	—
As of March 31, 2016	—	—	—	—	—	—	—	—
After vested:								
As of March 31, 2015	2,600	—	2,000	—	43,500	—	—	—
Vested	—	—	—	—	—	—	32,000	—
Exercised	—	—	2,000	—	41,400	—	—	—
Forfeited	—	—	—	—	—	—	—	—
As of March 31, 2016	2,600	—	—	—	2,100	—	32,000	—
Exercise price	¥ 1	\$0.008	¥ 1	\$0.008	¥ 1	\$0.008	¥ 1	\$0.008
Average exercise price	—	—	1,546	13.80	1,434	12.80	—	—
Fair value at granted date	485	4.33	1,007	8.99	844	7.53	1,589	14.18

The Black-Scholes option-pricing model is applied to estimate the fair value of stock options granted for the fiscal year ended March 31, 2016, based on the following assumptions.

Expected volatility *1	32.943%
Expected holding period *2	5.7 years
Expected dividend *3	¥19 (\$0.16) per share
Risk-free rate *4	0.125%

\*1 It is estimated based on the share price over the period corresponding to the expected holding period.

\*2 It is estimated based on the assumption that stock options are exercised at the middle of the exercise period.

\*3 It is based on the dividends for the fiscal year ended March 31, 2015.

\*4 It is the average yield on government bonds for the period that corresponds to the remaining life of the stock option.

Since it is difficult to reasonably estimate the number of stock options that will expire in the future, the number of stock options that were forfeited is shown as the number of vested options.

## 23. 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 three reportable segments identified by products and services: "Retailing and Store Operation," "Credit Card Services," and "Retailing-Related Services."

The Retailing and Store Operation segment engages in retailing operations of clothes and accessories and management of commercial property rental. The Credit Card Services segment engages in the credit card services, the consumer loans, and the rent payment guarantee businesses. The Retailing-Related Services segment engages in businesses such as store design, advertising, apparel distribution, IT systems, maintenance and management of buildings and other facilities, 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.

	2015					Millions of yen	
	Reportable segment				Adjustment *1	Consolidated *2	
	Retailing and Store Operation	Credit Card Services	Retailing-Related Services	Total			
Revenue:							
Outside customers	¥147,593	¥ 68,436	¥33,816	¥249,847	¥ —	¥249,847	
Intersegment	4,918	2,186	22,332	29,437	(29,437)	—	
Total	¥152,511	¥ 70,623	¥56,149	¥279,284	¥(29,437)	¥249,847	
Segment income	¥ 8,074	¥ 20,126	¥ 3,333	¥ 31,535	¥ (3,492)	¥ 28,042	
Segment assets	¥239,592	¥385,466	¥64,944	¥690,003	¥(14,376)	¥675,627	
Other items:							
Depreciation and amortization	¥ 6,976	¥ 1,223	¥ 1,869	¥ 10,070	¥ 226	¥ 10,296	
Increase in property and equipment and intangible assets	6,280	1,710	2,208	10,198	(412)	9,786	

\*1 Adjustment to segment income consists of intersegment elimination of ¥1,602 million and corporate expenses of ¥(5,095) million that are not allocated to each reportable segment. Adjustment to segment assets mainly consists of intersegment elimination of ¥(224,929) million and corporate assets of ¥213,560 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 on the consolidated statements of income.

	2016					Millions of yen	
	Reportable segment				Adjustment *1	Consolidated *2	
	Retailing and Store Operation	Credit Card Services	Retailing-Related Services	Total			
Revenue:							
Outside customers	¥134,263	¥ 74,323	¥37,279	¥245,867	¥ —	¥245,867	
Intersegment	4,543	2,123	21,362	28,029	(28,029)	—	
Total	¥138,807	¥ 76,446	¥58,642	¥273,896	¥(28,029)	¥245,867	
Segment income	¥ 7,856	¥ 22,186	¥ 3,674	¥ 33,717	¥ (4,101)	¥ 29,615	
Segment assets	¥246,622	¥441,748	¥66,261	¥754,633	¥(24,507)	¥730,126	
Other items:							
Depreciation and amortization	¥ 6,500	¥ 1,301	¥ 1,881	¥ 9,683	¥ (12)	¥ 9,670	
Increase in property and equipment and intangible assets	9,700	1,374	2,048	13,124	(684)	12,439	

	Thousands of U.S. dollars (Note 1)					
	2016				Adjustment *1	Consolidated *2
	Reportable segment					
Retailing and Store Operation	Credit Card Services	Retailing-Related Services	Total			
Revenue:						
Outside customers	\$1,198,776	\$ 663,598	\$332,848	\$2,195,241	\$ —	\$2,195,241
Intersegment	40,562	18,955	190,732	250,258	(250,258)	—
<b>Total</b>	<b>\$1,239,348</b>	<b>\$ 682,553</b>	<b>\$523,589</b>	<b>\$2,445,500</b>	<b>\$(250,258)</b>	<b>\$2,195,241</b>
Segment income	\$ 70,142	\$ 198,089	\$ 32,803	\$ 301,044	\$ (36,616)	\$ 264,419
Segment assets	\$2,201,982	\$3,944,178	\$591,616	\$6,737,794	\$(218,812)	\$6,518,982
Other items:						
Depreciation and amortization	\$ 58,035	\$ 11,616	\$ 16,794	\$ 86,455	\$ (107)	\$ 86,339
Increase in property and equipment and intangible assets	86,607	12,267	18,285	117,178	(6,107)	111,062

\*1 Adjustment to segment income consists of intersegment elimination of ¥1,571 million (\$14,026 thousand) and corporate expenses of ¥(5,673) million (\$50,651 thousand) that are not allocated to each reportable segment. Adjustment to segment assets mainly consists of intersegment elimination of ¥(290,641) million (\$2,595,008 thousand) and corporate assets of ¥269,384 million (\$2,405,214 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 on the consolidated statements of income.

#### Change in reportable segments

As stated in Note 3, "CHANGES IN ACCOUNTING POLICIES," effective from the fiscal year ended March 31, 2016, the Group retroactively adopted to change the revenue recognition of sales under a sale or return arrangement. The account name was changed from "Total operating revenues" to "Revenue" on the consolidated statements of income. From this change, revenue from outside customers in Retailing and Store Operation decreased by ¥155,100 million (\$1,384,821 thousand), compared with those recognized under the previous application. There was no impact on segment income.

Disclosures on related information with regard to the concentration of products and services, location, and major customers have been omitted since there was no relevant information to be disclosed.

For the fiscal years ended March 31, 2015 and 2016, an impairment loss of ¥1,859 million and ¥107 million (\$955 thousand), respectively, was reported by the Retailing and Store Operation segment.

## 24. RELATED PARTY INFORMATION

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

Name of the company	Location	Capital (Millions of yen)	Business	Voting rights	Relationship	Transaction	2015	
							Amount (Millions of yen)	Balance (Millions of yen)
Nakano Co., Ltd.	Shinjuku, Tokyo	¥10	Real estate rental	Direct 0.9%	Property rental Concurrent position as director	Property rental	¥42	¥ 41
								1
Seiwa Kogyo Co., Ltd.	Shinjuku, Tokyo	10	Real estate rental	Direct 0.5%	Property rental Concurrent position as director	Property rental-stores	44	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.

Name of the company	Location	Capital (Millions of yen)	Business	Voting rights	Relationship	Transaction	2016	
							Amount (Millions of yen)	Balance (Millions of yen)
Nakano Co., Ltd.	Shinjuku, Tokyo	¥10 (\$89 thousand) (Note 1)	Real estate rental	Direct 0.9%	Property rental Concurrent position as director	Property rental	¥42 (\$375 thousand) (Note 1)	Leasehold and other deposits Other current liabilities ¥41 (\$366 thousand) (Note 1) 1 (\$8 thousand) (Note 1)
Seiwa Kogyo Co., Ltd.	Shinjuku, Tokyo	10 (\$89 thousand) (Note 1)	Real estate rental	Direct 0.7%	Property rental Concurrent position as director	Property rental-stores	42 (\$375 thousand) (Note 1)	Leasehold and other deposits 191 (\$1,705 thousand) (Note 1)

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

## 25. PER SHARE INFORMATION

Net income per share, both basic and diluted, for the fiscal years ended March 31, 2015 and 2016 is as follows:

	Yen		U.S. dollars (Note 1)
	2015	2016	2016
Net income per share	¥58.87	¥70.68	\$0.63
Diluted net income per share	58.86	70.67	0.63

	Thousands of shares	
	2015	2016
Weighted-average number of outstanding shares	272,430	251,434
Diluted shares:		
Assumed exercise of stock options	48	27

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.

## 26. SUBSEQUENT EVENT

At the Board of Directors' meeting held on May 12, 2016, 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 business plan to be achieved by the fiscal year ending March 2021, the Group aims to achieve profitable growth by innovating group business and integrating operations in light of potential changes in the business environment. As its financial strategy, the Group will effectively utilize basic operating cash flows that will be generated in the next five years in order to optimize capital structure for the business; thus, the Group will enhance investment growth and shareholder return. The Group will improve its corporate value by achieving the following targets: an ROE of 10%, an ROIC of 4%, and an EPS of ¥130 as early as possible.

Based on these Group strategies, following the acquisition of treasury stock in the total amount of ¥15,000 million (\$133,928 thousand) in the fiscal year ended March 31, 2015 and ¥35,000 million (\$312,500 thousand) in the fiscal year ended March 31, 2016, the Company resolved to acquire treasury stock as follows:

(i) Class of shares	Common stock
(ii) Maximum number of shares to acquire	10 million shares (4.13% of total outstanding shares)
(iii) Maximum amount for acquisition	¥15,000 million (\$133,928 thousand)
(iv) Acquisition period	From May 13, 2016 to September 30, 2016



### 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, 2016 and 2015, 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, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

#### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 3 to the consolidated financial statements, which describes MARUI GROUP CO., LTD. and its consolidated subsidiaries previously recognized revenue from a sale or return arrangement with tenants by recording both operating revenues and cost of sales, and changed its accounting treatment to recognize a profit, net of cost of sales, as revenue effective from the fiscal year ended March 31, 2016.

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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 26, 2016  
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.

## Overview of MARUI GROUP

As of March 31, 2016

### Company Overview

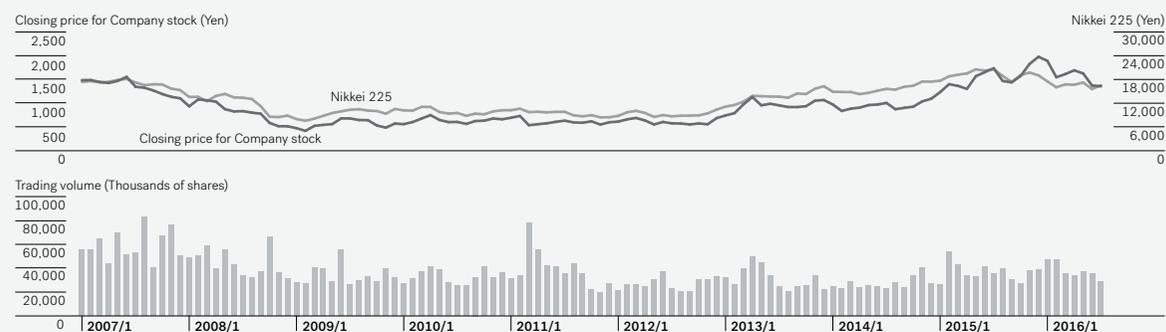
<b>Name</b>	MARUI GROUP CO., LTD.
<b>Head office</b>	3-2, Nakano 4-chome, Nakano-ku, Tokyo 164-8701, Japan
<b>Date of foundation</b>	February 17, 1931
<b>Date of establishment</b>	March 30, 1937
<b>Capital</b>	¥35,920 million
<b>Business activities</b>	Corporate planning and management for Group companies conducting Retailing and Store Operation, Credit Card Services, and Retailing-Related Services businesses and other businesses
<b>Stores</b>	Marui: 24 located in Kanto, Tokai, and Kansai regions Modi: 4 located in Kanto region
<b>Total sales floor area</b>	441,800 m <sup>2</sup>
<b>Number of employees</b>	5,899 (Group total, excludes temporary employees)
<b>Main banks</b>	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation Mitsubishi UFJ Trust and Banking Corporation Mizuho Bank, Ltd. Development Bank of Japan Inc.
<b>Accounting auditor</b>	KPMG AZSA LLC

### Stock Information

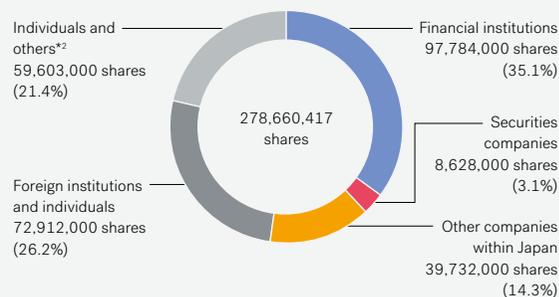
<b>Stock listing</b>	Tokyo Stock Exchange, First Section (loan margin trading issues)
<b>Securities code</b>	8252
<b>Number of authorized shares</b>	1,400,000,000
<b>Number of common shares issued*1</b>	278,660,417
<b>Number of shareholders</b>	21,770

\*1 Number of common shares issued includes 36,270,334 shares of treasury stock, equivalent to 13% of the total number of shares of common stock issued.

### Stock Price



### Distribution of Shares Held by Shareholder Type



\*2 Individuals and others includes 36,270,334 shares of treasury stock.

### Major Shareholders

Name	Number of shares (Thousands of shares)	Percentage of total shares issued*3 (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	27,505	11.3
Japan Trustee Services Bank, Ltd. (Trust Account)	22,496	9.3
Aoi Real Estate Co., Ltd.	6,019	2.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,808	2.4
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	5,133	2.1
Toho Co., Ltd.	3,779	1.6
MSCO CUSTOMER SECURITIES	3,654	1.5
AOI SCHOLARSHIP FOUNDATION	3,234	1.3
Toriyama Co., Ltd.	3,104	1.3
STATE STREET BANK WEST CLIENT-TREATY 505234	3,048	1.3

\*3 Percentage of total shares issued is calculated excluding treasury stock.

## INFORMATION

### MARUI GROUP Ranked High in the 2016 All-Japan Executive Team Rankings Released by U.S. Financial Industry Magazine Institutional Investor

MARUI GROUP was placed in the upper ranks among retail sector companies in the Best IR Companies category and President Aoi placed high among retail sector peers in the Best CEOs category of the 2016 All-Japan Executive Team Rankings. These rankings are compiled by globally renowned U.S. financial industry magazine *Institutional Investor*.

Best IR Companies  
Sell Side No. 2

Best CEOs  
Sell Side No. 1, Buy Side No. 3, Combined No. 2

#### About the All-Japan Executive Team Rankings

The All-Japan Executive Team Rankings is a ranking of major listed Japanese companies compiled by U.S. financial industry magazine *Institutional Investor*, based on votes from institutional investors and securities analysts from around the world. The ranking consists of six categories (Best CEOs, Best CFOs, Best IR Professionals, Best IR Companies, Best Analyst Days, and Best Websites). In 2016, votes were received from 515 institutional investors and securities analysts from 205 institutions.

#### Ranking Details

[www.institutionalinvestor.com/Research/6280/Honored-Companies.html#V1UuU01f2M8](http://www.institutionalinvestor.com/Research/6280/Honored-Companies.html#V1UuU01f2M8)

### MARUI GROUP Websites

MARUI GROUP CO., LTD.



Corporate and IR information  
[www.0101maruigroup.co.jp/english.html](http://www.0101maruigroup.co.jp/english.html)

#### Retailing Business



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



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

#### FinTech Business



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

### Keiki wo Shikaketa Otoko, a Novel about MARUI Founder Chuji Aoi

Yuzuru Demachi, who, like Chuji Aoi, hails from Toyama Prefecture, wrote a novel entitled *Keiki wo Shikaketa Otoko* ("The Man Who Built the Economy") about MARUI's founder. The novel was published by Gentosha in August 2015, 70 years after the end of World War II and 40 years since the passing of founder Aoi. It chronicles the countless ordeals Aoi overcame on his odyssey, beginning with his ambitious move from Toyama to Tokyo and the strict training he underwent at Maruni Shokai. Later, the book details the founding of MARUI, the struggles to rebuild the Company after the war, and the turmoil experienced within the Company. This novel also provides a memorable account of Aoi's wife Tazuko and how she supported her husband throughout his life, which was devoted to his business.



MARUI founder Chuji Aoi



Written by Yuzuru Demachi,  
published by Gentosha Inc.



From the Chief Editor

MARUI GROUP began publishing co-creation management reports in 2015 to function as tools for facilitating communication with stakeholders and for deepening understanding of the Group's management and business.

In compiling this second report, *Co-Creation Management Report 2016*, we once again engaged in an ongoing process of discussion among members of a project team consisting of President Hiroshi Aoi and key members from the Corporate Planning Division, the IR Department, the Financial Department, the General Affairs Department, and the CSR Promotion Department. In addition, we incorporated the various opinions and requests received based on the previous report over the past year in order to make this year's report even more valuable to readers.

One major theme of this year's report was co-creation with stakeholders. Based on this theme, we took a different approach from the previous year, choosing to include discussions with stakeholders in various sections throughout the report. In addition, we focused on our initiatives in Kyushu, which proved to be representative examples of MARUI GROUP's co-creation management. Accordingly, we had many of the customers who participated in the development of Hakata Marui and who went shopping at the store after its opening appear in the report. I thank each and every one of these individuals for their willingness to be photographed for this report.

Our co-creation management reports are meant to provide a platform for expanding the scope of co-creation activities through communication with all of the Group's stakeholders. We recognize that there is still much room for improvement with regard to these reports. We therefore hope to gather input on how to make these reports better through our future interactions with stakeholders so that MARUI GROUP's co-creation management reports can continue to evolve.

I look forward to your ongoing support of MARUI GROUP.

#### Shin Sakamoto

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

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#### Contact

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