Valor Holdings

Creating New Values for Local Communities

2019 Annual Report

Fiscal Year Ended March 31, 2019

Valor Holdings Co.,Ltd.

Valor Holdings

We will create new values in response to changing social needs by making a transition to a more competitive format and strengthening our connection with customers leveraging Group management resources.

The Valor Group is making a transition to competitive formats in our three core businesses of supermarkets, drugstores and home improvement centers. “Enhancing the appeal of products” and “developing human resources” are necessary elements for a successful transition. We are improving our business models that optimize the entire process from sourcing to retailing, and are focusing on developing human resources to advance this effort.

Enhancing the appeal of products

P4-13

To enhance the appeal of products that make up product categories that would motivate customers to visit our stores, we are building our capabilities for sourcing and selling fresh fruits and fish as well as fresh meat. In the home improvement center business, we also intend to achieve economies of scale in sourcing and improve the quality of private labels.

Transition to a more competitive format

P8-17

In an operating environment where there is an excessive number of stores, rather than provide stores that offer an average assortment of goods, we are transitioning to a store format that offers enticing product categories that would attract customers far and wide. We are also developing new businesses to strengthen our connection with customers, such as the “Delica Kitchen”, a delicatessen specialty shop catering to diverse social needs and changing lifestyles.

Human resources development

P6-13, 23-25

At the newly opened Human Resources Development Center, we offer knowledge-based and technical training to employees who are tasked with conveying the appeal of the products to customers at our stores. We also have managerial programs for store managers and next-generation managerial positions with the aim of fostering self-motivating leaders.

We will create new values in response to changing social needs by strengthening our connection with customers leveraging Group management resources.

The Valor Group has met the diverse needs of local communities by rolling out multi-format retailing which comprises supermarkets, drugstores and home improvement centers, while maintaining business models that optimize the entire process from sourcing to retailing. We will achieve medium- & long-term growth by making a transition to a more competitive format and strengthening our connection with customers.

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Revenues Growth

(Revenues from operations)

Supermarket Business
Drugstore Business
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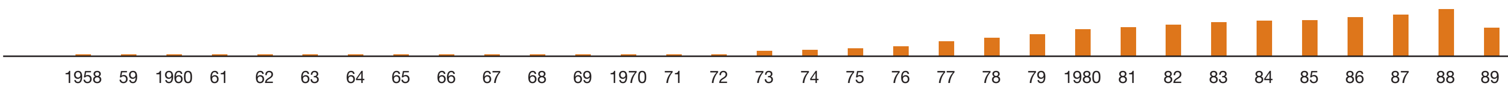
Sports Club Business
Distribution-related operations
Others



1958– Startup of Supermarket and Related Businesses of Manufacturing, Wholesale & Logistics

In 1958, we established Shufu-no-Mise Co., Ltd. (changed the company name to Valor Co., Ltd. in 1974) and opened the first supermarket in Ena-shi, Gifu. We subsequently established Chubu Yakuhin Co., Ltd., a drugstore subsidiary, and Chubu Foods Co., Ltd., a prepared food manufacturing subsidiary, and started a materials wholesale business through Chubu Ryutu Co., Ltd. We entered into the logistics business through Chubu Kosan Co., Ltd., a logistics subsidiary, and in 1989, established the first distribution center in Tajimi-shi, Gifu.

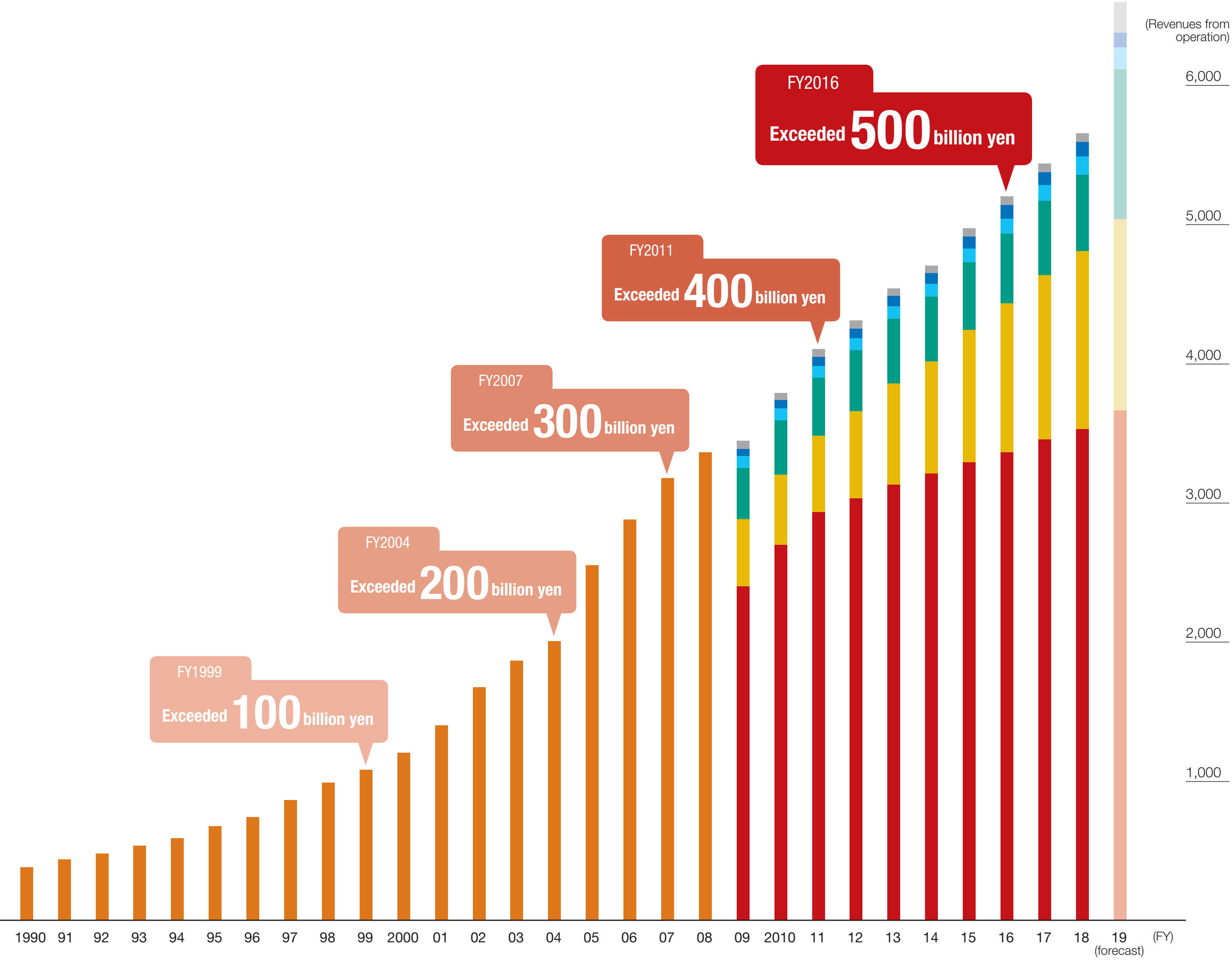
1995– Rolling out of Multi-format Retailing and Establishment of Distribution Network

While expanding the scale of our supermarket business, we solidified our foundations for multi-format retailing. We merged with Fujiya Co., Ltd., a home improvement center company, and then established AXTOS Co., Ltd. and spun off a sports club business. We also established a distribution network in Hokuriku region in response to expanding business areas.

Changing Objectives of Capital and Business Partnerships

In the past, we executed M&As centering on the supermarket business to expand the size and scope of our business. Since 2015, we have acquired food manufactures with unique products and have concluded capital and business partnerships that lead not only to product sourcing and development improvements, but also to comprehensive approaches.

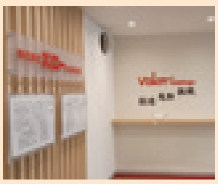
Pursuit of Economies of Scales 1995 ▶



2005– Expansion of Supermarket Business and Challenge to Integrate Business Processes

In the supermarket business, we expanded our scale through organic growth and M&As. The major companies acquired are as follows: Tachiya Co., Ltd., Youth Co., Ltd. and Sun-Friend Co., Ltd.(currently Shokusenkan-Taiyo Co., Ltd.). We also integrated the entire process from sourcing to retailing via our manufacturing and wholesale subsidiaries, and developed production bases and distribution centers.

2015– Further Optimization of Business Processes and Next Step for Growth



In October 2015, we made a transition to a holding company to promote the growth of business companies and improve corporate governance. We took the next step for growth by integrating home center businesses as of April 1, 2019 through a share exchange agreement between Alleanza Holdings Co., Ltd. and Home Center Valor Co., Ltd.

Expansion of Operational Areas 2005 ▶

Increase in Market Share 2005 ▶

Enhancement of Product Appeal/ Evolution of Business Models 2015 ▶

The Valor Group Business Models

Corporate Philosophy

The Valor Group has defined its philosophy, **"Creation, Advance & Challenge"** in mission statements. Shared with all the employees since 1958, they have been considered as guiding principles in management.

Mission Statements

All the employees of the Valor Group should be aware of its social responsibilities for advancement of local communities and culture. To fulfill them, we perform our duties sincerely; set challenging goals in the spirit of the philosophy "Creation, Advance & Challenge"; and put together our wisdom and power. There is only one truth, "Pursuing prosperity is good".

Imbalance between Food Supply and Demand

- Intense competition between formats
- Aging and lack of successors in regional agriculture
- Possible impact of trade policies on local suppliers

Changes in Labor Market

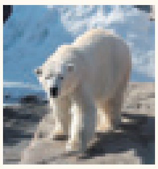
- Aging and decline in workforce
- Changing labor-related policies
- Labor shortage and increasing labor costs

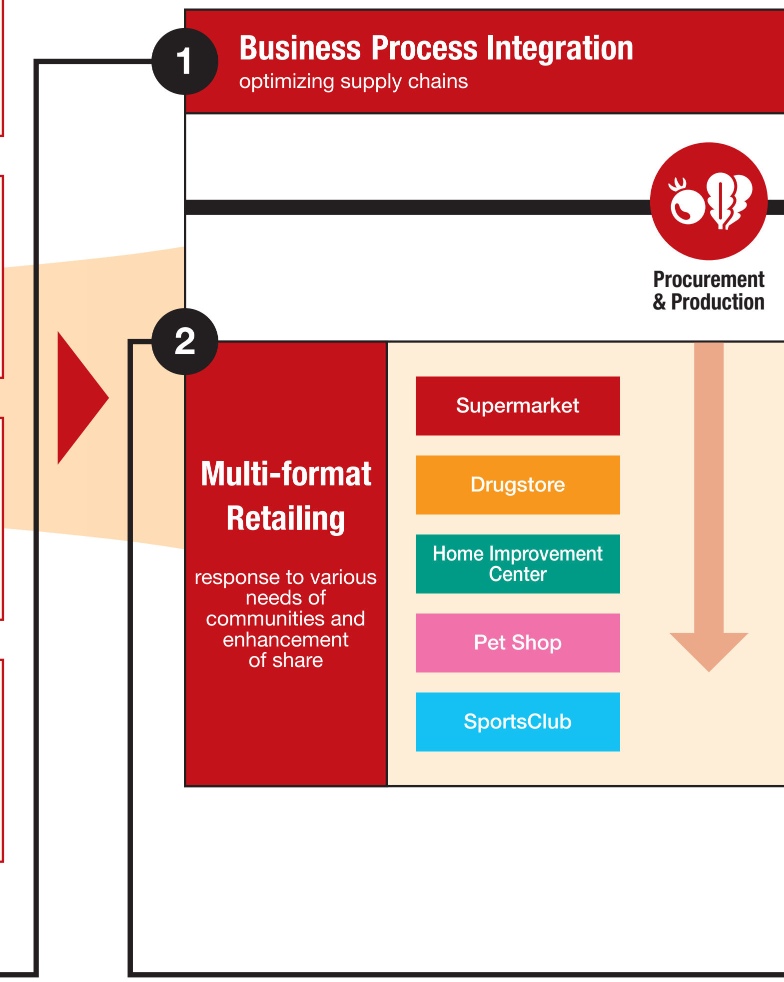
Changing Consumers & Retail Market

- Aging and declining population
- Impact of IT innovation on shopping behavior
- Decreasing local suppliers serving local communities

Changing Global Environment

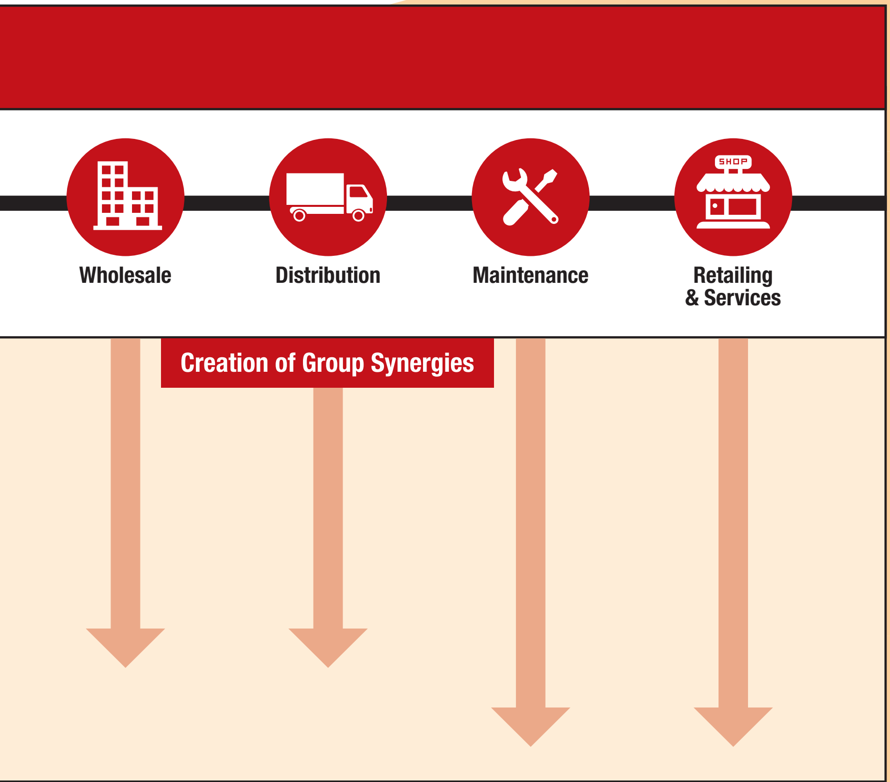
- Impact of global warming and climate changes on supply of produces





1 Business Process Integration

In the food distribution industry, the Valor Group has struggled for lean margins, which were shared by many intermediates. To achieve "increasing returns" type growth, we have been striving to secure the margins by optimizing the entire process from sourcing to retailing. As many of our stores were located in areas with lower population density, we also consider it crucial to reduce the break-even point and pursue operational efficiency through establishing and utilizing infrastructures including manufacturing bases and distribution centers. As a leading initiative in the fresh meat category, we have secured intermediate margins by providing stores with packaged meat from our processing centers, which source raw materials from Chubu Meat Co., Ltd., a wholesale subsidiary. Additionally, by transferring processing operations such as trimming and cutting at stores to the processing centers, manufacturing products with standardized skills and at a high hygienic level, and allocating existing staff to other departments, we are reducing capital expenditures per store by eliminating the need for processing equipment and space.



Our Solutions

Stable Procurement
- Collaboration with suppliers to secure a stable supply of produces

Human Resource Development & Recruitment
- Simplification of operational processes by utilizing infrastructures
- Professional development
- Increasing diversity in the workplace

Local Communities

Maintenance of Living Environment for Local Communities
- Format development
- Taking over functions performed by local suppliers

Reduction of Environmental Impacts
- Greenhouse gas emissions control
- In-house power-generation initiatives
- Reduction of food waste
- Reduction of waste and recycling encouragement

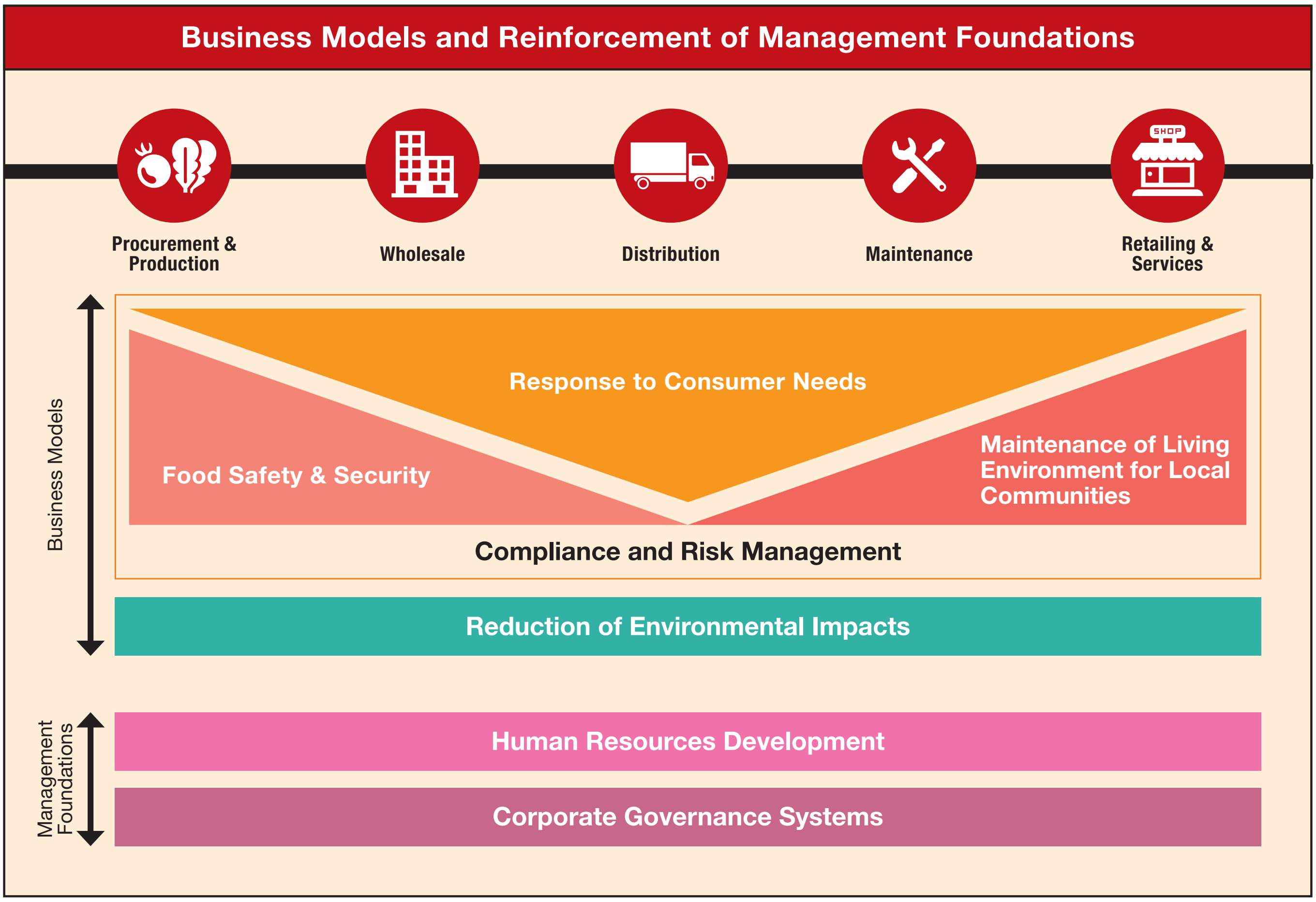
2 Multi-format Retailing

The Valor Group has met the demands by rolling out multi-format retailing; drugstore in 1984, pet shop in 1988, home improvement center in 1990 and sports club in 1998. Such format development is driven by not only an economic motive for larger shares, but also a belief that it is our corporate mission to bring richness to people's lifestyles.

In recent years, we have launched new types of services and service formats in response to changing social needs such as life support services in our home improvement center business and the delicatessen "Delica Kitchen". We are creating new values by strengthening our connection with customers leveraging Group management resources.

The Valor Group Sustainability Management

To enhance its medium- & long-term corporate values, the Valor Group is engaged in sustainability management via two approaches, namely 1) sustainability of business activities and 2) management of the social and environmental impacts of business activities to realize a sustainable society.



Corporate Governance Systems

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Faster Decision-making and Strengthened Oversight

Upon the transition to a holding company structure in October 2015, the Company separated its management decision-making and oversight system and business execution system, aiming for faster business execution and strengthened oversight. For faster business execution, we have established the Group Management Executive Committee which is comprised of the Company's Executive Directors, the Standing Audit & Supervisory Committee Member and Representatives of the Group's core companies, where decisions are made on investment projects and management issues of operating companies are discussed.

At the 59th Ordinary General Meeting of Shareholders held on June 30, 2016, a partial amendment to the Articles of Incorporation was approved and the Company transitioned to a company with Audit & Supervisory Committee System. By establishing an Audit & Supervisory Committee with more than half of the members being Outside Directors, the Company aims to enhance the oversight function of the Board of Directors and further strengthen corporate governance.

Human Resources Development

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Supporting a Diversified Workforce

Based on its corporate philosophy of "Creation, Advance & Challenge", the Company seeks individuals who are ambitions and undertake challenges. We are actively recruiting people with expertise in such area as food production, processing and distribution, in order to improve business models that optimize the entire process from sourcing to retailing, as well as in preparation for expansion of the scope of the supermarket, drugstore and home improvement center business. We also support people who are highly motivated and whose experience and backgrounds are diverse through promoting female workers, hiring of the disabled, post-retirement reemployment program and promotion to full-time employees. Thus we are developing staff members as managerial resources.

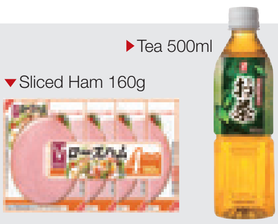
Response to Consumer Needs

Development of Private Labels

We have developed private labels, which offer fine quality, value for money and better margin than other national brands. They are sold under the brand names of “V-Select”, comprising low-priced products, and “V-Quality”, comprising value-added products. In June 2014, we launched the new brand, “V-Premium”, made from selected ingredients which are only available in certain seasons. We provide these brands to supermarkets, drugstores, home improvement centers and other companies through V-Solution Co., Ltd., a wholesale subsidiary, which manages demand-supply mismatch risks by preparing highly accurate sales plans. We also take measures to reduce costs and improve quality.

V-Select

“V Select” covers basic items which are indispensable to your daily life. Under this brand name, we offer good-quality products at low prices.



V-Quality

“V Quality” represents tasty food items made from carefully chosen ingredients. We deliver fine quality at an affordable price.

V-Premium

“V Premium” refers to premium food made from handpicked and superior ingredients and recipes. Turn your meal into fine dining with this brand!

Response to Consumer Needs

Response to Customer Feedback

We have a Customer Relations Office, which receives customer feedback via our toll-free number or inquiry emails on our website. The Office shares the feedback with related departments to reflect them in product development. In FY2018, the Office received 10,739 comments and other forms of feedback including 2,783 comments on products, of which 1,429 were comments concerning private labels. As for the plastic bottle of “Hida-no-Inochi Mineral Water”, we improved the package to make it easier to peel off and sort for disposal.

Food Safety and Security

Process Control and Product Labeling

Food safety is one of the risks involved in the business models that optimize the entire process from sourcing to retailing. In developing private labels, we have concluded agreements with manufacturing outsourcing companies with regard to selection of ingredients and manufacturing processes and carried out audits in areas such as hygiene management and manufacturing process management at manufacturing outsourcing plants. As for the information provided on product packaging, we provide easy-to-understand displays using icons for 7 ingredients of specified raw ingredients, which have obligation of labeling as well as 20 ingredients equivalent to specified raw ingredients. Furthermore, we disclose product information on the Valor website (https://valor.jp/pb), when introducing new products or improving existing products. In FY2018, we completed changes to 389 items subject to modification of product packaging to comply with the Food Labeling Act, which has an interim measures period until March 2020. We are also taking steady measures to comply with the new display system of ingredients and origin for processed foods, which was applied in September 2017.

Maintaining Service Levels for Local Communities

Food Sales Truck Business

As Japanese society changes due to such things as the progression of aging and declining population and smaller households, as well as the growing number of older people who voluntarily surrender their driver’s licenses, it has become a challenge to serve consumers who are physically limited when it comes to shopping outside. To deal with this, starting in April 2018 the Company launched a food sales truck business based at three locations in Gifu Prefecture. This has launched a business that takes full advantage of the Group’s management resources by also offering products sold at our drugstores and home improvement centers.

Reduction of Environmental Impacts

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Our Efforts to Eliminate Food Waste

In FY2018, food waste was down 15% over the previous fiscal year*

Food waste reduction having been raised as one of targets of the United Nations Sustainable Development Goals (SDGs) has highlighted food loss as a major global issue. Centered on our supermarket business, the Company has also started to make efforts aiming to eliminate food waste. We are continuing our activities towards improving the selling-out rates of products at stores while providing backup support that improves the accuracy of sales planning, and to this end, we have expanded our automatic ordering system to include processed foods in FY2017 and bread products in FY2018.

*Volume of food waste generated for every 1 million yen of net sales of Valor Co., Ltd.

We will create new values in response to changing social needs by strengthening our connection with customers leveraging Group management resources

Masami Tashiro
Chairman & CEO

The limitations and the future of chain store management

The management environment surrounding the food distribution business, the Group's main industry of involvement, has changed greatly in the past few years. Amid Japan's population decrease, competition is fierce not just with companies of the same format, but also with those of other formats such as drugstores. The chain store operations are becoming difficult to remain competitive although we have pursued operational efficiency under the policy of concentrating the opening of standardized stores in an ceratin area..

In addition, the food distribution industry in Japan is less profitable on a worldwide level; the excessive number of companies, overproduction in the manufacturing industry, and excessive number of stores are cited as the reasons for this. Against a background of decreasing consumption and working population due to the declining birth rate and aging population, as well as amid a push to improve productivity through corporate restructuring and the narrowing down of products, the issues of the excessive number of companies and overproduction are expected to be resolved. However, we envisage the situation of the excessive number of stores to continue for the time being.

Enhancing the appeal of our products —Making use of M&As and strategic partnerships with other companies

In order to establish a resilient organisation to environmental changes, the Group has shared value of "Better products at lower prices" attained thourgh business process integration. Amid customers' changing purchasing behavior such as a diversification of needs and a clearer emphasis on quality, we have focued on enhancing our product categories with extraordinary traits to attract customers far and wide and the appeal of the products that make up those categories. In an environment where there is an excessive number of stores, there can be no outlook for sustainable growth regardless of how many new stores are opened. Strong products that foster the customer's motivation to visit our stores are now the point for remaining competitive.

Aware of this fact, in line with the basic policy "a paradigm shift from expanding standardized stores to enhancing the appeal of products" of the currently unfolding FY2018-2020 strategic plans, we are moving forward to boost profitability, mainly in our stores, through a medium-to-long-term initiative of "transition to a more competitive format with a focus on products." Regarding M&As and strategic partnerships with other companies, our goal is not simply the expansion of sales volumes, but rather we focus on whether they will help us optimize the entire process from sourcing to retailing and whether they contribute to quality improvement.

Looking to enhance the appeal of our products, we also make use of M&As in the distribution of fresh produce, for which scale merit does not have much of an effect. A Group company since 2005, Tachiya Co., Ltd. has as the bedrock of its strength the ability to purchase and sell fresh produce, making it extraordinarily unique and which even draws customers from far away. Taking this as a model case, in FY2018 we acquired Futabaya Co., Ltd. and Sanko Co., Ltd., two supermarkets with excellent know-how in the sourcing and sales of local fresh products, to progress with sharing sourcing and sales know-how in the supermarket business as a whole.

On the other hand, the Company can enjoy the scale merit in sourcing non-food items, such as those for drugstores and home improvement centers. We believe that the integration of the home improvement center business by a share exchange between Home Center Valor Co., Ltd. and Alleanza Holdings Co., Ltd. will not only create a synergistic effect in the purchasing and development of products, it will also become the foothold of a distribution network in Japan stretching from the Tohoku Region to the Chugoku Region, and will strengthen this business model through comprehensive efforts to develop it.

Strengthen our connection with customers leveraging our management resources

In the future as population decline accelerates mainly in suburban areas our customers' lifestyles change, we believe that an important point to drafting a growth strategy for the Group will be looking at how to strengthen the connection we have built with our customers largely through supermarkets, and whether to limit this connection to just food products. In expressing their needs, some of our customers have told us, "I always cook on my own, but sometimes I want to have something that was made for me." By responding to these needs with our delicatessen specialty shop Delica Kitchen, we have started to see an expansion in the development of this business. In addition, the Valor Group is more than just a supermarket company that mainly supplies food. Another strength of the Group is our ability to provide a diversified value through our management resources such as drugstores, home improvement centers, and sports clubs. We think that the questions as to whether we can generate new business through our connection with customers and whether the value that the Group provides will be able to keep up with a changing age will be asked all the more.

Furthermore we believe that going forward, whether or not to only open brick and mortar stores, and determining how to go about positioning ourselves for online sales will be key to our growth.

Since we started online sales in the home improvement center business, we have recognized that the greatest value is convenience. From our experience of entering and leaving the home delivery business in the later-half of the 1990s, we feel that home delivery service is a difficult prospect. However, against the background of changing lifestyles and technological developments, in the summer of 2019 we will start offering an office-oriented delivery service that uses a dedicated app to help working-age people who are pressed for time. Going forward, we will make use of the intrinsic strengths that the Internet offers, and for newly generated business, we would like for the Group's management resources, including distribution, to be put to even greater use.

Fostering self-motivated employees

Because strategies vary by company, employees must think for themselves. Companies operating stores closer to their customers than other businesses have the merit of understanding their customers well. However, creating business for the customers is a whole other matter. Though the Company study tour to the United States with its young employees, a challenge confronting real stores has been revealed. It is whether the product that a customer want is really available, and whether the employees and the store as a whole are energetically conveying the appeal of the product from a location close to the customer. In addition to making our products attractive, we believe that response to the motivation of our employees who think "I want to work at Valor" and "I want a job worth doing" will be indispensable to our future growth. Therefore, as a part of the 60th anniversary of the founding of our business, we have established the Human Resources Development Center. In addition to training for product knowledge and skills acquisition, we intend to enrich management training targeting store managers and the next generation of management, while at the same time the Group will make use of the Human Resources Development Center as infrastructure that creates self-motivated employees. Moreover, in a time of diversifying personal lives, where people want to work and care for their children, or want to work and provide family care, the Company create better places to work together with our employees by offering a variety of work styles including our work location selection system.

First year of the medium-term strategic plans: Reactions to the refurbishment of existing stores

As a major policy of the medium-term strategic plans, in our three main businesses of supermarkets, drugstores, and home improvement centers, we have enhanced the appeal of product categories, strived to foster people's motivation for visiting our stores with the appeal of our products, and executed "transition to competitive formats." In the supermarket business, we refurbished 26 Valor stores, and strengthened fresh food departments with fresh products such as meat, fish, and vegetables & fruits while highlighting the traits of these product categories. By adopting the good practices of new stores to the refurbishment of existing stores, we were able to enhance the appeal of our fresh food departments, and the response to this has been that we are finally witnessing a trend of recovery in the number of customers. With regards to the development of our delicatessen specialty shop "Delica Kitchen," we established our first street-facing deli in September of 2018, and in addition to lunches, we also introduced products that will capture demand for evening meals.

In the drugstore business, focusing on the sale of medicines and cosmetics products that require consultations to purchase, we have strived to improve store shelf management and customer service skills, but at the same time have optimized operations and cut expense ratios by switching all but a few categories to an automatic ordering basis. In the home improvement center business, we have made a positive transition by expanding our lineup of construction materials, tools, and hardware, while at the same time strengthening categories that support people's living such as automobile tire replacement and outdoor equipment. In addition, towards the establishment of a new driver for growth, we have accelerated the opening of the fitness gym "Sports Club AXTOS Will_G" by newly opening 51 outlets to expand the year-end number of outlets to 146.

As a result of pushing ahead with these efforts, revenues in FY2018 grew for the 24th consecutive year, the higher profit of our three main businesses contributed to the consolidated results, and the income at each phase also increased. However, in the fourth quarter, expenses increased mainly in personnel costs and the ratio of ordinary income did not meet the planned figures. Consequently, profitability remained an issue.

Enhancing corporate values

Based on the outlook that the integration of the home improvement center business by Home Center Valor Co., Ltd. and Alleanza Holdings Co., Ltd. through a share exchange will result in the expansion of scale in this business, and changes in segment earnings and asset composition, the Group reset its targets for FY2020, the last year of the FY2018-2020 strategic plans. Quantitative targets for revenues from operation and for ordinary income have been updated to ¥680.0 billion and ¥21.0 billion, respectively, and profit targets for ROA and ROE to 5.6% or more and 7.7% or more, respectively.

Regarding the generation of cash flow, thanks to our improved profitability, we will generate a cumulative operating cash flow of ¥90.0 billion in three years. As for profit distribution, we plan for capital expenditure of ¥25.0 billion to ¥26.0 billion a year, of which 30% to 40% will be allocated for priority investment in existing outlets. In the supermarket business, where we plan to refurbish 20 to 30 existing stores a year, we have thus far refurbished mainly our large stores. However, we will start the renovation of medium-sized stores we have not worked on yet and at the same time renovate stores in regions outside of the Gifu and Aichi prefectures, and thereby press forward with the improvement of store profitability. With regard to investing in new store openings, these will be centered on drugstores, which hold a role as drivers of growth, and sports clubs, which we positioned as new drivers of growth.

Moreover, with regard to dividends, we plan to ensure stable and continuous profit returns, targeting a dividend payout ratio of 25% in accordance with our policy to date. Based on the above policy, the year-end dividend for FY2018 was ¥26 per share, a year-on-year increase of ¥2, for a total annual dividend of ¥48 per share (a payout ratio of 31.4%), representing a year-on-year increase of ¥3 when combined with the interim dividend. We expect to maintain the increased dividend and raise total annual dividends to ¥52 per share (interim ¥24, year-end ¥28) in FY2019.

As was the case in the previous fiscal year, in FY2018, based on the accounting standard for impairment on non-current assets, we recorded a ¥2,707 million impairment loss on noncurrent assets in extraordinary loss, resulting in a shortfall in our final earnings targets. It is necessary for us to assume the various risks involved in this business and to devise measures to mitigate these ahead of time. The Board of Directors also has had discussions on risks. However these include new elements that have emerged as our social changes, such as: 1) the issue of the shortage of personnel attributable to the shrinking working-age population; 2) the dispersion of production bases towards maintaining stable supplies when a disaster strikes; and 3) food safety and security, making us acutely aware that our operations cannot afford to ignore societal issues. The Group will deal with risks associated with social changes while at the same time taking this as a chance to create new business opportunities and distinguish ourselves from our competitors. We will of course steadily execute the policy of the medium-to-long-term growth strategy, being aware of the sociability that a company possesses, and aim to become a corporate group that develops together with society.

In closing, I would like to ask our shareholders and investors for their understanding and support for our business operations as the Group forges ahead with efforts for the medium-to-long term.

FY2018-2020 Strategic Plans

We have established and executed strategic plans to enhance medium- to long-term corporate values from FY2010 to FY2014, and from FY2015 to FY2017. The FY2010-2014 strategic plans focused on “Expanding scale”, in which we accelerated store expansion in supermarkets and drugstores, and enhanced logistics, manufacturing and processing functions to keep up with the business expansion. In the FY2015-2017 plans, we aimed for “Improving efficiency” through reinforcement of existing stores and utilization of infrastructures, and continued vigorous openings of drugstores, placing drugstore business as a key driver of the Group’s growth

During the period, the business environment has dramatically changed due to decreasing and aging consumers, labor shortage, changes in consumer behavior and intensifying competitions. As we assume that store expansion through conventional methods will not enhance corporate values, in the FY2018-2020 strategic plans, we will establish a foundation to support next growth, while redesigning values that stores provide and improving systems supporting stores.

As advised in the “Announcement Regarding Update of Quantitative Targets for the FY2018-FY2020 Strategic Plans” issued on May 9, 2019, we updated our quantitative targets in light of the expected growth of the home improvement center business and the projected changes in segment revenues and operating income with the conversion of Alleanza Holdings Co., Ltd. into a consolidated subsidiary. Going forward, we will work to improve capital efficiency in addition to creating synergies.

Basic Policy

“Undertaking a paradigm shift from expanding standardized stores to enhancing the appeal of products”

Although we maintain growth-oriented corporate culture, setting “creation of a more competitive format with a focus on products” as a medium-to long-term growth initiative, we intend to improve profitability through enhancing frontline store competitiveness.

	FY2010-2014 Strategic Plans	FY2015-2017 Strategic Plans	FY2018-2020 Strategic Plans
Strategic goals	Expanding scale	Improving efficiency	Undertaking a paradigm shift from expanding standardized stores to enhancing the appeal of products
Major policies	● Expansion of store network (organic growth and M&As) ● Enhancing functions of manufacturing and processing	● Establishment of competitive formats ● Increase efficiency of infrastructures ● Expansion of drugstore and home improvement center businesses	● Transition to competitive formats ● Advancement of Business Process Integration between manufacturing and retailing ● Establishment of new axis for growth
Viewpoint on organizational structure	● Improvement of infrastructures to support expanding scale	● Transition to a holding company structure (Enhancement of group management and governance) ● increase recruitment of new graduates	● Improvement of asset efficiency Enhance strategic functions of the holding company From closed innovation to cooperation ● Human resources development and improvement of productivity
Medium- to long-term initiatives	Quantitative expansion of standardized stores		Transition to creation of a more competitive format with a focus on products

FY2010-2014 Strategic Plans

Results

- Secured a scale of operations and improved infrastructures
- Improved profitability
- Improved balance sheet
- Enhanced corporate values

Challenges

- ◆ Increase efficiency in the supermarket business
  Strengthen existing stores and improve efficiency of infrastructure utilization
- ◆ Nurture key drivers for growth
- ◆ Improvement of governance in the holding company and development of human resources

FY2015-2017 Strategic Plans

Results

- Expanded the drugstore business
  Revenues increased from 80.4 billion yen to 117.9 billion yen.
- Improved utilization and efficiency of infrastructures
  enhanced product development and secured manufacturing profits
  changed sales floor allocation centered on fresh vegetables & fruits, fresh meat and prepared food
- Created group synergies by combining resources
  collaborations in opening new stores

Challenges

- ◆ Improvement of profitability
  Improve profitability by enhancing the appeal of products and frontline competitiveness
- ◆ Improvement of asset efficiency
  Enhance strategic functions of the holding company
  From closed innovation to cooperation
- ◆ Human resources development and improvement of productivity

FY2018-2020 Strategic Plans

(Millions of yen)

	FY2009	FY2014	**FY2017**	FY2020 (plan)
Basic Policy		Expanding scale	Improving efficiency	Undertaking a paradigm shift from expanding standardized stores to enhancing product offerings
Revenues from operations	344,900	470,564	544,020	680,000
Operating income	9,452	15,000	13,470	—
Ordinary income	9,916	16,108	14,937	21,000
Net income	3,945	9,214	7,570	—
CAGR (Revenue from operations)		6.4%	5.0%	7.7%
ROA	5.7%	6.7%	5.4%	above 5.6%
ROE	7.0%	10.7%	6.9%	above 7.7%
D/E ratio	1.2	1.0	0.8	0.8
Dividend payout ratio	25.8%	18.4%	30.4%	25%

Transition to competitive formats	● Refurbish 30-40 stores of supermarkets and drugstores annually, and conduct relocation and reconstruction ● Effectively utilize group competencies for improved asset efficiency, and close/transform underperforming stores
Advancement of Business Process Integration between manufacturing and retailing	● Realize product offerings selected by customers, and achieve service quality and cost competitiveness available for external sales
Establishment of a new driver for growth	● Accelerate store expansion of fitness gyms “Will_G”, which investment costs are relatively low and membership fees are competitive ● Utilize group competencies and develop new businesses in harmony with real stores

Revenues from operations by segment and their distribution

Supermarket Business

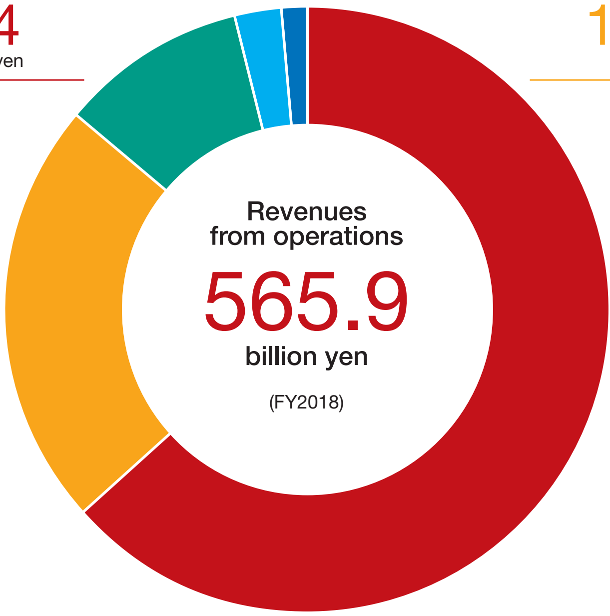
62.4%

Revenues from operations	Operating income
353.3 billion yen	9.4 billion yen

Drugstore Business

22.6%

Revenues from operations	Operating income
127.7 billion yen	3.4 billion yen



Home Improvement Center Business

9.8%

Revenues from operations	Operating income
55.1 billion yen	2.6 billion yen

Sports Club Business

2.3%

Revenues from operations	Operating income
13.1 billion yen	0.6 billion yen

Distribution-related operations

1.3%

Revenues from operations	Operating income
10.2 billion yen	2.9 billion yen

Supermarket Business

No. of stores··············· 290 Ave. floor space··············· 1,788m²

(Valor Co., Ltd.)

Business summary

This business segment includes the operations of supermarket operators Valor Co., Ltd., Tachiya Co., Ltd., Shokusenkan-Taiyo Co., Ltd., Kohseiya Co., Ltd., Futabaya Co., Ltd., and Sanko Co., Ltd.; food processing subsidiaries Chubu Foods Co., Ltd. and Daien Foods Co., Ltd.; and food wholesalers Shufu-no-Mise Shoji Chubu Honsha Co., Ltd., Chubu Meat Co., Ltd., and V-Solution Co., Ltd. These companies aim at creating business models that optimize the entire business process from sourcing to retailing.

Beside opening new stores, the segment has expanded in scale through M&As. The operating companies have shared knowledge and skills in sourcing and selling fresh foods through the conversion of Tachiya Co., Ltd. and Kohseiya Co., Ltd into subsidiaries. As for operating areas, Valor Co., Ltd. operates stores in 13 prefectures, mainly in Gifu and Aichi prefectures; Tachiya Co., Ltd. has stores in Aichi, Gifu and Mie prefectures; Shokusenkan-Taiyo Co., Ltd. operates in Shizuoka prefecture; Kohseiya Co., Ltd. has stores in Yamanashi prefecture; Futabaya Co., Ltd. operates in Shiga prefecture; and Sanko Co., Ltd. has stores in Toyama prefecture.

Drugstore Business

No. of stores··············· 379　Ave. floor space··············· 790m²

Business summary

Chubu Yakuhin Co., Ltd. started to sell medicines after it was established in February 1984. Expanding its store network under the brand name of “V-drug”, the chain reached 100 stores in 2003, 200 stores in 2012, and 300 stores in 2016. It extends across nine prefectures, primarily in Aichi and Gifu. As a local medical support provider, the chain has developed pharmacies and drugstores with pharmaceutical functions, and has also increased food offerings for greater convenience.

Home Improvement Center Business

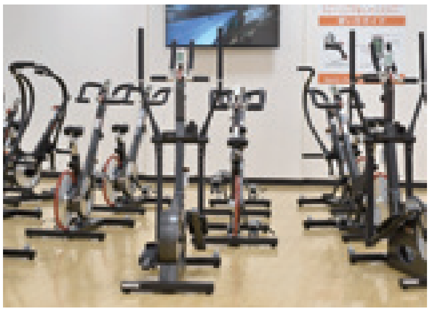
No. of stores··············· 36　Ave. floor space··············· 5,912m²

Business summary

The home improvement center business began its operations in August 1990 after the transfer of assets from Valor Co., Ltd. The segment grew in scale in October 1995 resulting from a merger with Fujiya Co., Ltd. Home Center Valor Co., Ltd. offers building and agricultural materials for professional needs, mainly at large stores. It also strives to meet customers’ lifestyle needs by offering a tire replacement and storage service through “Tire Ichiba”. Operating mainly in Gifu prefecture, the chain is also expanding into Aichi, Mie and Shizuoka prefectures. In February 2018, we acquired shares of FIRST Co., Ltd., an online retailer of materials and tools, and used the company’s system as a platform for launching Home Center Valor’s EC site.

Sports Club Business

No. of stores··············· 146



Business summary

The sports club business commenced operations in April 1998 following the transfer of assets from Valor Co., Ltd. AXTOS Co., Ltd., which formerly operated general sports clubs with swimming pools, training gyms and tennis courts, began operating the low-investment chain of “Sports Club AXTOS Will_G”, also accelerating its franchise operations. The network of these sports clubs is mainly based in the prefectures of Aichi and Gifu, but is also expanding into other regions with higher population densities such as the Kanto and Kansai regions.

Distribution-related operations

Business summary

The principal subsidiaries operating in this segment are the logistics operator Chubu Kosan Co., Ltd.; food, sundries and materials wholesaler Chubu Ryutu Co., Ltd.; and the facilities maintenance services provider Mentex Co., Ltd. Besides helping to increase the operational efficiency of other Group companies, these firms also engage in transactions with external customers.

Results

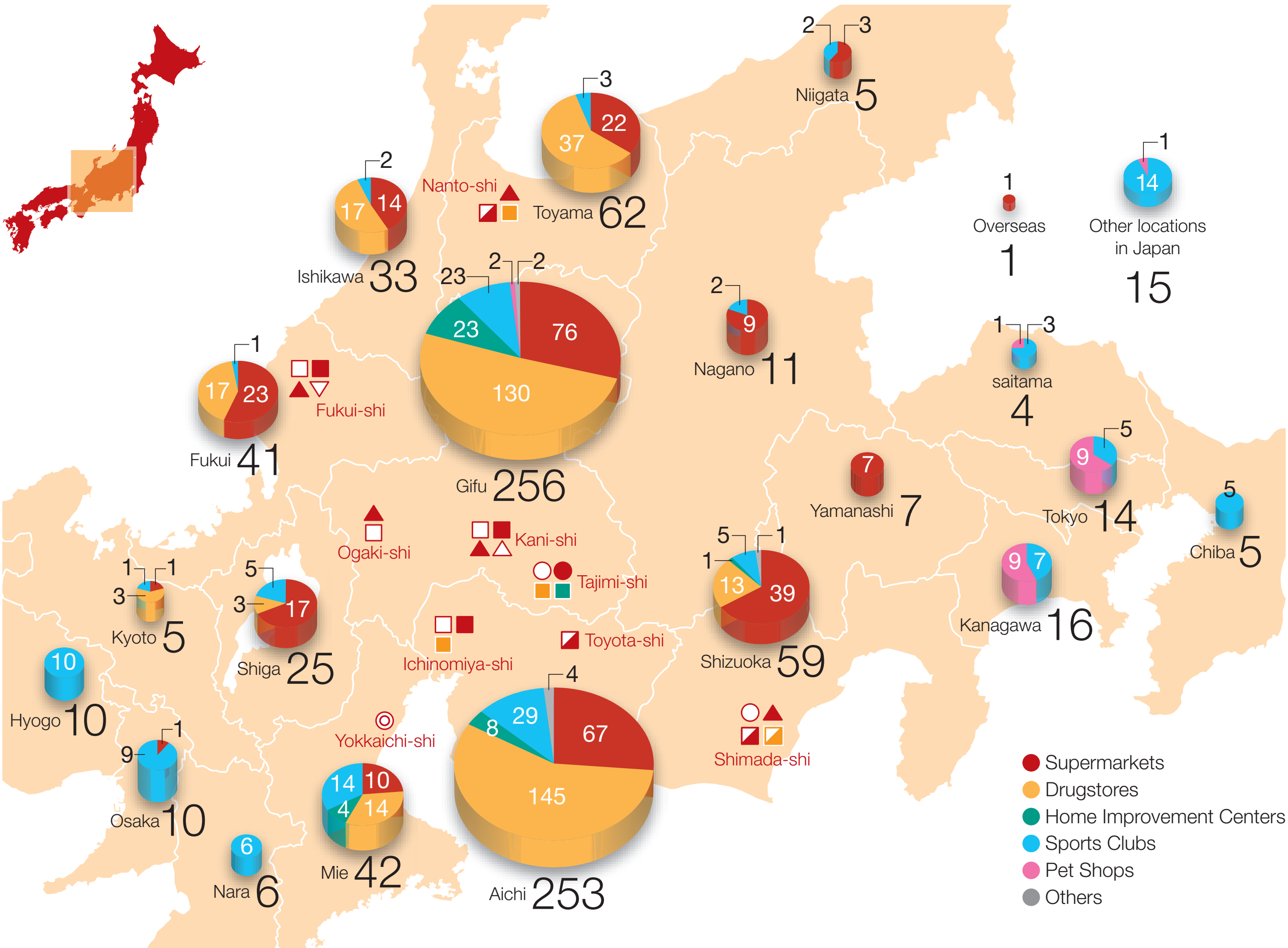
Store Network

	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Supermarkets	187	202	218	238	251	263	266	275	281	290
Valor	131	147	163	179	221	232	235	238	243	240
Tachiya	10	10	11	11	13	13	13	14	15	16
Youth*	29	28	29	31	—	—	—	—	—	—
Shokusenkan-Taiyo	10	17	15	15	15	17	17	17	17	17
Kohseiya	—	—	—	—	—	—	—	5	5	5
Futabaya	—	—	—	—	—	—	—	—	—	3
Sanko	—	—	—	—	—	—	—	—	—	8
Varo Mart	—	—	—	2	2	1	1	1	1	1
Other	7	—	—	—	—	—	—	—	—	—
Drugstores	159	174	193	214	241	271	301	337	361	379
Home Improvement Centers	36	36	34	35	35	36	37	35	36	36
Sports Clubs	51	51	51	52	54	58	65	75	95	146
Pet Shops	17	16	17	17	17	17	18	19	21	22
Others	12	15	15	11	3	3	3	4	5	7
Total	**462**	**494**	**528**	**567**	**601**	**648**	**690**	**745**	**799**	**880**

Note: *merged into Valor in October, 2013.

Store Network and Locations of infrastructures for the Supermarket, Drugstore and Home Improvement Center businesses (FY2018)

The figures indicate the number of stores; the size of the pie charts corresponds to the number of stores by prefectures.



Supermarket Business

Distribution Centers : □ for chilled products ■ for ambient- temperature products
◪ for chilled & ambient- temperature products

Processing Centers : ▲ for fresh meat △ for fresh vegetables & fruits ▽ for fresh fish

Production Bases : ○ for prepared food ● for fresh bakery ◎ for fish products

Drugstore Business

■ Distribution Centers

◪ Distribution Centers (Shared with the Supermarket Business)

Home Improvement Center Business

■ Distribution Centers

(Millions of yen)

	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Supermarkets										
Revenues from operations	240,138	269,918	293,505	303,521	313,208	321,458	329,266	336,555	345,960	353,311
Operating income	7,683	9,580	10,783	11,028	8,443	9,760	9,887	9,738	8,518	9,433
Total assets	105,438	114,693	119,293	127,490	142,260	144,604	153,045	176,384	184,386	195,231
Capital expenditures	7,477	12,012	9,199	12,915	17,931	12,078	10,506	11,887	12,574	13,376
Depreciation and amortization	5,283	5,430	5,978	6,346	6,826	7,381	7,556	7,339	7,490	7,633
Drugstores										
Revenues from operations	48,373	50,651	54,850	62,497	73,028	80,470	95,152	107,045	117,949	127,781
Operating income	1,009	1,357	2,294	1,934	2,449	1,961	2,736	2,692	2,532	3,488
Total assets	21,493	22,814	26,501	29,065	33,649	38,557	44,602	52,019	58,849	58,725
Capital expenditures	947	1,400	2,547	3,134	3,893	4,333	5,776	8,087	5,359	4,622
Depreciation and amortization	817	860	979	1,183	1,454	1,780	2,114	2,588	2,927	3,104
Home Improvement Centers										
Revenues from operations	36,919	38,928	41,734	43,810	46,559	46,556	48,629	50,373	53,555	55,173
Operating income	677	1,269	1,677	1,869	2,330	2,011	2,450	2,302	2,149	2,616
Total assets	17,633	17,479	18,553	19,456	19,068	22,430	22,499	23,942	25,562	31,020
Capital expenditures	166	730	1,943	1,259	464	2,276	1,478	4,777	1,316	645
Depreciation and amortization	983	876	867	899	875	910	945	1,000	1,099	1,083
Sports Clubs										
Revenues from operations	8,371	8,514	8,604	8,788	8,955	9,271	9,838	10,459	11,397	13,157
Operating income	40	77	247	420	419	463	532	639	680	672
Total assets	13,023	12,009	11,287	10,760	10,382	10,611	10,634	10,776	13,059	15,175
Capital expenditures	1,755	146	124	319	338	527	791	1,119	3,114	2,565
Depreciation and amortization	747	770	669	666	636	655	711	785	882	1,080
Distribution-related operations										
Revenues from operations	5,282	5,929	6,383	6,699	7,228	7,638	8,590	9,610	9,075	10,265
Operating income	1,943	2,410	2,761	3,062	2,995	3,395	3,647	3,699	3,725	2,910
Total assets	11,456	15,339	17,514	18,809	22,351	24,082	23,961	24,894	27,230	28,569
Capital expenditures	28	439	1,659	1,888	2,155	624	478	2,018	3,044	384
Depreciation and amortization	40	381	439	550	784	819	716	721	758	817

The Valor Group is engaged in sustainability management using two approaches, namely 1) sustainability of business activities and 2) management of the social and environmental impacts of business activities to contribute to realization of a sustainable society, to enhance its corporate value over the medium to long term.

Regarding corporate governance, human resources development and the environment, we have clarified the organizational structure of the Group and key issues concerning the business model. We are cultivating a corporate culture in which continuous improvement is pursued.

	Key issues	Activities to secure sustainability of business or activities to manage impact of business	The Company's characteristics and improvements	Related page
Governance	1. Management transparency	● Organizational design	● Transition to a company with audit & supervisory committee ● Repot by the Nomination and Compensation Committee	P.19-21
	2. Faster decision-making		● Framework for decision-making concerning business execution (Group Management Executive Committee)	P.19
	3. Risk management in relation to the business model	● Internal control and compliance systems	● Relations with organs ● Expansion of the scope of application to include operating companies	P.22
		● Risk management systems	● Integrated information management ● Expansion of the scope of application to include operating companies ● Development and labeling of private labels	P.7
Society (Human Resources Development)	Human resources development to sustain growth	● Recruitment	● Sharing of recruiting offices among the Group companies ● Support recruitment of part-time employees	P.23
		● Human resources development	● Enhanced training for acquiring knowledge and skills	P.23-24
		● Supporting a diversified workforce	● Support of female workers, disabled workers and others to enable them to maximize their capabilities	P.23-25
		● For better places to work	● Introduction of work location selection system ● Employer-provided child care services ● Introduction of shop holidays	P.24
Environment	Reduction of environmental impacts	● Greenhouse gas emission control ● Development of renewable energy ● Reduction and recycling of food waste ● Reduction of waste and recycling encouragement	● Energy-saving delivery and fluorocarbon control ● Installation of solar panels ● Reduction of food waste and recycling of food waste ● Reduction of waste plastics (Encouragement of "My Bag")	P.26-27

Basic Policy

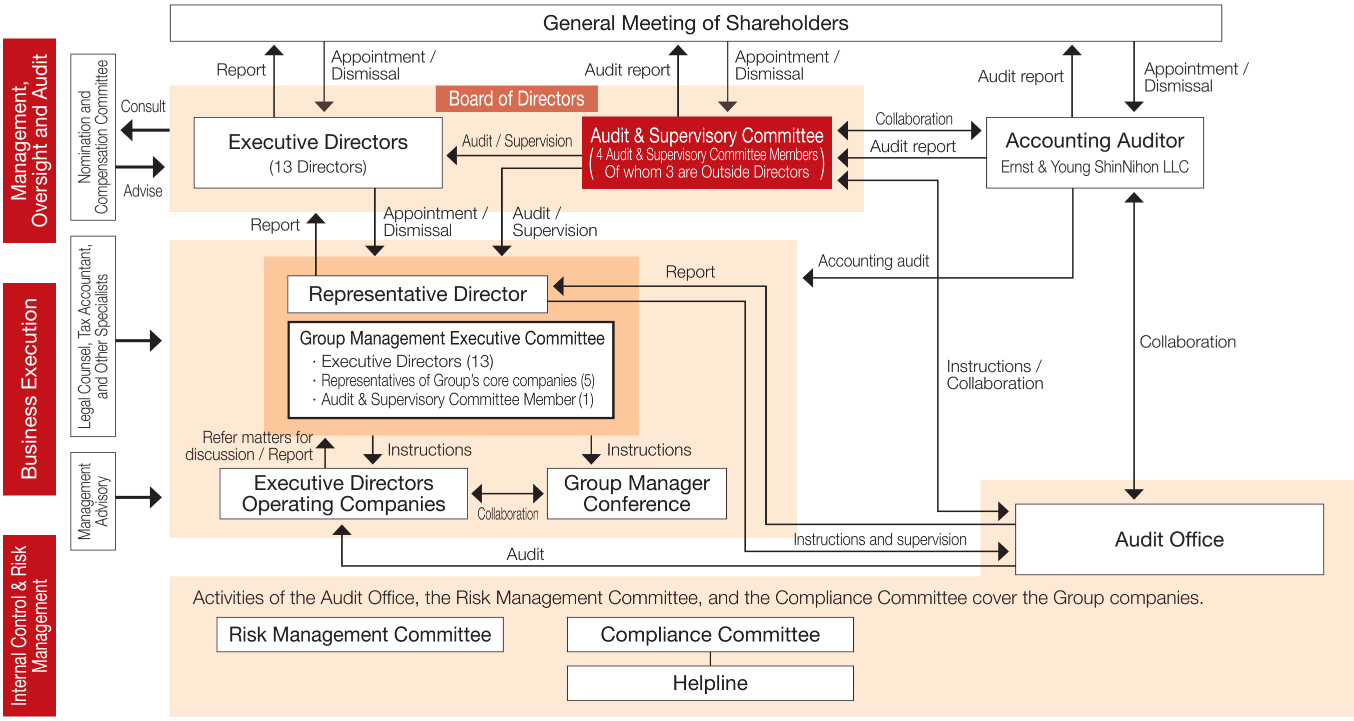
The fundamental objectives of the Company's corporate governance are to achieve efficient management and faster decision-making and enhance corporate value continuously, while ensuring management transparency and fairness, thorough risk management as well as timely and appropriate disclosure from the viewpoints of shareholders, customers and all other stakeholders. Having established the basic policy on corporate governance consisting of five points, namely 1. Upholding shareholders' rights and equality, 2. Appropriate collaboration with non-shareholding stakeholders, 3. Appropriate disclosure and securing of transparency, 4. Responsibility of the Board of Directors etc., and 5. Dialogues with shareholders, we are working to strengthen our corporate governance.

Corporate Governance Systems

Upon the transition to a holding company structure in October 2015, the Company separated its management decision-making and oversight system and business execution system, aiming for faster business execution and strengthened oversight. For faster business execution, we have established the Group Management Executive Committee which is comprised of the Company's Executive Directors, the Standing Audit & Supervisory Committee Member and Representatives of the Group's core companies, where decisions are made on investment projects and management issues of operating companies are discussed.

At the 59th Ordinary General Meeting of Shareholders held on June 30, 2016, a partial amendment to the Articles of Incorporation was approved and the Company transitioned to a company with Audit & Supervisory Committee System. By establishing an Audit & Supervisory Committee with more than half of the members being Outside Directors, the Company aims to enhance the oversight function of the Board of Directors and further strengthen corporate governance.

Overview of Valor's Corporate Governance Structure



Performance evaluation on the Board of Directors

Since 2015, the Company has been considering whether or not the Board of Directors is functioning effectively. Based on the results of this consideration, the Company intends to improve the Board of Directors as a whole through a continuous process of taking appropriate actions to rectify weaknesses and build up strengths.

To improve the Board of Directors, all of the Directors have been conducting self-evaluation questionnaires, which are designed to evaluate the effectiveness of the structure of the Board of Directors and its discussion & consideration, monitoring etc. on a scale of one to five. Average scores are calculated, while some of them are compared with the previous year. In FY2018, the Board of Directors scored 3.8 on average, the same as FY2017, which indicates that the Board of Directors is generally deemed to be effective. Since much of the discussions in FY2018 focused on M&As, the effectiveness of M&A-related discussion & consideration has been identified as an issue to be improved.

Policy and procedures for election of management executives by the Board of Directors and for nomination of candidates for Director, and explanation of reasons for election and nomination

(1) Policy

- Regarding Directors who are not Audit & Supervisory Committee Members, people with specialized knowledge and excellent management & decision-making capabilities or people who execute important businesses or are responsible for key operating companies are nominated as candidates. For Outside Directors, people with abundant experience in their respective fields, excellent character, and high level of insight as well as the capability of providing objective and multifaceted suggestions about management, are nominated as candidates.
- Regarding Directors who are Audit & Supervisory Committee Members, people with knowledge of finance and accounting, understanding of the Group's business and diverse viewpoints about corporate management are nominated as candidates to ensure accurate auditing of compliance and appropriateness of business execution.

(2) Procedures

- Regarding Directors who are not Audit & Supervisory Committee Members, candidates shall be determined by the Board of Directors after consideration by the Nomination and Compensation Committee consisting of two Executive Directors and two Outside Directors.
- Regarding Directors who are Audit & Supervisory Committee Members, candidates shall be determined by the Board of Directors after consideration by the Nomination and Compensation Committee and subsequent consent of the Audit & Supervisory Committee.

(3) Explanation about election and nomination

- Reasons for election of each candidate for Director are disclosed in the reference document for the General Meeting of Shareholders.
- Reasons for election of each candidate for Audit & Supervisory Committee Member are disclosed in [Directors] "Relations with Valor Holdings Co., Ltd.(1)" and "Relations with Valor Holdings Co., Ltd.(2)" of "II Management Organization and Other Corporate Governance Systems Concerning Management Decision-Making, Execution and Supervision" in the Corporate Governance Report.

Independence criteria

Our criteria for selecting Outside Directors are that they satisfy the requirements for independent officers pursuant to the Companies Act and as specified by the stock exchanges where the Company's shares are listed; that they are unlikely to have conflicts of interest with general shareholders; that they are not affiliated with a supplier or a customer of the Company with which transactions exceed an amount equal to 2% of the Company's consolidated net sales or exceed 10 million yen in direct individual transactions; and they have specialized knowledge about finance, accounting, law, management, etc. or experience in corporate management etc.

Policy for determining the amount of compensation and the calculation method

(1) Basic policy

1 For Directors who are not Audit & Supervisory Committee Members

- Compensation consists of basic compensation, bonuses and share-based compensation.
- Compensation shall be, in principle, provided in an amount that is adequate for securing (recruiting) excellent people as executives and shall be determined based on comprehensive evaluation of the Company's financial performance, each Director's performance of duties, achievements and degree of contribution.
- Regarding Directors who are also employees, the salary as an employee is paid in accordance with the Rules for Wages for Employees.
- The amount of bonuses shall be determined within the maximum amount of compensation approved at the General Meeting of Shareholders in consideration of the previous amount of bonuses paid and the company's financial results for the current year.
- The Company has a stock option program for the Company's Executive Directors and employees, as well as the directors and employees of the Company's subsidiaries, in order to enhance their motivation for achieving better performance of the Group.
- The Share-based Compensation Plan for Directors (the Plan), which was implemented by a resolution of the 60th General Meeting of Shareholders, aims to enhance Directors' motivation for contributing to mid-term and long-term improvement of financial results and corporate value. A trustee will acquire shares of Valor Holdings Co., Ltd. in the stock market using the money contributed in establishment of the trust and deliver the shares to Directors at their retirement based on the Company's rules for the issue of shares. Points assigned to each rank will be awarded to Directors. The number of shares to be delivered to each Director shall be determined by multiplying the number of the points assigned by 1.0. The initial period of the trust shall be 5 years, and as funds necessary for the acquisition of stocks to be delivered to Directors during the trust period under the Plan, the Company will contribute a maximum of 300 million yen during the target period (covering the 5 years from the fiscal year ending March 31, 2018 to the fiscal year ending March 31, 2022), and the trustee will use these funds to acquire shares in bulk. The maximum points assigned to the Directors are 50,000 points for one fiscal year.

2 For Directors who are Audit & Supervisory Committee Members

- Compensation consists only of basic compensation, in view of their roles and independence.

(2) Procedures

- The amount of compensation for Directors shall be an agenda item of the General Meeting of Shareholders and shall be determined within the maximum amount approved at the General Meeting of Shareholders.
- Regarding the amount of compensation for Directors, in order to increase transparency and objectiveness, the Nomination and Compensation Committee, which is an advisory organ for the Board of Directors consisting of two Executive Directors and two Outside Directors, shall examine and review the details, after which the amount of compensation for Directors who are not Audit & Supervisory Committee Members shall be determined by the Board of Directors; the amount of compensation for Directors who are Audit & Supervisory Committee Members shall be determined by the Audit & Supervisory Committee Members.

Number of meetings of the Board of Directors and the Audit & Supervisory Board held and attendance status (FY 2018)

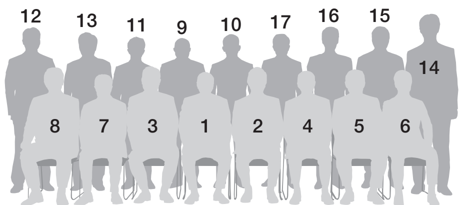
	Meetings of the Board of Directors	Meetings of the Audit & Supervisory Board*
Number of meetings	10	13
Attendance of Outside Directors	100%	100%

Note: The figures are based on the number of meetings held from April 1, 2018 to March 31, 2019.

Dialogues with shareholders in FY2018

61th Ordinary General Meeting of Shareholders (Held June 28, 2018)	**618** shareholders attended
Dialogues with institutional investors	Direct dialogues: **101** times (In addition to business results presentations and small meetings attended by top management, includes individual meetings, facility tours, teleconferences, etc.)

Directors (as of June 27, 2019)



	Name	Title	Significant concurrent positions at major subsidiaries
1	Masami Tashiro	Chairman & CEO	
2	Satoru Yokoyama	Executive vice-president	Chairman, AXTOS Co.,Ltd. Executive vice-president, Valor Co.,Ltd.
3	Akira Shinohana	Managing Director	Chairman, Core Support Co., Ltd.
4	Yukihiko Shizu	Director, CFO	
5	Katsuyuki Mori	Director	Chairman, Tachiya Co., Ltd. Senior Managing Director, Valor Co., Ltd.
6	Satoshi Yoneyama	Director General Planning & Policies and Luvit Cards	
7	Masami Shidara	Director	Director, Sourcing & Merchandise, Valor Co.,Ltd.
8	Morisaku Wagato	Director	Executive vice-president, Alleanza Holdings Co.,Ltd. CEO, Home Center Valor Co., Ltd.
9	Takao Yamashita	Director Non-store Retailing	
10	Motohiko Takasu	Director	CEO Chubu Yakuhin Co.,Ltd.
11	Takayuki Koike	Director Logics, IT Strategies & Information Systems	CEO, Chubu Kosan Co., Ltd.
12	Hirokazu Tamai	Director M&A Strategies	
13	Shunichi Asakura	Director	Chairman, Alleanza Holdings Co.,Ltd.
14	Osamu Takasaki	Director Audit & Supervisory Committee Member (full-time)	
15	Mutsuo Masuda	Outside Director Audit & Supervisory Committee Member	
16	Hirofumi Hata	Outside Director Audit & Supervisory Committee Member	
17	Tokimitsu Ito	Outside Director Audit & Supervisory Committee Member	

Internal control and compliance system

The Company considers ensuring compliance to be an important management issue and has articulated the Corporate Philosophy, the basic management policy, and the Action Guidelines for Corporate Ethics. Efforts are made to ensure that all officers and employees comply with them as well as the Compliance Rules. The Compliance Committee is convened when deemed necessary to improve, maintain, and develop the compliance system.

Relationship between the Company's organs and the internal control system

The Audit Office conducts operational audits based on an audit plan. Audit results are reported to Directors and the relevant departments to ensure sound business operation. The main role of Audit & Supervisory Committee Members is to oversee performance of duties by the Board of Directors and investigate operations and the financial positions of the Company and of the operating companies. They attend meetings of the Board of Directors and monitor details surrounding management.

The Audit & Supervisory Committee Members, the Audit Office, and the Accounting Auditor meet periodically and exchange information and views on matters including reporting and explanation of their respective audit plans, progress, and results. The Audit & Supervisory Committee Members, the Audit Office, and the Accounting Auditor receive reports from Directors and departments in charge of internal control, and discuss and consider appropriateness of the design of the internal control system.

Reinforcement of whistleblowing system

The Company has established the rules for whistleblowing and adopted a whistleblowing system as part of internal control systems concerning violations of the law and other compliance issues. Following the transition to the holding company structure in October 2015, the Audit Office has thoroughly notified all operating companies of the whistleblowing system and extended its operation.

To ensure operational appropriateness of all the operating companies, manufacturing and processing sites established in recent years are also subject to operational audits, in addition to the headquarters and stores. In accordance with expansion of the store network, the Audit Office has increased the number of stores that were subject to operational audits, and to ascertain whether or not daily operations are being conducted appropriately, the audits are occasionally conducted without prior notice.

Risk management system

The Company has established the basic rules for risk management and manages Company-wide risk of losses in a comprehensive, integrated manner under a clearly defined risk management system. The Audit Office audits risk management statuses when deemed necessary and reports the audit results to the Board of Directors and the Audit & Supervisory Committee.

Business risks

The Company considers that the following matters may have a significant impact on investors' decisions concerning the Company's statuses of operations and accounting.

1. Factors that may have an impact on the Group's financial performance

(1) External environment of the retail business (economic trends, competition, taxation on consumption, climate change, etc.)
(2) Store opening policies (difficulty in securing land or premises satisfying the store opening criteria, regulatory restrictions, etc.)
(3) Food safety (quality incidents such as food poisoning and contamination, erroneous food labeling, etc.)
(4) Entry to new businesses (in the event that anticipated results cannot be achieved because of changes in the external environment, etc.)
(5) Natural disasters, etc.
(6) Interest rate fluctuations
(7) Securing of human resources (difficulty in recruiting human resources and developing them as planned)
(8) Security measures for information systems (in case of troubles beyond the Company's expectation)

2. Regulatory restrictions concerning the Group

(1) Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment (in the event that it is not possible to open new stores or increase the floor space of existing stores as planned)
(2) Leakage of personal information
(3) Other regulatory restrictions

3. Accounting standard for impairment of fixed assets

Human resources development fuels medium- to long-term growth

Based on its Corporate Philosophy of “Creation, Advance & Challenge,” Valor seeks individuals who are ambitious and eager to take up challenges. We are actively recruiting people with expertise in such areas as food production, processing and distribution, in order to establish business models that optimize the entire process from sourcing to retailing, as well as in preparation for expansion of the scope of the supermarket, drugstore, and home improvement center businesses.

Amid drastic changes in the business environment, the Company set a basic policy of a paradigm shift from expanding standardized stores to enhancing the appeal of products in the FY2018-2020 strategic plans. Given our aims of strengthening existing stores centered on the supermarket stores, and of establishing business models that optimize the entire process from sourcing to retailing, there is an increasing demand for product appeal and sales capabilities. We also regard Frontline Performance Development as a priority issue and will focus on personnel development to support medium- to long-term growth.

Basic principle on human resources development

Growing through undertaking “challenges” for ambitious targets

	Until FY2017	From FY2018
Business models	Business process integration and multi-format retailing	
Store development strategy	Quantitative expansion of standardized stores	Transition to a more competitive format with a focus on products
Key issues concerning human resources development	Recruitment of human resources	Frontline performance development
	Promoting diversified human resources	

Recruitment of human resources

Against a backdrop of aging and decline in workforce, finding ways of securing human resources in response to business expansion and diversification of the operational expertise has become an issue. To deal with this issue, although our recruiting interviews were previously conducted in Tajimi, Gifu Prefecture, we added recruitment offices, which enabled recruitment staff to conduct interviews more frequently. In April 2014, we opened the relatively accessible Valor Recruiting Office Meieki in Nagoya, Aichi prefecture. With the opening of the Company’s Nagoya Headquarters in March 2016, we integrated the recruiting office into the Headquarters, and the office is currently shared with the Group companies to conduct interviews.

Human resources development

We aim to strengthen our organizational competencies and improve corporate values by improving frontline capabilities through offering on-the-job training and fostering self-motivating leaders who can identify problems and execute solutions. The Company’s human resources development programs are based on Group-wide training programs plus training on the expertise needed at each operating company. The Group-wide programs consist of position-based programs and programs for next-generation managerial positions. The position-based programs focusing on Corporate Philosophy (DNA) education are mainly designed for those who have just joined the Company or those who have been promoted. Attendees are helped to link philosophy to practice by cultivating an understanding of the Corporate Philosophy advocated by Valor’s founder Yoshimi Ito, and listening to lectures by the current management. The programs for next-generation managerial positions focus on competencies to achieve the organization’s goals while enhancing the motivation of co-workers, with the Corporate Philosophy (DNA) as a base. Outcomes from the programs are shared with all employees at the Group’s annual meeting.

In FY2018, we provided additional training aimed at improving frontline capabilities by holding seminars such as those for acquiring knowledge and sales skills related to fresh foods. We also introduced a human rights training program in which participants learn how employee satisfaction leads to customer satisfaction by appropriately responding to various human rights issues in the workplace and in business activities.

Human resources development program

	FY2017	FY2018
Total number of training participants	2,624	5,585
Number of employees	5,821	6,501

		Contents
Training for next generation managerial positions	●Study tour to the United States ●“Foundation” training ●Female leadership training ●Valor Management School	●Grasping industry trends overseas, meeting the challenges of management ●From philosophy to practice, improving business performance, leadership ●Lectures by female leaders working at other companies, discussion on ideal leadership traits, etc. ●Grasping industry trends, understanding of the three financial statements, investment dicision
Position-based training	●Training for promoted employees ●Training for candidates of store manager promotions ●New employee training	●Philosophy (DNA), human rights, communication, human resources development, meeting the challenges of management, improving business performance, etc. ●Philosophy (DNA), CS, human rights, communication, human resources development, meeting the challenges of management, improving business performance, etc. ●Philosophy (DNA), human rights, basic knowledge of store operations, section study sessions
Product knowledge/ technical training	●Chief training	●Product knowledge/skills acquisition, support for qualification acquisition

Startup of the Human Resources Development Center

The Human Resources Development Center, which started operations in April 2019, is equipped with training rooms for fresh produce and bakery product operations. Together with encouraging product knowledge and skills acquisition. It also houses the Valor Historical Museum and the Company Founder Yoshimi Ito Memorial Gallery, which serve as venues for the philosophy (DNA) training included in the position-based training.

Valor Historical Museum recreates the Company’s first “Shufu-no-Mise”

Learning the attitude of challenge from history

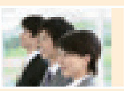
Creating better places to work

The spread of operational areas accompanying the expansion of the Valor Group’s business operations in recent years has created more opportunities for personnel relocation and greater diversity in working conditions. However, from the results of a questionnaire survey of employees and the Group’s self-reporting system, it became clear that certain employees wish to develop their capabilities and improve skills, while they adopt lifestyles combining work with family responsibilities, notably childcare and care for the aged. Therefore, we introduced a work region selection system in July 2017. Under the system, which covers non-managerial employees of Valor Holdings Co., Ltd., Valor Co., Ltd., Home Center Valor Co., Ltd., and Core Support Co., Ltd., each worker selects one of the two categories: National employee, who are willing to work in any region; and Regional employee, who prefer to be based in a particular region. In September 2017, to support employees who wish to combine work with childcare, we opened an on-site nursery school, “Smile Nest Valor Hiromi Nursery School,” on the site of the Kani Office (Kani-shi, Gifu Prefecture) following the relocation of some headquarters functions.

In this way, we have made efforts centered on support policies that reflect diverse values with respect to work styles. In observance of the “Work-Style Reform Bill,” which gradually came into enforcement starting in April 2019, and in order to promote this effort as a Group, we newly introduced business holidays for all Valor Co., Ltd. stores in April 2019. In FY2019, all stores will close for four days during the year. This will apply not just to Valor Co., Ltd., but also to all Group companies involved in manufacturing, distribution, and other functions, creating an environment that will make it easier for employees to have a day off. Prior to implementing this, the Group held a study session aimed at its 500 managers and directed at work-style reform to deepen their understanding of the contents of the law amendment and the Group’s efforts towards work-style reform.

Supporting a diversified workforce in HR system

We support people who are highly motivated and whose experience and backgrounds are diverse. The principal HR systems are as described below.

	Status		FY2017	FY2018
Promoting female workers 	Aside from offering all our employees opportunities to display their personalities and their capabilities, we also aim to enhance the workplace environment where female workers can flourish in their careers. The key initiatives are as follows: 1. Expansion of coaching and trainings for promoting the appointment of women - For better understanding of managers supervising female staff and creation of a better workplace environment 2. Development of potential candidates for managerial positions 3. Improvement of the workplace environment corresponding to the phase of the individual's life and career - Rising awareness about maternity leave, child care leave and family care leave - Creation of workplace environment that facilitates easy return to work	Ratio of female managerial personnel to all managerial personnel (managers or higher) (The number of female managerial personnel/The number of all managerial personnel)	5.3% (23people/433people)	5.3% (23people/437people)
		Number of female workers who took maternity leave or child care leave		
		Maternity leave (Employees/Part-timers)	135 people (56people/79people)	169 people (66people/103people)
		Child care leave (Employees/Part-timers)	140 people (63people/77people)	179 people (71people/108people)
Hiring of the disabled 	We are actively recruiting people with disabilities who wish to work for regular companies and be independent. The Gifu Prefectural Government established a registration system in November 2011 to enable companies to support the employment of people with disabilities in cooperation with schools for learners with special needs. Valor registered in February 2012. In order to facilitate employment of people with disabilities also in other regions and support them so that they can work at Valor for a long time, we intend to promote education and training of our store staff and while facilitating collaborations with regional recruitment centers and the social welfare departments of municipalities.	The rate of hiring people with disabilities	2.30%*	2.20%*
		Contracted by Gifu Prefecture		
		Adviser for people with disabilities seeking jobs	from FY2013 to present	
		Adviser for employment of people with disabilities	from FY2015 to present	
		Member of Gifu Prefecture taskforce for abolition of discrimination against people with disabilities	from FY2015 to present	
Post-retirement reemployment program 	Against the backdrop of population aging, Valor has introduced a post-retirement reemployment program whereby Valor reemploys all the employees who are willing to work after retirement, in principle. Eligible employees may be reemployed after they retire until they reach 65 years old if they wish to do so.	Usage rate of post-retirement reemployment program	90.0%	87.2%
Promotion to full-time employees 	Ten of the twelve key operating companies of the Group have programs to promote part-time workers to full-time employees. Part-time workers have periodic opportunities for promotion to full-time employees. Part-time workers who satisfy the criteria can apply for promotion and, after screening, successful applicants are promoted to full-time employees. In addition, heads of departments can recommend part-time workers as candidates for promotion to full-time employees.	Number of part-time workers promoted to full-time employees	102 people	122 people
Number of Employees 	Following the transition of important issue in human resources development to "Frontline performance development", the Company will further promote initiatives to establish an environment for better places to work including programs for human resources development and supporting diverse human resources. Through such policies, we aim to retain talented human resources in addition to improving productivity and organizational capabilities through developing individual abilities and skills.	Number of employees (Average length of service)	5,821 people (9.1years)	6,501 people (9.0years)
		Female workers (Average length of service)	1,428 people (5.8years)	1,739 people (5.6years)
		Male workers (Average length of service)	4,393 people (10.2years)	4,762 people (10.2years)

Note*: The above figures are based on Valor Holdings Co.,Ltd., Valor Co.,Ltd., Tachiya Co.,Ltd., Shokusenkan-taiyo Co.,Ltd., Kohseiya Co.,Ltd., Sanko Co.,Ltd., Chubu Foods Co.,Ltd., Chubu Yakuhin Co.,Ltd., Home Center Valor Co.,Ltd., AXTOS Co.,Ltd., Chubu Ryutu Co.,Ltd., Chubu Kosan Co.,Ltd. and Core Support Co.,Ltd..
*In FY2016, we started group reporting of the rate of hiring people with disabilities for operating companies, of which voting rights are directly held by the Company.

Environmental Policy

We recognize that reducing the environmental impacts of our business activities is an important task. And for us to achieve reductions, we identified issues that need to be addressed and tackle them in cooperation with local communities.

Issues to be tackled

1. Greenhouse gas emissions control
2. Development of renewable energy
3. Reduction and recycling of food waste
4. Reduction of waste and recycling encouragement

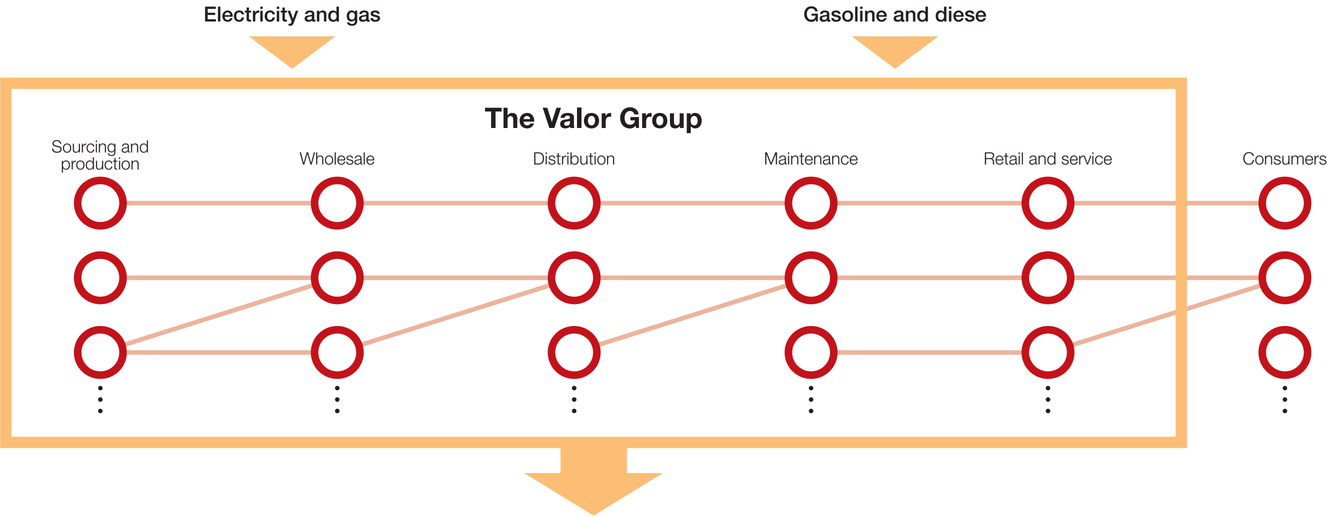
Recognizing challenges in the supply chain

The Group mainly belongs to the food distribution industry, and we view the reduction of food waste as a particularly important issue. Operating companies involved in food distribution work to reduce food waste by manufacturing, producing, and selling products based on a plan (see page7).

In addition, we have positioned the reduction of greenhouse gas emissions as an important issue, and are working to curb them. The Group has manufacturing and processing bases, distribution centers, stores such as supermarkets, drugstores, and home improvement centers, and each location is connected by delivery trucks. In order to curb greenhouse gas emissions associated with delivery, we are working to improve distribution routes and frequency of deliveries, as well as encouraging consolidation between different business categories and joint deliveries with other companies. In addition, we use small-lot container boxes for delivery to reduce the number of cardboard boxes used and improve loading efficiency.

Private label products are sold domestically and internationally through V-Solution Co., Ltd., which supervises the products. When we deliver private label products to such places as the Tohoku or Kyushu regions, we make an effort to transport them using freight rather than trucks. With the modal shift in mind, we will continue to study methods of shipping with less greenhouse gas emissions.

Greenhouse gas emissions in the supply chain



Greenhouse gas emissions 200,904 t-CO_2 (down 20,589 t-CO_2 compared with FY2017)

Note: Calculation covers Valor Holdings Co., Ltd., Valor Co., Ltd., and Home Center Valor Co., Ltd.
For fuel, calculation covers all delivery vehicles including those owned by and chartered by Chubu Kosan Co., Ltd. The amount of gasoline consumption also includes company-owned vehicles of the Group companies.

Development of renewable energy

The Kyoto Protocol was adopted in 1997, and the Paris Agreement was agreed at the United Nations Framework Convention on Climate Change in 2015 (COP 21), making global warming an international issue. The Group is also working to create renewable energy to reduce the environmental impacts. Following Valor Co., Ltd., Chubu Yakuhin Co., Ltd. also began these efforts in FY2018. In addition to reducing greenhouse gas emissions, the Company is encouraging energy-generating activities.

FY2018 results : installation of solar panels: 75 locations*,
total wattage generated: 4,515kW*
FY2020 target : total wattage generated by renewable energy sources: 15,000kW*

Note: Calculation covers Valor Holdings Co., Ltd., Valor Co., Ltd., Home Center Valor Co., Ltd., and Chubu Yakuhin Co., Ltd.
*Cumulative figures from FY2017

Activity Highlights

Results of the major management items for the year under review will be the basis for performance indicators for the next year and subsequent years.

We pursue initiatives in order to contribute to the environment, society and our customers.

Environmental Performance

	Management items	Specific initiatives	FY2017 results	FY2018 targets	FY2018 results	Evaluation	Causes and Effects	FY2019 targets
Reduction of greenhouse gas emission	Development of power consumption	●Demand management ●Management of air-conditioning temperature ●Turning off of unnecessary lighting ●Introduction of highly efficient facilities and equipment	495.0 [kWh/m²]	494.0 [kWh/m²]	468.6 [kWh/m²]	○	Introduced energy-management system. We will encourage energy management by store managers.	465.0 [kWh/m²]
	Energy-saving deliveries	Store deliveries ●Encouragement of idling stop practice ●Instructions and education for energy-saving driving	Compared with the previous year ●Driving distance: 119% ●Amount of fuel used: 124% ●Fuel economy improved: 100%	Fuel economy improved 100% YoY	Compared with the previous year ●Driving distance: 105% ●Amount of fuel used: 101% ●Fuel economy improved: 104%	○	Due to store openings, driving distance and fuel consumption increased, but fuel economy improved. We will continue to aim to improve delivery efficiency.	Fuel economy improved 100% YoY
	Reduction of specified CFCs emissions	●Replacement of refrigerators and air-conditioners ●Regular facility inspections	Stores covered: 2	Stores covered: 60	Stores covered: 14 *(Stores with all units replaced)	×	Continued replacement and regular facility inspections	Stores covered: 10
Development of renewable energy	Development of energy	●Installation of solar panels	●Total wattage generated: 950kW ●Business premises covered: 5	Business premises covered: 15	●Total wattage generated: 3,352kW ●Business premises covered: 19	○	We will steadily install solar panels at stores where they are installable, taking the durability of the panels into consideration.	Business premises covered: 15
Reduction and recycling of food waste	Reduction of food waste	●Implementation of planned ordering and production ●Store shelf management ●Review of product lineups in evenings and volume adjustment	59.0 [kg/million yen]	58.0 [kg/million yen] (99% YoY)	50.1 [kg/million yen] (85% YoY)	○	Amount of food waste decreased significantly compared with the previous year thanks to planned production, and store shelf management. We will continue to strive for zero waste.	49.0 [kg/million yen] (98% YoY)
	Recycling encouragement of food waste	●Reduction of disposing products ●Expansion of stores to conduct recycling ●Expansion of the scope of recyclable products	●Recycling rate: 53.5% ●Number of stores conducting recycling: 242	●Recycling rate: 53.8% ●Number of stores conducting recycling: 247	●Recycling rate: 50.9% ●Number of stores conducting recycling: 240	×	Although the content of recycling increased, the amount of recycling and the businesses recycling decreased due to the closure of shops, etc. We will strive to improve the recycling rate.	●Recycling rate: 53.0% ●Number of stores conducting recycling: 242
Reduction of waste	Reduction of waste plastics	●Charging for plastic bags	Proportion of customers avoiding use of plastic bags: 85.3% (All stores of Valor Co., Ltd.)	Proportion of customers avoiding use of plastic bags: 86% (All stores of Valor Co., Ltd.)	Proportion of customers avoiding use of plastic bags: 85.1% (All stores of Valor Co., Ltd.)	×	Each store will continue to encourge "My Bag."	●Reduction of plastic products ●Consideration of alternatives
Recycling encouragement	Recycling encouragement of used paper	●Sorting and storage of used paper at designated places ●More stores to recycle used paper	●Number of stores recycling used paper: 121 ●Recycling volume: 364,620 kg (371% YoY)	●Number of stores recycling used paper: 127 ●Recycling volume: 380,000 kg (104% YoY)	●Number of stores recycling used paper: 150 ●Recycling volume: 711,461 kg (195% YoY)	○	We expanded the number of stores covered. Looking ahead, we will ensure rigorous garbage-sorting and expand the number of stores covered.	●Recycling encouragement ●Sorting reinforcement
	Recycling encouragement of containers and packaging	●Installation of more recycling boxes ●Expansion of the scope of recyclable items	Number of stores with installation of recycling boxes ●Milk cartons: 243 ●Aluminum/steel cans: 255 ●Plastic food trays: 238 ●PET bottles: 222	Increase in the number of stores with installation of recycling boxes	Number of stores with installation of recycling boxes ●Milk cartons: 240 ●Aluminum/steel cans: 250 ●Plastic food trays: 240 ●PET bottles: 225	○	We strove for expansion of the number of recycling bases and garbage-sorting. We will further increase recycling bases.	●Recycling encouragement

Note: Calculation covers Valor Co., Ltd. and Home Center Valor Co., Ltd. *Rate of power consumption to sales floor space (Units)

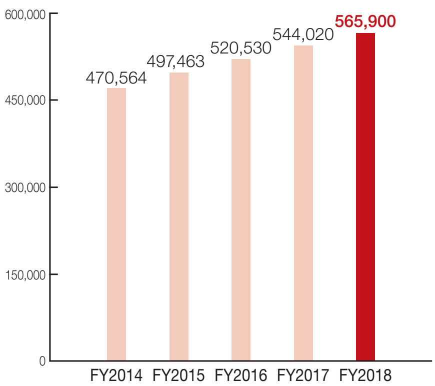
** Rate of food waste generated to net sales of Valor Co., Ltd. (Units)

11-year Summary of Financial Results

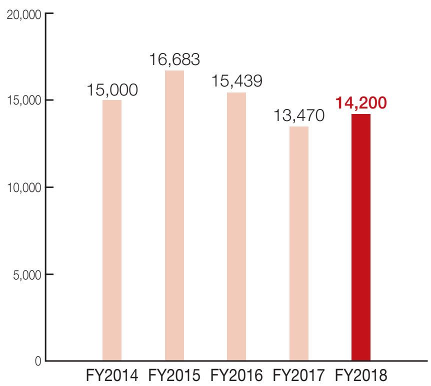
Valor Holdings Co.,Ltd. and its consolidated subsidiaries for the financial year ended March 31.

	FY2008	FY2009	FY2010	FY2011
For the year:				
Revenues from operations	336,342	344,900	379,172	410,577
Operating income	9,795	9,452	12,347	15,236
Ordinary income	10,186	9,916	12,817	16,020
Net income	3,387	3,945	4,232	7,149
At year-end:				
Total assets	170,328	176,440	190,065	199,774
Net assets	55,354	58,578	61,821	68,134
Net assets (excl. subscription rights to shares and non-controlling interests)	54,560	57,760	60,998	67,243
Interest-bearing debt	69,631	69,107	69,746	69,383
Cash Flows:				
Cash flows from operating activities	11,408	16,004	20,324	19,190
Cash flows from investing activities	(15,929)	(10,453)	(14,428)	(17,793)
Free cash flows	(4,520)	5,550	5,895	1,397
Cash flows from financial activities	6,150	(5,291)	(1,608)	(2,283)
Cash and cash equivalents at the end of fiscal year	9,000	9,259	13,547	12,676
Capital Expenditures:				
Capital expenditures (based on payment)	16,988	11,537	15,245	17,859
Breakdown of expenditures:				
for new store openings	13,072	8,267	8,995	11,230
for refurbishing existing stores	2,562	2,663	5,007	4,114
for others	1,354	607	1,243	2,515
Depreciation and amortization (CF)	8,081	8,399	9,017	9,612
Per Share data:				
Net assets per share (BPS) (yen)	1,071.19	1,134.05	1,197.67	1,320.33
Net income per share (EPS) (yen)	65.57	77.46	83.10	140.38
Cash dividends per share (yen)	20	20	22	26
Dividend payout ratio	30.5%	25.8%	26.5%	18.5%
Financial indicators:				
Return on total assets (ROA)	6.1%	5.7%	7.0%	8.2%
Return on equity (ROE)	6.3%	7.0%	7.1%	11.2%
Shareholders' equity ratio	32.0%	32.7%	32.1%	33.7%
Debt equity ratio (times)	1.3	1.2	1.1	1.0

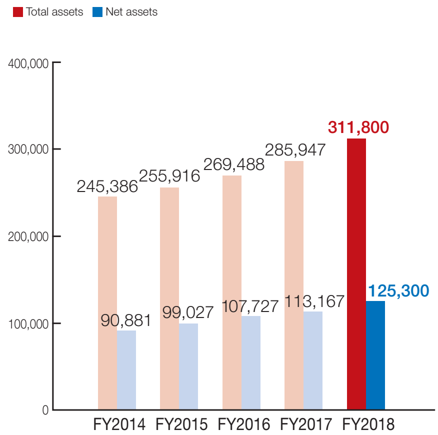
Revenues from operations (millions of yen)



Operating income (millions of yen)



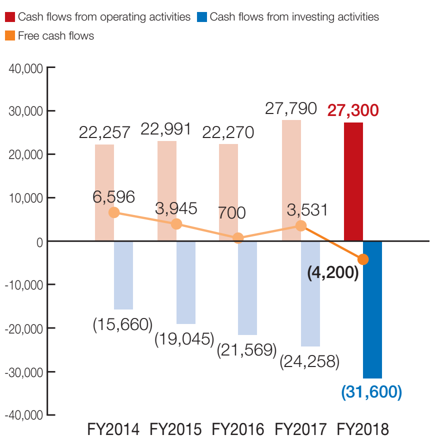
Total assets / Net assets (millions of yen)



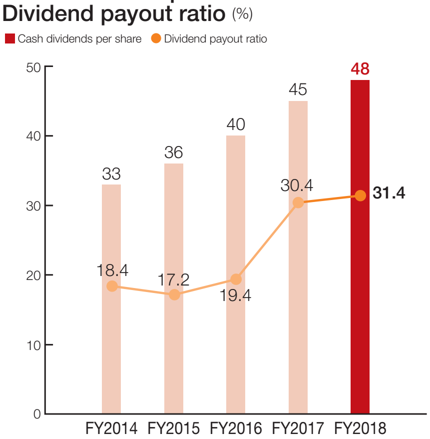
(Millions of yen)

FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
431,218	454,180	470,564	497,463	520,530	544,020	565,931
15,852	14,287	15,000	16,683	15,439	13,470	14,210
16,844	15,311	16,108	17,586	16,762	14,937	16,091
8,184	9,162	9,214	10,759	10,522	7,570	7,910
213,629	235,131	245,386	255,916	269,488	285,905	311,813
75,466	82,949	90,881	99,027	107,727	113,167	125,395
74,887	82,395	90,301	98,408	107,057	112,365	124,599
75,679	87,265	86,880	84,952	87,231	88,821	96,717
21,139	19,198	22,257	22,991	22,270	27,790	27,369
(20,961)	(23,746)	(15,660)	(19,045)	(21,569)	(24,258)	(31,621)
177	(4,547)	6,596	3,945	700	3,531	(4,252)
2,914	5,983	(3,745)	(6,758)	(3,168)	(3,223)	7,302
15,764	17,055	19,960	17,103	14,659	14,938	17,938
22,101	25,226	20,225	20,041	24,441	27,576	26,878
14,414	12,851	12,763	11,628	15,144	14,394	14,903
1,788	2,306	2,237	3,650	7,709	9,850	9,451
5,899	10,069	5,225	4,763	1,587	3,332	2,524
10,255	11,090	12,168	12,683	13,125	13,952	15,163
1,454.43	1,600.25	1,751.57	1,925.45	2,093.74	2,196.89	2,320.53
159.56	177.95	178.91	208.87	205.83	148.04	153.06
29	31	33	36	40	45	48
18.2%	17.4%	18.4%	17.2%	19.4%	30.4%	31.4%
8.1%	6.8%	6.7%	7.0%	6.4%	5.4%	5.4%
11.5%	11.7%	10.7%	11.4%	10.2%	6.9%	6.7%
35.1%	35.0%	36.8%	38.5%	39.7%	39.3%	40.0%
1.0	1.1	1.0	0.9	0.8	0.8	0.8

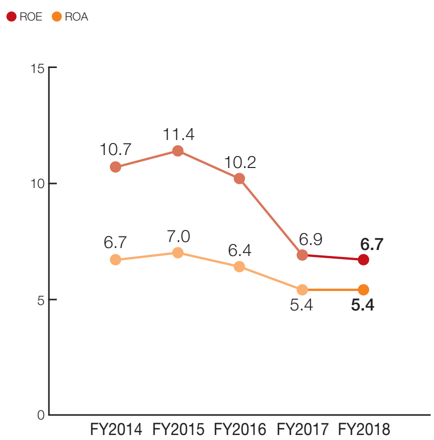
Cash Flows (millions of yen)



Cash dividends per share (yen)
Dividend payout ratio (%)



ROE·ROA (%)



Financial Information

Summary of consolidated results and financial conditions

Launching the three-year strategic plans based on "a paradigm shift from expanding standardized stores to enhancing the appeal of products," the Valor Group has focused on conversion to a competitive format in its three main businesses of supermarkets, drugstores, and home improvement centers The Group's supermarket and home improvement center businesses, where refurbishment of existing stores is advancing, improved gross profit ratio, mainly in the reinforcement division, and the drugstore business, which maintained strong sales, reduced its expense ratio. These factors contributed to the improvement in consolidated results. In addition, the Group accelerated the opening of fitness gyms in the sports club business to establish new vectors of growth.

Consolidated operating results for FY2018 were revenues from operations of ¥565,931 million, an increase of 4.0% year on year; operating income of ¥14,210 million, an increase of 5.5%; ordinary income of ¥16,091 million, an increase of 7.7%; and profit attributable to owners of parent of ¥7,910 million, an increase of 4.5%. Although revenues from operations increased for the 24th consecutive year, operating income and income items below that increased for the first time in three years.

The breakdown of the increase in revenues (¥21,910 million) was ¥9,831 million for the drugstore business, ¥7,350 million for the supermarket business. In the drugstore business, the growth rate of existing stores was strong at 3.8%, and high pace of new store openings also contributed. In the supermarket business, stores opened in FY2017 and FY2018 and Futabaya Co., Ltd., which became a subsidiary in August 2018 and Sanko Co., Ltd., which became a subsidiary in February 2019, contributed to higher revenues.

The breakdown of the increase in earnings of major segments (¥739 million) was ¥956 million for the drugstore business, ¥915 million for the supermarket business, and ¥466 million for the home improvement center business. This indicates an improvement in profitability in the three main businesses. However, based on the accounting standard for impairment on noncurrent assets, impairment loss on noncurrent assets of ¥2,707 million was recorded as extraordinary loss, and the profit attributable to owners of parent was less than the planned figure.

The gross profit ratio improved 0.1% from the previous year and the expense ratio decreased 0.1%. As a result, the ratio of ordinary income to revenues from operations improved from 2.7% for the previous year to 2.8%. However, the total asset turnover rate deteriorated from 2.0 times for the previous year to 1.9 times, ROA was the same as the previous year at 5.4%, and ROE also deteriorated from 6.9% for the previous year to 6.7%. The debt-equity ratio was same as the previous fiscal year at 0.8 times, maintaining its safety level.

Financial position

Total assets increased ¥25,908 million from the end of the previous year to ¥311,813 million. The main factors were an increase of ¥1,002 million in inventories because of new store openings and an increase of ¥11,361 million in property, plant and equipment mainly due to capital expenditure, and an increase of ¥ 6,894 million in investment securities mainly as a result of a capital and business partnershps with Arcs Group Co., Ltd., Limited and Retail Partners Co., Ltd.

Total liabilities increased ¥13,679 million from the end of the previous year to ¥186,417 million, mainly due to an increase of ¥2,854 million in notes and accounts payable-trade, and an increase of ¥7,663 million in loans payable. Net assets excluding non-controlling interests and subscription rights to shares increased ¥12,234 million from the end of the previous year to ¥124,599 million, and the shareholders' equity ratio was 40.0%.

Cash flows

Cash and cash equivalents at March 31, 2019, were ¥17,938 million, an increase of 20.1% year on year. Free cash flow (cash flow from operating activities minus cash flow from investing activities) was negative at ¥4,252 million, and cash flow from financing activities was positive at ¥7,302 million.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥27,369 million, having decreased ¥420 million compared with the previous year (a decrease of 1.5% year on year). This was mainly attributable to income before income taxes amounting to ¥12,922 million, and depreciation and amortization amounting to ¥15,163 million, despite an increase in inventories amounting to ¥626 million, a decrease in accounts payable-other and accrued expenses amounting to ¥1,100 million, and income taxes paid amounting to ¥5,041 million.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥31,621 million, having increased ¥7,363 million compared with the previous year (an increase of 30.4% year on year). The main factors were purchase of property, plant and equipment amounting to ¥22,844 million for new store openings and refurbishment, purchase of investment securities amounting to ¥6,502 million, and payments for guarantee deposits amounting to ¥1,132 million, despite proceeds from collection of guarantee deposits amounting to ¥1,152 million.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥7,302 million, having increased ¥10,526 million compared with the previous year (the previous year being minus ¥3,223 million). The main factors were proceeds from long-term debt amounting to ¥17,375 million, the proceeds from issuance of shares amounting to ¥3,386 million, and proceeds from sales of treasury stock amounting to ¥3,085 million, despite repayments of long-term loans payable amounting to ¥14,637 million and repayments of finance lease obligations amounting to ¥1,888 million, and cash dividends paid amounting to ¥2,356 million.

Policy on Profit Distribution and Dividends for FY2018

The Company's basic policy is to ensure stable and continuous returns of profit to shareholders while increasing the internal reserves to strengthen its corporate structure in preparation for stable business development over the long term. In accordance with this policy, our medium- to long-term target is to achieve a consolidated payout ratio of 25%.

In view of the performance in FY2018, the Company increased the year-end dividend by ¥2, compared with the previous year to ¥26 per share. Combined with the interim dividend of ¥22 per share, this resulted in total annual dividends for FY2018 of ¥48 per share, ¥3 higher than for the previous year. The payout ratio was 31.4%.

Forecasts for FY2019

Factors that prevent the food distribution industry, to which the Valor Group mainly belongs, from being able to escape from low profitability, include the excessive number of companies, overproduction in the manufacturing industry and excessive number of stores. With the decline in consumption and working population due to the declining birth rate and aging population, productivity improvement is progressing by reorganizing companies and narrowing down of products, and excessive number of companies and overproduction are expected to be resolved eventually, but the situation of an excessive number of stores, is expected to continue for the foreseeable future. Under such circumstances, in line with the basic policy of "a paradigm shift from expanding standardized stores to enhancing the appeal of products" of the FY2018-2020 strategic plans ending in FY2020, the Valor Group will work to improve earnings by transitioning to a more competitive format with a focus on products in our three main businesses of supermarkets, drugstores and home improvement centers. In addition, as a result of the integration of the home improvement center business by implementing a share exchange between Home Center Valor Co., Ltd. and Alleanza Holdings Co., Ltd., with April 1, 2019 as the effective date, changes are expected in segment earnings and asset composition in FY2019. The Group will therefore also take measures to improve asset efficiency in addition to creating synergies.

With regard to capital expenditure, we plan to refurbish 20 to 30 supermarkets and drugstores and will continue to focus on investing in existing stores. With regard to new store investment, we plan to open a total of 130 stores, including six supermarkets, 30 drugstores, and three home improvement centers (including specialized formats), 80 sports clubs, eight pet shops and three other stores, focusing on the drugstore business, which plays a key role as a driver of growth, and the sports club business, where we will accelerate the opening of fitness gyms as a new vector of growth. In addition, a total of 192 stores, including the newly consolidated Alleanza Holdings Co., Ltd.'s 110 home improvement center stores (including specialty business stores), 79 pet shops, and three other stores, will be added to the Group's store network.

Based on the above assumptions, forecasts for consolidated financial performance for FY2019 are as follows: revenues from operations of ¥660.0 billion, an increase of 16.6% year on year; operating income of ¥16.6 billion, an increase of 16.8%; ordinary income of ¥18.3 billion, an increase of 13.7%; and profit attributable to owners of parent of ¥9.0 billion, an increase of 13.8%.

In accordance with the quantitative target revision of the FY2018-2020 strategic plans, a part of the financial policy has been revised as follows.

Financial policy in the FY2018-2020 strategic plans

Generation of cash flow		At least ¥90.0 billion in the three years from FY2018 (cumulative)
Profit distribution	**1) Capital expenditure**	Target of ¥25.0-26.0 billion a year in capital expenditure (allocate 30-40% for investments in existing outlets) Refurbishment: 30-40 supermarkets and drugstores per year New openings: At least 200 fitness gyms (over the three years, including franchise operation)
	2) Dividend	Stable and continuous returns of profit, with a dividend payout ratio target of 25%
Financial commitment		Debt equity ratio of 0.8 times and shareholders' equity ratio of 40%.

Financial Information

Consolidated Financial Statements (Summary)

Valor Holdings Co.,Ltd. and Subsidiaries
The financial year ended March 31, 2018 and 2019

Consolidated Balance Sheet

(Millions of yen)

	FY2017	FY2018
(Assets)		
Current assets		
Cash and deposits	15,178	18,494
Notes and accounts receivable-trade	8,333	8,453
Merchandise and finished goods	35,216	36,148
Raw materials and supplies	720	790
Other	11,099	12,199
Allowance for doubtful accounts	(6)	(89)
Total current assets	70,541	75,995
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	214,437	229,436
Accumulated depreciation	(109,523)	(119,257)
Buildings and structures, net	104,914	110,179
Machinery, equipment and vehicles	8,043	8,696
Accumulated depreciation	(5,376)	(6,127)
Machinery, equipment and vehicles, net	2,666	2,569
Land	39,429	44,382
Lease assets	16,295	17,926
Accumulated depreciation	(8,430)	(10,284)
Lease assets, net	7,865	7,641
Construction in progress	2,883	3,755
Other	33,852	37,320
Accumulated depreciation	(25,990)	(28,865)
Other, net	7,862	8,454
Total property, plant and equipment	165,621	176,983
Intangible assets		
Goodwill	747	1,198
Lease assets	5	0
Other	8,524	8,547
Total intangible assets	9,278	9,746
Investments and other assets		
Investment securities	2,076	8,953
Long-term loans receivable	898	973
Deferred tax assets	7,160	7,972
Guarantee deposits	27,176	27,451
Other	3,423	3,963
Allowance for doubtful accounts	(273)	(227)
Total investments and other assets	40,463	49,086
Total noncurrent assets	215,363	235,817
Total assets	285,905	311,813

(Millions of yen)

	FY2017	FY2018
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	38,596	41,564
Short-term loans payable	17,123	20,547
Current portion of bonds	30	20
Current portion of long-term loans payable	13,488	13,013
Lease obligations	1,681	1,872
Income taxes payable	2,491	3,445
Provision for bonuses	2,694	2,794
Provision for directors' bonuses	126	130
Provision for point card certificates	933	885
Provision for loss on recollection of gift certificates	235	272
Asset Retirement Obligations	64	110
Provision for loss on store closing	—	285
Other	19,612	19,340
Total current liabilities	97,079	104,283
Noncurrent liabilities		
Bonds payable	10,030	10,010
Long-term loans payable	36,572	41,288
Lease obligations	9,894	9,965
Deferred tax liabilities	76	205
Provision for directors' retirement benefits	440	500
Provision for retirement benefits	3,515	3,884
Asset retirement obligations	8,336	9,396
Long-term deposits received	6,143	6,199
Other	647	684
Total noncurrent liabilities	75,658	82,134
Total liabilities	172,737	186,417
(Net assets)		
Shareholders' equity		
Capital stock	11,916	13,609
Capital surplus	12,799	15,543
Retained earnings	89,898	95,468
Treasury stock	(2,608)	(566)
Total shareholders' equity	112,005	124,054
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	323	421
Deferred gains (loss) on hedges	(2)	0
Foreign currency translation adjustment	129	155
Remeasurements of defined benefits plan	(90)	(33)
Total accumulated other comprehensive income	359	544
Subscription rights to shares	113	101
Minority interests	688	693
Total net assets	113,167	125,395
Total liabilities and assets	285,905	311,813

Consolidated Statement of Income

(Millions of yen)

	FY2017	FY2018
Net sales	524,313	546,264
Cost of sales	394,399	410,407
Gross profit	129,913	135,856
Operating revenues	19,707	19,666
Operating gross profit	149,621	155,523
Selling, general and administrative expenses		
Advertising expenses	7,055	6,296
Packaging expenses	112	112
Supplies expenses	942	768
Distribution expenses	416	932
Provision for point card certificates	2,573	3,075
Provision of allowance for doubtful accounts	3	2
Directors’ remuneration	445	494
Salaries and wages	52,036	53,693
Bonuses	4,064	4,237
Provision for bonuses	2,516	2,166
Provision for directors’ bonuses	126	557
Retirement benefit expenses	670	690
Provision for directors’ retirement benefits	43	32
Welfare expenses	8,194	8,757
Utilities expenses	8,326	8,742
Rent expenses	22,695	23,522
Repair and maintenance	2,981	2,905
Depreciation	12,474	12,896
Amortization of goodwill	181	232
Other	10,289	11,194
Total selling, general and administrative expenses	136,150	141,313
Operating income	13,470	14,210
Non-operating income		
Interest income	114	108
Dividend income	20	97
Office work fee	990	1,034
Rent income	680	769
Investment gain on equity method	—	32
Other	1,205	1,451
Total non-operating incomes	3,010	3,492
Non-operating expenses		
Interest expenses	693	686
Rent cost of real estate	524	612
Other	326	312
Total non-operating expense	1,543	1,611
Ordinary income	14,937	16,091
Extraordinary income		
Subsidy income	193	179
Other	308	155
Total extraordinary income	502	334
Extraordinary loss		
Loss on sales of noncurrent assets	0	5
Loss on retirement of noncurrent assets	150	106
Impairment loss	2,943	2,707
Loss on reduction of noncurrent assets	169	144
Loss on valuation of investment securities	56	0
Provision of allowance for doubtful accounts	60	—
Other	229	538
Total extraordinary loss	3,610	3,503
Income before income taxes	11,829	12,922
Income taxes-current	5,312	5,700
Income taxes-deferred	(1,087)	(744)
Total income taxes	4,225	4,956
Net income	7,604	7,966
Profit (loss) attributable to non-controlling interests	33	56
Profit attributable to owners of parent	7,570	7,910

Valor Holdings Co.,Ltd. and Subsidiaries
(Fiscal years ended March 31, 2018 and 2019)

Consolidated Statements of Cash Flows

(Millions of yen)

	FY2017	FY2018
Cash flows from operating activities		
Income before income taxes	11,829	12,922
Depreciation and amortization	13,952	15,163
Impairment loss	2,943	2,218
Amortization of goodwill	181	232
Gain on bargain purchase	—	(27)
Increase (decrease) in allowance for doubtful accounts	47	40
Increase (decrease) in defined benefit liabilities	290	297
Increase (decrease) in provision for directors' retirement benefits	(538)	(39)
Increase (decrease) in provision for point card certificates	285	(141)
Interest and dividends income paid	(134)	(205)
Interest expenses received	693	686
Loss on retirement of noncurrent assets	150	106
Loss on reduction of noncurrent assets	169	144
Loss (gain) on valuation of investment securities	56	0
Equity in losses (earnings) of affiliates	91	(32)
Subsidy income	(193)	(31)
Decrease (increase) in notes and accounts receivable-trade	(883)	(49)
Decrease (increase) in inventories	(1,273)	(626)
Increase (decrease) in notes and accounts payable-trade	1,712	2,305
Increase (decrease) in accrued consumption taxes	(91)	826
Increase (decrease) in accounts payable-other and accrued expenses	4,177	(1,100)
Other	889	279
Subtotal	34,357	32,971
Interest and dividends income received	34	112
Interest expenses paid	(680)	(673)
Income taxes paid	(5,920)	(5,041)
Net cash provided by operating activities	27,790	27,369
Cash flows from investing activities		
Payments into time deposits	(109)	(179)
Proceeds from withdrawal of time deposits	107	286
Purchase of property, plant and equipment	(21,447)	(22,844)
Proceeds from sales of property, plant and equipment	187	120
Purchase of intangible assets	(1,593)	(762)
Purchase of investment securities	(1)	(6,502)
Proceeds from sales of investment securities	177	100
Payments of loans receivable	(112)	(151)
Proceeds from collection of loans receivable	1	106
Payments for guarantee deposits	(2,092)	(1,132)
Proceeds from collection of guarantee deposits	872	1,152
Proceeds from guarantee deposits received	599	385
Repayments of guarantee deposits received	(387)	(454)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(211)	(1,354)
Subsidy income	193	31
Other	(443)	(424)
Net cash provided by investing activities	(24,258)	(31,621)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(76)	2,402
Proceeds from long-term loans payable	19,897	17,375
Repayments of long-term loans payable	(19,282)	(14,637)
Redemption of bonds	(40)	(30)
Repayments of finance lease obligations	(1,692)	(1,888)
Proceeds from issuance of common stock	—	3,386
Proceeds from payment of non-controlling shareholders	60	12
Proceeds from sales of treasury stock	248	3,085
Purchase of treasury stock	(223)	(0)
Proceeds from sales of investments in subsidiaries resulting in no change in scope of consolidation	34	—
Cash dividends paid	(2,149)	(2,356)
Dividends paid to non-controlling shareholders	—	(1)
Other	—	(45)
Net cash provided by financing activities	(3,223)	7,302
Effect of exchange rate change on cash and cash equivalents	(28)	(50)
Net increase (decrease)in cash and cash equivalents	278	2,999
Cash and cash equivalents at beginning of period	14,659	14,938
Cash and cash equivalents at end of period	14,938	17,938

Consolidated Statements of Changes in Net Assets

FY2017

(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 shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains (loss) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefits plan	Total accumulated other comprehensive income			
Balance, March 31, 2016	11,916	12,722	84,442	(2,558)	106,522	364	—	139	30	534	96	573	107,727
Changes of items during the period													
Equity transaction with noncontrolling interests		1			1								1
Dividends from surplus			(2,159)		(2,159)								(2,159)
Net income			7,570		7,570								7,570
Purchase of treasury stock				(223)	(223)								(223)
Disposal of treasury stock		75		173	248								248
Increase in retained earnings by decreasing companies accounted for using the equity method			45		45								45
Net changes of items during the period						(41)	(2)	(9)	(121)	(175)	16	115	(43)
Total changes of items during the period	—	77	5,456	(50)	5,482	(41)	(2)	(9)	(121)	(175)	16	115	5,439
Balance, March 31, 2017	11,916	12,799	89,898	(2,608)	112,005	323	(2)	129	(90)	359	113	688	113,167

FY2018

(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 shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains (loss) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefits plan	Total accumulated other comprehensive income			
Balance, March 31, 2017	11,916	12,799	89,898	(2,608)	112,005	323	(2)	129	(90)	359	113	688	113,167
Changes of items during the period													
Issuance of common stock	1,693	1,693			3,386								3,386
Dividends from surplus			(2,357)		(2,357)								(2,357)
Net income			7,910		7,910								7,910
Purchase of treasury stock				(0)	(0)								(0)
Disposal of treasury stock		1,051		2,042	3,093								3,093
Increase in retained earnings by decreasing companies accounted for using the equity method			17		17								17
Net changes of items during the period						97	2	26	57	184	(11)	5	178
Total changes of items during the period	1,693	2,744	5,569	2,042	12,049	97	2	26	57	184	(11)	5	12,228
Balance, March 31, 2018	13,609	15,543	95,468	(566)	124,054	421	0	155	(33)	544	101	693	125,395

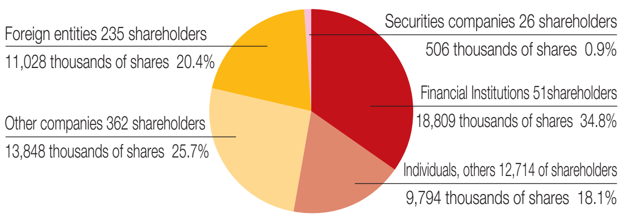
Corporate Data

Name	Valor Holdings Co., Ltd.
	(Changed from Valor Co., Ltd. in 1 October, 2015)
Registered head office	180-1 Oi-cho, Ena-shi, Gifu 509-7201 Japan
Headquarters	661-1 Ohari-cho, Tajimi-shi, Gifu 507-0062 Japan
Established	July 1958
Representative	Masami Tashiro Chairman & CEO
Paid-in-capital	¥13,609 million

Share Information

Number of authorized shares	200,000,000
Number of outstanding shares	53,987,499
Number of shareholders	13,388
Stock exchange listings	Tokyo Stock Exchange, first section
	Nagoya Stock Exchange, first section

Distribution of shareholders by Type



Major Shareholders

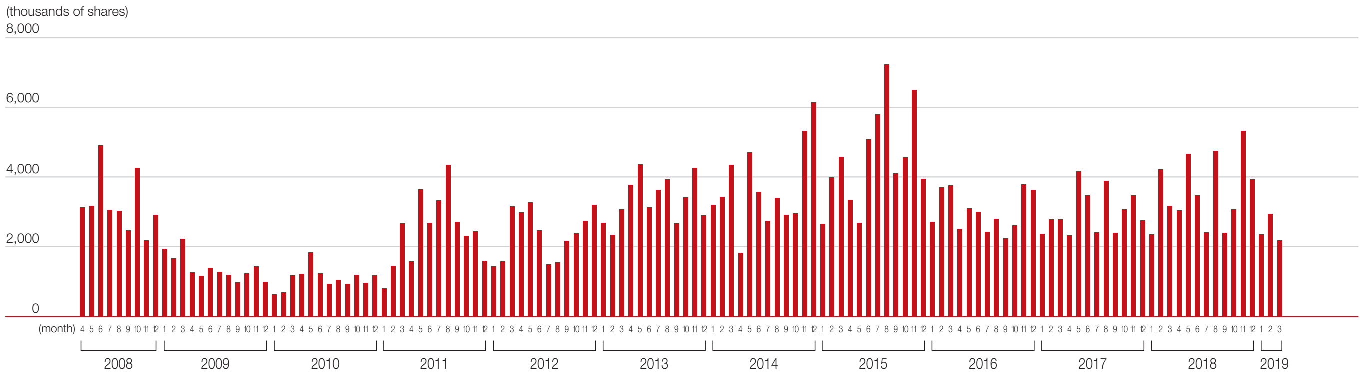
Shareholder	Number of Shares Held (Thousands)	Percentage of* Shares Held
Ito Youth Scholarship Foundation	2,910	5.41%
Japan Trustees Services Bank, Ltd.(Trust Account)	2,745	5.10%
The Norinchukin Bank	2,542	4.72%
The Juroku Bank	2,536	4.71%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,255	4.19%
Masami Tashiro	1,554	2.89%
Shiunsha Co.,Ltd.	1,326	2.46%
Retail Partners Co.,Ltd.	1,260	2.34%
Arcs Group Co.,Ltd.	1,260	2.34%
MUFJ Bank, Ltd.	1,223	2.27%

Notes: Shareholders are listed by shareholder number if they hold the same number of shares.
*The percentages of total outstanding shares excluding treasury stock are displayed by rounding down after the three decimal points.

Stock price and trading volume

Stock price (closing price after adjustment)

Volume



Note: The Company conducted a 1.2-for-1 stock split on September 27, 2005 and a 2-for-1 stock split on March 28, 2006. The stock prices are retrospectively adjusted to reflect the aforementioned stock splits.

Valor Group

Segment	Subsidiaries	
Supermarkets	Valor Co.,Ltd. Tachiya Co., Ltd. Shokusenkan-Taiyo Co.,Ltd. Kohseiya Co.,Ltd. Futabaya Co.,Ltd. Sanko Co.,Ltd. Chubu Foods Co., Ltd. Daien Foods Co., Ltd. Honda Suisan Co., Ltd. Ishinomaki Foods Co.,Ltd.	Furuya Sangyo Co., Ltd. Keirinkaku Co., Ltd. Shufu-no-Mise Shoji Chubu Honsha Co.,Ltd. Fukui Chuo Tsukemono Co., Ltd. V-Solution Co., Ltd. Chubu Meat Co., Ltd. Hida-Osaka Buna-Shimeji Co., Ltd. Chubu Agri Co.,Ltd. VARO Co., Ltd.
Drugstores	Chubu Yakuhin Co., Ltd. V-drug International Co., Ltd.	V-drug Hong Kong Co., Ltd.
Home Improvement Centers	Home Center Valor Co., Ltd. Morosada Agri Co., Ltd.	FIRST Co., Ltd.
Sports Clubs	AXTOS Co., Ltd.	
Distribution-related operations	Chubu Ryutu Co., Ltd. Chubu Kosan Co., Ltd. MENTEX Co., Ltd. Seiso Co., Ltd.	V-Flower Co., Ltd. Shanghai Valor co., Ltd. Japan Clean Services LLC
Others	Home Center Valor Co., Ltd.* Gito Family Department Co., Ltd. Chubu Hoken Service Co., Ltd. Core Support Co., Ltd.	Core Support Vietnam Co.,Ltd. Valor Max Co., Ltd. Valor Agency Co., Ltd.

Note: *Pet Shop Business

History

1958	Established Shufu-no-Mise Co., Ltd. in Ena-shi, Gifu and opened the first supermarket.
1969	Established Chubu Kosan Co., Ltd., a logistics subsidiary.
1970	Changed the company name to Shufu-no-Mise Valor Co., Ltd.
1974	Changed the company name to Valor Co., Ltd.
1977	Relocated the headquarters from Ena- shi to Tajimi- shi, Gifu.
1984	Established Chubu Yakuhin Co., Ltd., a drugstore subsidiary.
1985	Established Chubu Foods Co., Ltd., a prepared food manufacturing subsidiary.
1989	Established a distribution center in Tajimi- shi. Started a material wholesale business for stores by Chubu Ryutu Co., Ltd.
1993	Listed on the Second Section of the Nagoya Stock Exchange.
1995	Merged with Fujiya Co., Ltd., a home improvement center company.
1996	Relocated the headquarters and the distribution center to the current location in Tajimi- shi.
1998	Established AXTOS Co., Ltd. and spun off the sports club business.
1999	Established MENTEX Co., Ltd., a facility maintenance service subsidiary.
2001	Established Hokuriku distribution center in Nanto- shi, Toyama.
2005	Acquired Tachiya Co., Ltd. and Youth Co., Ltd., supermarket subsidiaries. Assigned to the First Section of Tokyo Stock Exchange and Nagoya Stock Exchange
2007	Acquired Sun Friend Co., Ltd (currently Syokusenkan- Taiyo Co., Ltd.), a supermarket subsidiary.
2010	Established Ichinomiya distribution center in Ichinomiya- shi, Aichi.
2012	Established Hokuriku processing center for fresh meat in Nanto- shi, Toyama. Established Kani distribution center for products stored at ambient temperatures in Kani- shi, Gifu.
2013	Established Shizuoka integrated center in Shimada- shi, Shizuoka. Established Kani distribution center for chilled products. Established Ogaki processing center for fresh meat in Ogaki- shi, Gifu and Kani processing center for fresh vegetables and fruits in Kani- shi.
2015	Made a transition to a holding company and changed the company name to Valor Holdings Co.,Ltd.
2016	Established Nagoya Headquarters in Nakamura-ku Nagoya-shi. Acquired Kohseiya Co., Ltd.,a supermarket subsidiary.
2018	Acquired Futabaya Co.,Ltd., a supermarket subsidiary. Established capital and business partnership with Arcs Co.,Ltd. and Retail Partners Co.,Ltd.
2019	Acquired Sanko Co.,Ltd., a supermarket subsidiary.

Corporate Data

“Valor” is derived from a Late Latin word meaning ‘a person of courage’.

We believe in courage as essential to fulfill our social responsibilities.

Forward Looking Statement

This report’s coverage extends beyond current information and date for the Valor Group to future forecasts. These forecasts represent assumptions and viewpoint based on information available at the time of publication. The actual results may differ from the forecasts due to various circumstances and external environmental factors.

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