

# Inter-Generational Businesses

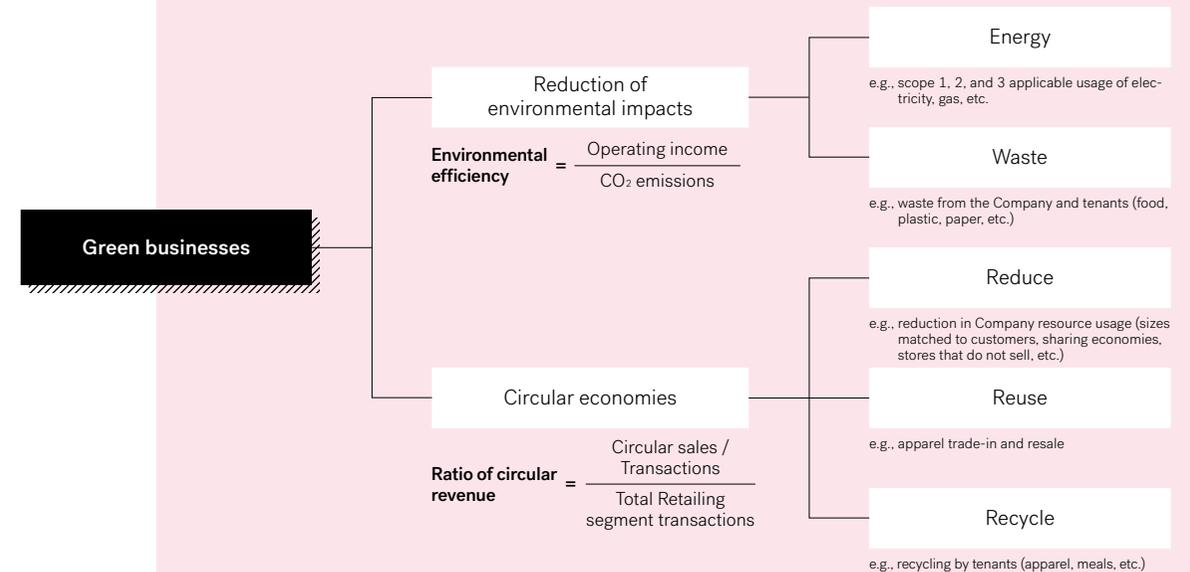
MARUI GROUP is developing inter-generational businesses that cater to the interests of both current and future generations. We recognized that building a sustainable society and global environment through business requires co-creation with the stakeholders that are future generations. When looking at environmental issues, one can avoid taking action if they only think of current generations. However, if one considers children and future generations, it is clear that immediate action is required. MARUI GROUP views this action as an ethical responsibility.



## Options for Coexistence with the Global Environment

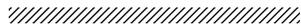
MARUI GROUP defines inter-generational green businesses as businesses that provide sustainable options for coexistence with the global environment which transcend the current and future generations. Activities and investments for reducing environmental impacts can place downward pressure on short-term earnings in the form of costs. However, if we avoid these actions, we will burden future generations with the disadvantages of environmental issues. Adopting renewable energy, for example, requires short-term costs to make the necessary initial investments. Viewed from a long-term perspective,

however, these investments will create sustainable value for future generations. Initiatives for reducing CO<sub>2</sub> emissions, meanwhile, are themselves sources of innovation for creating new green businesses and thus have the potential to increase long-term earnings. In recognition of this fact, MARUI GROUP has set key performance indicators (KPIs) for its long-term targets that are linked to activities for reducing environmental impacts and to earnings. By managing these KPIs, we will advance environmental issues as a business.



Long-Term Targets		
Medium-Term Targets (5 years in the future)	Long-Term Targets (10 years in the future)	Ultralong-Term Targets (30 years in the future)
<b>Environmental efficiency 10.2</b> <ul style="list-style-type: none"> <li>• 20% reduction in greenhouse gas emissions*</li> <li>• 70% of electricity sourced from renewable energy</li> <li>• 60% rate of resource recycling</li> </ul>	<b>Environmental efficiency 15 or more</b> <ul style="list-style-type: none"> <li>• 40% reduction in greenhouse gas emissions</li> <li>• 100% of electricity sourced from renewable energy</li> <li>• 70% rate of resource recycling</li> </ul>	<b>Environmental efficiency 20 or more</b> <ul style="list-style-type: none"> <li>• 80% reduction in greenhouse gas emissions</li> <li>• 100% rate of resource recycling</li> </ul>
<b>Ratio of circular revenue 30% or more</b>	<b>Ratio of circular revenue 40% or more</b>	<b>Ratio of circular revenue 50% or more</b>

\* Approximately 99% of greenhouse gas emissions from MARUI GROUP were in the form of CO<sub>2</sub> emissions in the fiscal year ended March 31, 2018.

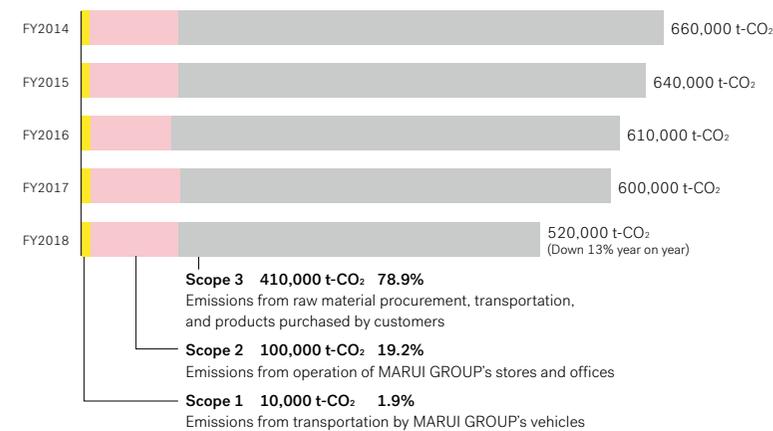


### Overview of CO<sub>2</sub> Emissions and Priority Issues

Utilizing defined standards for calculating CO<sub>2</sub> and other greenhouse gas emissions, MARUI GROUP has been calculating emissions based on Scope 1 and Scope 2 (emissions from MARUI GROUP) and Scope 3 (emissions from the value chain outside of MARUI GROUP) since the fiscal year ended March 31, 2014. Third-party verification has been received for these emissions calculations since the fiscal year ended March 31, 2017.

Emissions applicable under Scope 1 and Scope 2 are CO<sub>2</sub> emitted from MARUI GROUP itself while emissions applicable under Scope 3 represent CO<sub>2</sub> emitted throughout the Company's value chain. The Company has realized reductions in total CO<sub>2</sub> emissions across the value chain for five consecutive years. Seeking to prioritize the reduction of its own CO<sub>2</sub> emissions (Scope 1 and 2), MARUI GROUP has established clear reduction targets based on scientific rationale, which were certified by the Science Based Targets initiative. We are making steady progress toward lowering environmental impacts based on our long-term targets.

#### MARUI GROUP's CO<sub>2</sub> Emissions across the Value Chain



In 2018, MARUI GROUP became the first Japanese retailing company to be included in the Climate A-List, signifying that it engages in superior climate change response initiatives. Approximately 7,000 companies from across the globe were investigated during the process of compiling the 2018 Climate A-List, and a total of 126 companies were selected.



In the fiscal year ended March 31, 2018, MARUI GROUP established the targets of achieving a 40% reduction in Groupwide total greenhouse gas emissions attributable to Scope 1 and Scope 2 from the level in the fiscal year ended March 31, 2017, by the fiscal year ending March 31, 2031, and a 35% reduction in Scope 3 emissions over the same period. In addition, we have set a long-term target of pursuing an 80% reduction in the combined volume of Scope 1 and Scope 2 emissions from the level in the fiscal year ended March 31, 2017, by the fiscal year ending March 31, 2051. These targets have been certified by Science Based Targets.

### Decision to Change Source of Electricity

Roughly 80% of MARUI GROUP's CO<sub>2</sub> emissions (Scope 1 and 2) are attributable to electricity use. To lower these emissions, we have proceeded to implement electricity conservation activities, including the introduction of electricity-saving equipment at Marui and Modi stores and offices and the reduction of overtime through work style reforms.

At the same time, it can be expected that electricity use will increase as business model reforms result in the installation of additional kitchens and refrigerators in stores to accommodate increased food vendors and as distribution centers are operated 24 hours a day through the AutoStore robotic warehouse system to accommodate the trend toward e-commerce. MARUI GROUP has thus chosen to pivot away from reducing electricity use to changing the source of its electricity to renewable energy, setting the targets of sourcing 70% of its electricity from renewable energy by 2025 and sourcing 100% by 2030.

### Evolution from Reducing Environmental Impacts to Providing Options for Coexistence with the Global Environment

MARUI GROUP's CO<sub>2</sub> emissions reduction activities go beyond simply lowering environmental impacts to function as green businesses that provide options for coexistence with the global environment through co-creation with customers, business partners, and investors.

For example, MARUI GROUP procured ¥10.0 billion through its issuance of the first green bonds to be offered by a Japanese retailer in October 2018 to further it toward its goal of sourcing 100% of its electricity from renewable sources.\* The seven domestic institutions that expressed intent to invest in these bonds praised them as "options for ESG investment."

Furthermore, MARUI GROUP is examining the possibility of providing EPOS cardholders with electricity generated from renewable sources through co-creation with Minna Denryoku Co., Ltd. Moreover, by encouraging customers to pay their monthly electricity bills with their EPOS card, we provide sustainable options while developing MARUI GROUP's business.

\* MARUI GROUP has received a second opinion regarding the eligibility of its initiatives for green bonds in the form of a third-party evaluation from ESG evaluation company Sustainalytics. This evaluation verified that the Company's initiatives were highly reliable, contributed to meaningful improvements, and conformed to the four conditions of the 2018 Green Bond Principles.



In July 2018, MARUI GROUP became a member of the international initiative RE100 to more effectively pursue its target of sourcing 100% of its electricity from renewable energy by 2030.



MARUI GROUP helped establish a framework for a stable and prioritized supply of renewable energy through a business and capital alliance with Minna Denryoku, the first company in Japan to realize power supply traceability.



MARUI GROUP was the first Japanese retailer to declare its endorsement of the Task Force on Climate-related Financial Disclosures. The Company plans to begin disclosing information pertaining to climate-related risks, opportunities, and financial impacts in March 2019.

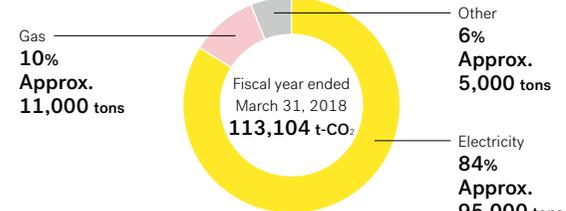
#### Message from a Green Business Representative



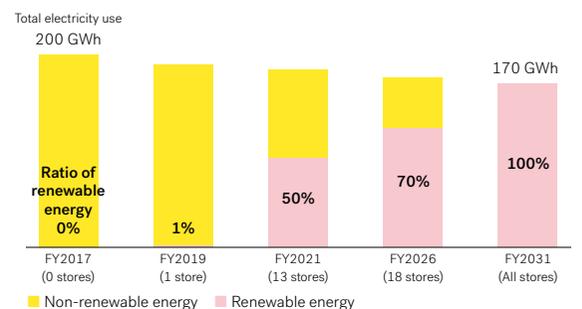
**Hirotsugu Kato**  
Director and Senior Executive Officer, Chief Digital Officer, General Manager, IR Department, In charge of Corporate Planning and ESG Promotion, MARUI GROUP CO., LTD.

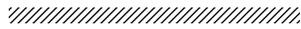
**Transcending of the Dichotomy between the Interests of Current Generations and Future Generations**  
MARUI GROUP engages with all of its stakeholders while practicing co-creation management to expand the intersection between the interests of different stakeholders. We recently added future generations to the groups of stakeholders that we consider. This move clarifies our intent to focus on the interests of not just current generations but also future generations or, in other words, to conduct management with an eye toward increasing lifetime value. This move is thus crucial to upgrading our co-creation management approach to co-creation sustainability management. Moreover, the perspective this move brings is vital to green businesses. In 2016, we were basing energy procurement decisions purely on price, which led to ESG-minded investors pointing out that our CO<sub>2</sub> emissions had increased. This decision may have seemed rational when only considering the interests of current generations. However, it likely came at the expense of the interests of future generations and thus risked saddling them with environmental issues and other substantial burdens. It was for this reason that the KPIs for green businesses were set to transcend the dichotomy between the interests of current generations and future generations and to increase lifetime value without becoming overly preoccupied with the interests of either party. I am confident that achieving the targets for these KPIs will effectively enhance our co-creation sustainability management.

#### Breakdown of MARUI GROUP's CO<sub>2</sub> Emissions (Scope 1 & 2)



#### Roadmap to Accomplishing 100% Renewable Energy Goal





### Circular Economy for Transcending Dichotomy between Apparel Supply and Demand

In Japan, approximately 1 million tons of apparel items are thrown away each year, and less than 30% of apparel items are reused or recycled.\* MARUI GROUP's efforts to address this social issue started in 2010 when it began accepting trade-ins of clothing and shoes that customers no longer needed and reusing these items. We later expanded our efforts to reduce waste by developing products that were matched to customer needs.

Today, however, the apparel supply and demand gap is widening (see graph below). The nearly 1.5 billion apparel items produced in excess of consumer demand are not purchased and are therefore disposed of as waste. If this serious social issue is left unchecked, the social costs of these wasted resources will become the burden of future generations. MARUI GROUP seeks to overcome this issue by creating sharing and other new businesses and promoting a circular economy model to turn wasted resources into profits.

\* Source: Organization for Small & Medium Enterprises and Regional Innovation

### Shift from Ownership to Use Offering Environmental Value

MARUI GROUP has expanded the scope of its ongoing reduction initiatives to incorporate the concept of a shift from ownership to use advocated by the circular economy model. This decision was the impetus for our creation of sharing businesses that handle articles such as clothing, bags, and watches and our reorientation toward experience-providing stores that do not sell. We see sharing-oriented circular economies as having the potential to offer environmental value. Taking a dress that a person will only wear once as an example, rather than that person owning the dress, it would be better for MARUI GROUP to own the dress instead and rent it to multiple customers so that they can use it when needed. This situation would create environmental value by reducing the number of new dresses produced. Moreover, service value would also increase as customers have the joy of choosing from a wider selection of products because they will only use them once. By providing customers with options for coexistence with the global environment that are enjoyable and waste free, we aim to increase the volume of transactions associated with circular economies.

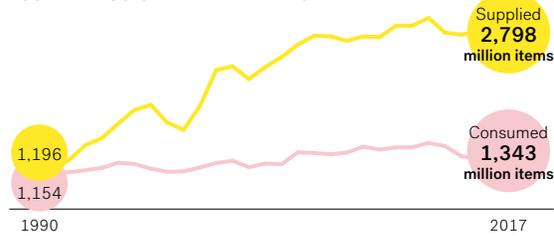


Rakuchin Kirei series shoes are designed through planning meetings with customers to realize levels of comfort that guarantee shoes are not thrown away due to discomfort stemming from mismatched sizes. We are expanding our lineup of these shoes to cover 100% of foot sizes with the goal of providing shoes matched to the unique physical characteristics of each customer.



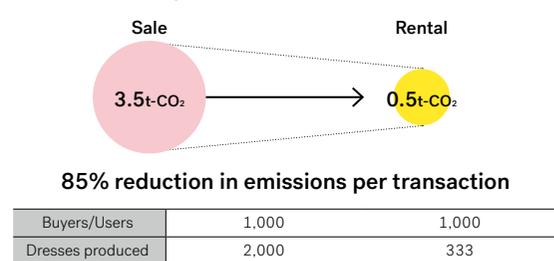
DRENI is a directly operated dress rental shop. This new store offers rentals of dresses for which opportunities to wear are limited, thus creating leeway in customers' finances and closets and enabling customers to try out designs and colors that they would be hesitant to purchase, making for a new business that is friendly to the environment and to customers' wallets.

### Apparel Supply and Demand Gap



Source: Kojima Fashion Marketing Co., Ltd. [www.fcnc.co.jp/](http://www.fcnc.co.jp/) (Japanese only)  
Numbers of items supplied are calculated by adding imported and domestically produced items (excluding undergarments). Numbers of items consumed are estimated based on the average numbers of annual purchases per household and the total numbers of households described in household surveys by the Ministry of Internal Affairs and Communications.

### Environmental Impact of One Dress Sold/Rented

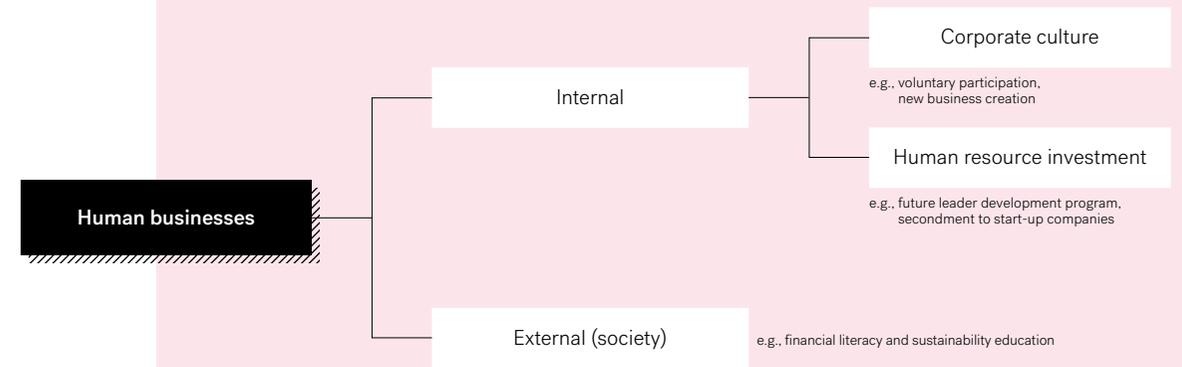


Source: MARUI GROUP CO., LTD.

### Options for Coexistence with Future Generations

One of MARUI GROUP's missions is to increase the happiness of all people, including those of future generations. Our vision for 2050 and the long-term targets for the three businesses were established to guide us in fulfilling this mission. However, the accomplishment of this vision and targets will require us to enhance our corporate culture in order to foster human resources with a capacity for empathy, which is the ability to share one's beliefs and understand others, and a propensity for innovation, which is a drive for autonomous action. It is stated in MARUI GROUP's philosophy that we should "equate the

development of our people with the development of our company." Accordingly, we see a company as being a platform for supporting the growth of its people. Companies are thus only able to grow when they effectively operate this platform. MARUI GROUP's long-term targets provide a wide range of options for coexistence with future generations through co-creation with external entities, which will be conducted alongside human resource investment and the cultivation of a corporate culture that fosters a propensity for innovation founded on co-creation.



### Long-Term Targets



• Annual human resource investments of ¥1 billion or more (continued over the long term)

• Voluntary participation by 10,000 employees or more each year (continued over the long term)

• Aggregate total of 120 or more future MARUI GROUP leaders cultivated

• Aggregate total of 4,000 or more individuals capable of creating future value cultivated

• Aggregate total of 10,000 or more individuals capable of creating future value cultivated

• Financial and sustainability education for future generations in Japan (continued over the long term)

• Financial and sustainability education for future generations overseas

### Ongoing Human Resource Investments for Realizing 2050 Vision

Human resource investments are recorded as expenses for accounting purposes, causing short-term declines in profit. However, ongoing human resource investments are essential to carrying out our philosophy: “equate the development of our people with the development of our company.” More importantly, MARUI GROUP emphasizes the importance of human resource investments to accumulate the intangible assets that are a wellspring of future corporate value. This belief has prompted us to disclose and track human resource investment amounts and trends since the fiscal year ended March 31, 2017. The Company plans to conduct human resource investments in the fiscal year ending March 31, 2019, for cultivating human resources for the future totaling ¥1,030 million, a year-on-year increase of over 40%. Furthermore, we intend to conduct approximately ¥1,000 million worth of human resource investments each year going forward to ensure the accomplishment of MARUI GROUP’s 2050 Vision.

### Cultivation of Corporate Culture for Fostering a Propensity for Innovation

MARUI GROUP began building frameworks for encouraging employees to grow through voluntary participation in the fiscal year ended March 31, 2017. New business fields require completely different success models. Accordingly, we are advancing an organization-wide push to foster a propensity for innovation that drives employees to autonomous thought and action, seeing everything as relevant to themselves, founded on the capacity for empathy that we have aspired to since our founding.

Initiatives to this end have included Groupwide project teams for broadening employees’ perspectives and dispatches to business schools as well as secondment to start-up companies creating new businesses, work-experience programs in Africa through ultralong-term research associations, assistance for future planning via financial seminars, and the establishment of Singularity University and other research organizations. Furthermore, the Co-Creation Management Academy was established as a future leader development program to address one of the issues identified when evaluating the effectiveness of the Board of Directors. Through this program, each year 20 candidates are selected to participate in a yearlong curriculum during which they learn about management. In the fiscal year ending March 31, 2019, the third iteration of this program was enhanced with a view toward participants becoming managers of MARUI GROUP as well as improved post-completion skill improvement support and revised evaluation systems.



Groupwide project teams serve as forums for in-depth, forward-looking discussion on themes that will affect the Company or society from a medium-to-long-term perspective.



The Medium-Term Management Visionary Committee is a venue for brisk discussion about important themes pertaining to future management.



MARUI GROUP’s future leader development program allows participants to learn about management perspectives through a yearlong curriculum established under the supervision of outside organizations and external directors.

### Declaration of Support for UN Standards of Conduct for Business for Tackling Discrimination of LGBTI Individuals

Eliminating discrimination of LGBT individuals is imperative to expanding the range of options for connections with others and for coexistence with future generations. In December 2018, MARUI GROUP declared its support for the Standards of Conduct for Business for tackling discrimination against LGBTI individuals, becoming the first Japanese retailer to do so. Furthermore, the statement that individuals are not to suffer discrimination on the basis of sexual identity or sexual orientation is included in the Company’s labor agreements and the MARUI GROUP Human Rights Policy states that “we stand in opposition of all discrimination, whether on the basis of race, nationality, religion, ideology, biological sex, age, physical characteristic, gender identity, or sexual orientation, and exercise respect for the personalities and individuality of all people.” In addition, the scope of application of human resource systems pertaining to spouses was expanded in April 2018 to include not only spouses from legal marriages but also spouses from common-law marriages and same-sex partners. In conjunction with this change, the word “spouse” was replaced with “partner” in these systems.

### Financial and Sustainability Education for Future Generations

MARUI GROUP provides financial education that emphasizes coexistence with future generations. Financial literacy in Japan is lower than in other countries. MARUI GROUP seeks to address this issue with Money Seminars and other financial education programs designed to provide opportunities to think about asset building conducted through tsumiki Securities Co., Ltd., a securities company that started service in August 2018. Looking ahead, we hope to supply a wide range of options by offering financial literacy education overseas as well.

MARUI GROUP also publishes messages in the LGBT section of the children’s newspaper published by The Mainichi Newspapers Co., Ltd., for elementary school students. The goal of these messages is to raise awareness regarding LGBT individuals. In addition, we team up with the NPO ReBit to construct educational materials designed to bestow basic knowledge on LGBT individuals to elementary school students.



MARUI GROUP has been awarded the highest rating of gold in the PRIDE INDEX for two consecutive years from work with Pride, an organization that seeks to create comfortable workplaces for LGBT individuals and other sexual minorities through initiatives that go beyond the boundaries of companies.



MARUI GROUP is formulating plans to provide financial education to elementary school students as part of its sustainability education for future generations. By teaching students about the advantages and disadvantages of money and the options for using, saving, and increasing their money, we hope to alleviate concerns for the future pertaining to money and improve financial literacy among future generations.

#### Message from a Human Business Representative

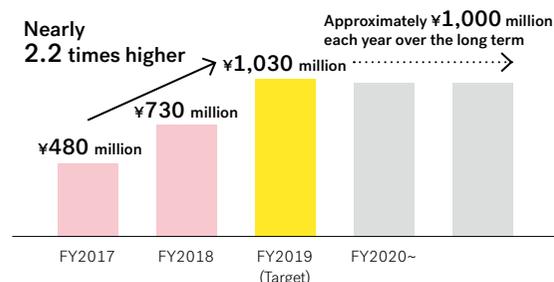


**Tomoo Ishii**  
Director and Senior Managing Executive Officer  
Chief Security Officer and Chief Health Officer  
In charge of Audit, General Affairs, Personnel, and Health Promotion  
MARUI GROUP CO., LTD.

### Refinement of Propensity for Innovation by Increasing Knowledge and Expanding Perspectives through Learning Opportunities

One of the dichotomies to be faced in the future is that of people versus AI. This dichotomy is rooted in the fear of people being replaced by AI. However, there are opportunities to be gleaned from this dichotomy if one takes a positive outlook, believing in their own skills and potential, rather than such a negative one. Part of our philosophy is to “equate the development of our people with the development of our company.” The driving force behind such development is voluntary learning. It is for this reason that frameworks for voluntary participation have been incorporated into our human resource systems, project team activities, and all other aspects of our organization in order to cultivate a corporate culture encouraging a strong appetite for growth. I feel that an important mission of mine is to help refine our propensity for innovation by increasing the knowledge and expanding the perspectives of employees through learning opportunities while fostering altruistic human resources. I therefore hope to accelerate our growth initiatives to ensure that MARUI GROUP is always a company that benefits society.

### Human Resource Investments for the Future



### Breakdown of Human Resource Investments

