



Promoting inclusion will be an important theme for us as we advance toward the future.

In response to social changes, we have adopted a perspective emphasizing environmental, social, and governance (ESG) concerns and defined realizing the type of sustainability advocated by this perspective as our new goal. Accordingly, we are advancing initiatives to transform our main business into a socially contributing undertaking with eyes to the future.

Hiroshi Aoi

President and Representative Director
Representative Executive Officer

1. Commitment to Sustainability and the Future

MARUI GROUP has published a CSR report each year since 2008. For this latest edition, we chose the name “Co-Creation Sustainability Report.” This decision was not just an attempt to shoehorn in a recent buzzword. Rather, it is an expression of the passion we have held thus far and our commitment to the future.

You may ask why we changed our focus from CSR to sustainability. One reason can be found in changing social trends. A trend we are paying particular attention to is the new emphasis on ESG investment. Investors have previously tended to view investments from a short-term perspective, seeing them as a means to make their money work for them. This is especially true in Japan. The emphasis on ESG investment is an important trend as it represents an increase in the desire of investors to endorse good governance and also to value the resolution of environmental and social issues.

The Government Pension Investment Fund, the institution with the world’s largest balance of assets, recently requested that pension fund operators promote ESG investment. When issuing this request, MARUI GROUP’s Co-Creation Management Report was chosen as an example of a superior integrated report for facilitating ESG investment decisions, a fact that was greatly encouraging.

At MARUI GROUP, we have continued working to transform our main business into a socially contributing undertaking. As we went about these efforts, however, we were unable to escape the idea that CSR was something separate from our business, something to be promoted on top of business activities. For this reason, ESG proved to be a more easily understood evaluation standard that is more compatible with our desire to transform in this manner.

We thus adopted a perspective that emphasizes ESG concerns in response to social changes, defining realizing the type of sustainability advocated by this perspective as our new goal. We are thus advancing initiatives to transform our main business into a socially contributing undertaking with eyes to the future based on a timeline that is even longer than previously used.

2. Transforming Our Main Business into a Socially Contributing Undertaking with Eyes to the Future

Our efforts to achieve sustainability will be detailed in this report from environmental, social, and governance perspectives. Rather than focusing on maintaining a balance between these three perspectives, we have instead chosen to highlight those areas that we wish to talk most about.

E: Environmental

Reconciliation of Reduction and Profit Improvement

In regard to environmental concerns, we are continuing to implement the apparel recycling program, but the focus of this program is being shifted from reuse to resource use reduction.

Apparel is one of MARUI GROUP’s principal product categories, and some may think that pursuing resource use reduction with regard to these products would lead to lower profits. However, I am confident that we can reconcile this contradiction between reduction and profit improvement through our unique initiatives.

MARUI GROUP began offering shoe trade-ins a step ahead of the rest of the industry in 2013. A startling number of customers brought shoes to be traded in, and some of these shoes had hardly been worn at all.

Wondering why so many customers had so many unworn shoes, employees staffing the shoe trade-in counter decided to ask. They were shocked by the large number of customers that had bought shoes based on their design, but had then given up on wearing them due to a lack of comfort or pain resulting from size issues.

These employees later transferred to the division responsible for developing private brand shoes, where they played a part in creating the Rakuchin Kirei series of shoes, which have continued to win strong praise from customers since their launch. More than 3 million pairs of Rakuchin Kirei series shoes have been sold to date, making this line an unprecedented hit, and these shoes are now the star of MARUI GROUP’s private brand lineup. By providing shoes that not only feature appealing designs but are also

comfortable and match customers' feet, we should be able to satisfy our customers while also preventing them from making wasteful purchases, effectively contributing to resource use reduction in the process.

MARUI GROUP will take charge in advancing unique initiatives that form an integrated process encompassing everything from product trade-ins to product development. These initiatives will further us on our ongoing quest to reconcile resource use reduction with profit improvement.

S: Social

Promotion of Inclusion and Creation of New Demand

With a focus on the inside of the Company, MARUI GROUP has been fostering diversity by promoting women's contributions, hiring people with disabilities, and implementing the profession change system, a unique human resources system that cultivates diversity in terms of individual talents by allowing employees to experience various positions within the Group.

Thanks to these efforts, we have been able to earn recognition in the form of awards from the national government and various organizations, which will be explained later on in this report.

Our next step will be to direct these diversity initiatives outside of the Company toward customers and other consumers. Being receptive toward customers' diversity and promoting inclusion will be an important theme for us as we advance toward the future.

We have always sought to develop our stores in a manner that ensures they can be enjoyed by all customers, regardless of their age or gender. Looking ahead to 2020, the year of the Tokyo 2020 Olympic and Paralympic Games, we will strive to guarantee that a pleasurable store experience can be had by people with and without disabilities and by members of the LGBT community and other individuals that do not conform to traditional gender categories.

As for our products, we are developing apparel products, private brands in particular, that can satisfy customers regardless of their physical characteristics.

This undertaking entails going beyond simply focusing on product design; it emphasizes comfort and, more importantly, greatly expands the range of sizes available.

The fashion industry has traditionally targeted individuals whose bodies were of "standard" size, developing and supplying products for them. Those people with larger or smaller bodies did not have products made for them. Among the customers we queried with this regard were many that, due to their small body size, were unable to find high heels in their size and were thus forced to wear sneakers. We also spoke to several customers that wore children's clothing because there was nothing in their size. Such concerns are shared by small- and large-bodied individuals and members of the LGBT community.

Examining the reason why the apparel industry only provides "standard" sizes, one possible reason could be inventory efficiency issues. Increasing the number of sizes means increasing inventories, which in turn leads to higher risk of inventory losses and lower profit margins. This, of course, is an issue MARUI GROUP will need to overcome. We are looking to address this issue by creating systems that manage individual items in real time, utilizing in-house distribution centers, developing omni-channel sales floors that do not require inventories, and pursuing other innovations.

A society in which only people with "standard" body sizes can enjoy fashion and in which everyone else is neglected cannot be viewed to be a flourishing society. For this reason, we will work to expand the range of sizes of our various apparel products and make them more comfortable to ensure that they can be enjoyed by everyone, regardless of their physical characteristics. The provision of such forward-looking fashion products will no doubt help promote inclusion and create new demand.

With regard to our credit card services, we have promoted inclusion since the time of the Company's founding by developing a unique business model of providing credit cards for youths. As we move forward, we will evolve our credit card services business into a FinTech business, a move that will greatly increase the business scope. When people think of FinTech, many of

them focus on how technologies are used in this field. At MARUI GROUP, however, we see the fundamental aspect of FinTech as being its mission to promote financial inclusion by supplying financial services to everyone.

The finance industry has traditionally catered primarily to the wealthy. However, as FinTech burgeons on the global stage, companies operating in this field are being charged with the mission of delivering financial services that can be used by youths and everyone else, not just the wealthy. MARUI GROUP has taken the initiative in advocating this type of inclusion in Japan's credit card industry. As such, we can fully endorse this mission. We are thus working together with FinTech companies and promoting open innovations to help further financial inclusion that makes financial services available to everyone.

G: Governance

Corporate Governance for All Stakeholders

As for corporate governance, in April 2016 we halved the number of internal directors from eight to four, making for a slim Board of Directors in which the two external directors represent one-third of the entire membership. This move allowed for better progress in discussions of management issues that delve deeper into the issues at hand.

In addition, we established the IR Department in October 2015 to facilitate efforts to co-create our corporate value together with shareholders and other investors. This was followed by the establishment of the ESG Promotion Department in October 2016, which is meant to enhance non-financial information disclosure and other activities for communicating with long-term investors.

We are also implementing other improvements to our corporate governance systems and how they are operated with the goal of making MARUI GROUP an expert on the forefront of governance. For more information, I would like to refer readers to *Co-Creation Management Report 2016*, the discussion between our two external directors in particular.

While we are still in the process of determining what steps we should take next, we do know that we want to evolve the General Meeting of Shareholders. Much progress has been seen in evolving the boards of directors of Japanese companies, MARUI GROUP included. However, the general meeting of shareholders, which functions as the highest authority within companies, still remains unchanged at many companies, leaving much room for improvement. With regard to discussions with private shareholders, for example, it seems possible that small meetings could be held with these shareholders in a similar fashion as is done with institutional investors.

Looking at boards of directors, in some countries, such as Germany and Sweden, employee representatives attend board meetings, and some companies have customer representatives participate as part of an advisory board. At MARUI GROUP, we view corporate value as being born out of the harmony between the interests and the happiness of all of our stakeholders. We thus believe that corporate governance systems should be made for the sake of all stakeholders. The Company will work to promote stakeholder inclusion to realize such governance systems.

Most of all, we realize that the aid of all of our stakeholders will be indispensable in resolving the issues MARUI GROUP faces and in furthering its evolution. I would therefore like to ask that readers of this report feel free to offer any opinions and requests you may have. We hope to make MARUI GROUP into a better company by engaging with our stakeholders, and I hope we can look forward to your support in the future.

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