Valor Holdings

Creating New Values for Local Communities

2017 Annual Report

Fiscal Year Ended March 31, 2017

Valor Holdings Co.,Ltd.

We have been offering new values for local communities through multi-format retailing and business process integration.

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".

Revenue growth

FY1993 Exceeded 100 billion yen

FY2004 Exceeded 200 billion yen

1958–

Startup Supermarket and Subsidiaries of Manufacturing, Wholesale & Logistics Businesses

In 1958, we established Shufu-no-Mise Co.,Ltd. and opened the first supermarket in Ena-shi, Gifu (changed the company name to Valor Co.,Ltd. in 1974). We also established Chubu Yakuhin Co.,Ltd., a drugstore subsidiary, Chubu Foods Co.,Ltd., a prepared food manufacturing subsidiary and started a materials wholesale business for stores by Chubu Ryutu Co.,Ltd. We entered into a logistics business by 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 we expanded the scale of supermarket business, we built the bases for multi-format retailing. We merged with Fujiya Co.,Ltd., a home improvement center company and 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.

valor 1958–

V.drug 1984–

Pf 1988–

valor 1990–

Sports Club AXTOS 1998–

P10-11

P12-13

FY2010-2014 Strategic Plans

FY2015-2017 Strategic Plans

The “Three Gears” Strategy

Long-term Value Creation

FY2007 Exceeded **300** billion yen

FY2011 Exceeded **400** billion yen

FY2016 Exceeded **500** billion yen

2005–

Expansion of Supermarket Business and Integration of 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 business processes between manufacturing and retailing by establishing sourcing subsidiaries, production bases and distribution centers.

2015–

Further Optimization of Business Processes

In October 2015, we made a transition to a holding company to promote growth of business companies and improve corporate governance.

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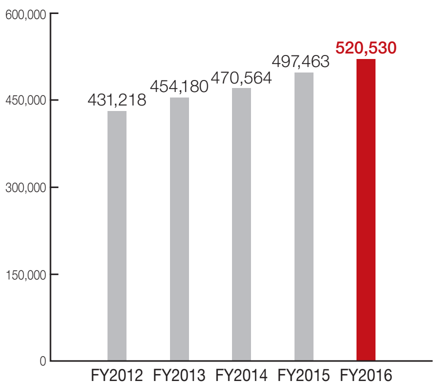
11-year Summary of Financial Results

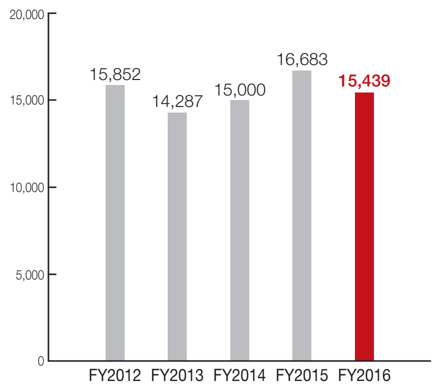
Valor Holdings Co.,Ltd. and its consolidated subsidiaries for the financial year ended March 31.

	FY2006	FY2007	FY2008	FY2009
For the year:				
Revenues from operations	288,168	318,026	336,342	344,900
Operating income	9,282	10,491	9,795	9,452
Ordinary income	9,965	10,835	10,186	9,916
Net income	3,915	4,136	3,387	3,945
At year-end:				
Total assets	156,086	164,609	170,328	176,440
Net assets	50,889	53,774	55,354	58,578
Net assets (excl. subscription rights to shares and non-controlling interests)	50,164	53,341	54,560	57,760
Interest-bearing debt	57,557	61,710	69,631	69,107
Cash Flows:				
Cash flows from operating activities	11,422	13,942	11,408	16,004
Cash flows from investing activities	(20,520)	(16,869)	(15,929)	(10,453)
Free cash flows	(9,098)	(2,927)	(4,520)	5,550
Cash flows from financial activities	8,515	3,643	6,150	(5,291)
Cash and cash equivalents at the end of fiscal year	6,655	7,372	9,000	9,259
Capital Expenditures:				
Capital expenditures (based on payment)	21,400	19,607	16,988	11,537
Breakdown of expenditures:				
for new store openings	14,615	15,243	13,072	8,267
for refurbishing existing stores	4,530	3,025	2,562	2,663
for others	2,255	1,339	1,354	607
Depreciation and amortization (CF)	5,956	7,030	8,081	8,399
Per Share data:				
Net assets per share (BPS) (yen)	965.90	1,027.07	1,071.19	1,134.05
Net income per share (EPS) (yen)	74.97	79.66	65.57	77.46
Cash dividends per share (yen)	15	18	20	20
Dividend payout ratio	20.0%	22.6%	30.5%	25.8%
Financial indicators:				
Return on total assets (ROA)	7.0%	6.8%	6.1%	5.7%
Return on equity (ROE)	8.0%	8.0%	6.3%	7.0%
Shareholders' equity ratio	32.1%	32.4%	32.0%	32.7%
Debt equity ratio (times)	1.1	1.2	1.3	1.2

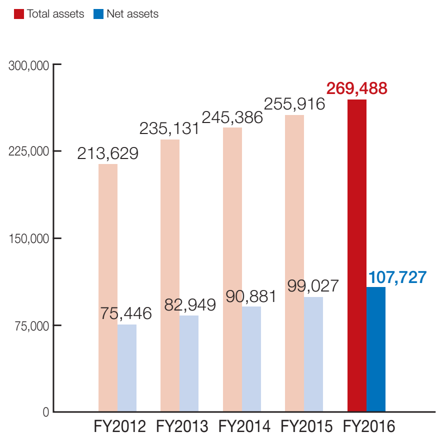
Revenues from operations (millions of yen)



Operating income (millions of yen)



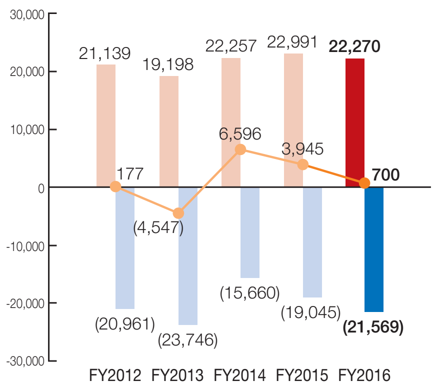
Total assets / Net assets (millions of yen)



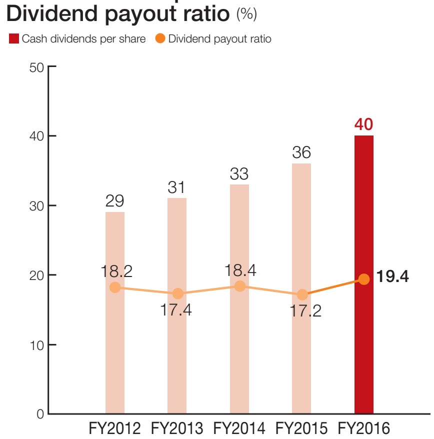
(Millions of yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
	379,172	410,577	431,218	454,180	470,564	497,463	520,530
	12,347	15,236	15,852	14,287	15,000	16,683	15,439
	12,817	16,020	16,844	15,311	16,108	17,586	16,762
	4,232	7,149	8,184	9,162	9,214	10,759	10,522
	190,065	199,774	213,629	235,131	245,386	255,916	269,488
	61,821	68,134	75,466	82,949	90,881	99,027	107,727
	60,998	67,243	74,887	82,395	90,301	98,408	107,057
	69,746	69,383	75,679	87,265	86,880	84,952	87,231
	20,324	19,190	21,139	19,198	22,257	22,991	22,270
	(14,428)	(17,793)	(20,961)	(23,746)	(15,660)	(19,045)	(21,569)
	5,895	1,397	177	(4,547)	6,596	3,945	700
	(1,608)	(2,283)	2,914	5,983	(3,745)	(6,758)	(3,168)
	13,547	12,676	15,764	17,055	19,960	17,103	14,659
	15,245	17,859	22,101	25,226	20,225	20,041	24,441
	8,995	11,230	14,414	12,851	12,763	11,628	15,144
	5,007	4,114	1,788	2,306	2,237	3,650	7,709
	1,243	2,515	5,899	10,069	5,225	4,763	1,587
	9,017	9,612	10,255	11,090	12,168	12,683	13,125
	1,197.67	1,320.33	1,454.43	1,600.25	1,751.57	1,925.45	2,093.74
	83.10	140.38	159.56	177.95	178.91	208.87	205.83
	22	26	29	31	33	36	40
	26.5%	18.5%	18.2%	17.4%	18.4%	17.2%	19.4%
	7.0%	8.2%	8.1%	6.8%	6.7%	7.0%	6.4%
	7.1%	11.2%	11.5%	11.7%	10.7%	11.4%	10.2%
	32.1%	33.7%	35.1%	35.0%	36.8%	38.5%	39.7%
	1.1	1.0	1.0	1.1	1.0	0.9	0.8

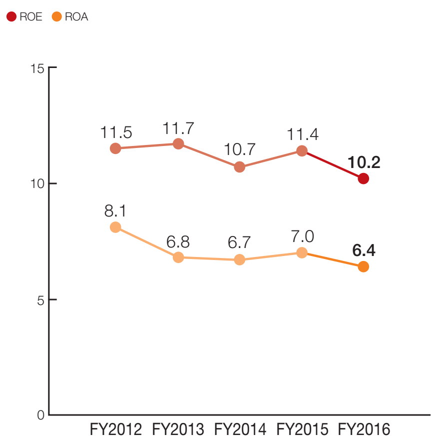
Cash Flows (millions of yen)



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



ROE·ROA (%)



History

Strengthening the Frontline: The Challenge of Utilizing

Correcting scale-induced distortions and taking a step back from standardization

From a long-term perspective, the Valor Group is implementing the "Three Gears" strategy that comprises the elements "Growth and Expansion," "Business Process Integration from sourcing to retailing," and "Frontline Performance Development." Capitalizing on a holding company structure to help optimize resource allocation, we are working to achieve sustained growth and improved profitability.

We have developed better back-office systems and upgraded supply chain infrastructure to integrate business processes across manufacturing and retailing. These moves have included opening distribution centers to make procurement and store deliveries more efficient, along with processing centers and production bases for prepared food to expand and upgrade the production and processing functions of the Valor Group. However, the sales aspect of these initiatives has not been realized sufficiently, frustrating our ambition to capture greater profit margins as a business process integration retailer. To address this issue, as part of our three-year business plans that began in the previous fiscal year, we focused on strengthening frontline store competitiveness and improvement of our product offerings, while reinforcing the training and HR development activities that underpin these efforts.

Against this backdrop, in FY2016 we reported revenues from operations in excess of ¥500 billion for the first time, achieving the target of ¥520 billion. We added a net total of 55 stores to the Valor Group retail network. Including the contribution from Kohseiya Co., Ltd., which became a Group subsidiary in August 2016, we recorded positive revenue growth across all business segments.

On the profit side, however, our performance declined year on year across all earnings figures, after two straight years of growth in profits. Several external factors impacted performance: difficulties in recruiting part-time employees pushed up our personnel costs; we faced higher construction costs associated with opening new stores; purchase prices for many perishable goods increased; and we also faced fiercer competition from other retailers and companies in other sectors. Overall, business conditions changed rapidly in FY2016.

Many of these changes were structural rather than transient in nature, potentially implying the need for fundamental reform of our operations. However, in terms

Group Resources to Create New Formats

of the internal factors, we think that any improvements in profits have been delayed in FY2016 due to issues stemming from the Group's increased scale, which has somewhat diluted policy execution and lowered the speed of organizational response. In particular, in our supermarket business, our investments in back-office systems to support large discount store operations and efforts to standardize procedures as part of a more uniform management approach have struggled to accommodate the widening disparities within our store network, leading to inefficiencies.

Going forward, we will focus on correcting such scale-induced distortions by taking a step back from an overly standardized approach and instead developing systems and management methods that take greater account of store characteristics.

The challenges of creating category killers and developing new formats

In our supermarket business, one of the structural reforms we are undertaking to improve profitability is to refurbish stores to turn them into category killers for fresh produce with an emphasis on everyday low prices. In many suburban areas with declining population, it is only possible to achieve sustained profits by establishing a position as the No.1 store in the locality, rather than being perceived as merely "average." Our strategy is to focus our resources on a geographic region where the Valor Group enjoys relative dominance, while emphasizing our superior range of merchandise in particular categories and other features aimed at attracting customers from further afield.

To overcome fiercer competition from other retailers and sectors, we continue to develop store formats designed to cater to evolving customer preferences, while also differentiating the quality of our retail offering from that of rival stores. Specifically, we are looking to open or remodel stores in new formats that do not necessarily observe the traditional categories of supermarket, drugstore or home improvement center.

This approach has been generating good results with our realization that "it is the customer who determines the format." For example, at the Home Center Valor Inazawa-Heiwa store, we have hosted farmer's market to enable consumers to buy fresh vegetables while assisting the local agricultural community, and this store also begins to offer fresh meat. Elsewhere, inside two of our drugstores, V-drug Toyokawa and V-drug Togo-nishi, we offer customers freshly baked bread and a range of prepared foods.

For other retailers, new format development often requires attracting tenants from outside. In the Valor Group, however, we can develop formats in-house while exploring and leveraging the synergies that arise from combining features from various store formats. We will continue to reappraise the value of our in-house resources as we seek to create new, unique formats.

Back to basics to sustain growth as a company that anticipates change

In October 2016, as an aspect of ongoing efforts to make Group operations more efficient while executing our long-term business strategy, we established Core Support Co., Ltd. Operating companies in the Valor Group will transfer management functions to Core Support step by step so they can focus proportionally more of their resources on core operations.

In line with earlier guidance, the final dividend for FY2016 was ¥21 per share. Combined with the interim dividend of ¥19 per share, this resulted in total annual dividends for FY2016 of ¥40 per share (a payout ratio of 19.4%), an overall year-on-year increase of ¥4 per share. For FY2017, we have formulated an earnings plan that emphasizes strengthening the Group for the next stage of growth. We expect to maintain the shareholders' equity ratio in FY2017 while also lifting total dividends to ¥45 per share (interim ¥21, year-end of ¥24).

We are targeting sustained growth for the Valor Group based on stable management. Yet, somewhat paradoxically, innovation and reform are essential to realize this goal. Companies that do not change inevitably fade away. We will create new value by anticipating change, while listening to what our customers say and letting them guide us in our format development.

In closing, I would like to ask all shareholders and investors for their continued support of the Valor Group.

Masami Tashiro

Chairman & CEO

Business Models as Corporate Value Initiatives

The Valor Group has developed its business strategies and adjusted them to social changes by assuming upcoming needs and demands at local communities. Our corporate values have been derived from the following initiatives: **business process integration and multi-format retailing.**

We have been creating group synergies through combining our competencies as can be seen in drugstores offering prepared foods & fresh bakery.

1 Business Process Integration

In the food distribution industry, we have struggled for lean margins, which were shared by many intermediates. To achieve "increasing returns" type growth, we have optimized the entire processes from sourcing to retailing. As many of our stores were located in lower population density, we have also pursued operational efficiency and reduced the bread-even point.

In our business processes, we are also responsible for maintaining sustainable societies through controlling carbon dioxide emissions, reducing food wastes and encouraging recycling. We take such environmental-friendly initiatives in our production bases and distribution centers as well as in our stores.

2 Multi-format Retailing

Since the early stage of our history, we have rolled out multi-format retailing. It was closely related to our locations with lower population densities. Multi-format retailing has been effective for us to bring richness of lives in local communities as well as gain better brand recognition and market shares through a broad assortment of products and services.

Decreasing local suppliers forces us to rethink our roles in local communities. In response to this, we intend to provide customers with products and services through our all resources. In the fiscal year 2015, the home improvement center launched life support service and Cubu Foods Co., Ltd. accelerated to receive sales orders for local festivals.

The recent fierce competition between formats and technological advancements have brought changes in shopping behavior. As we do not persist in the present types of format, we intend to launch new initiative for changing customers by combining our competencies.

Our perspectives on Chain Store Management Systems and Standardization

Operational simplification and standardization have been supporting the Valor Group business activities. Chain store management systems have been effective for us to achieve rapid growth and sufficient scale for providing goods at reasonable costs and quality. Under the systems, we have defined operational requirements for headquarters and stores, and then simplified and standardized operational processes at stores. Supported by production bases and distribution network, we are able to operate stores by a limited number of staff and reduce operational costs. Under the recent changes such as aging and decline in workforce, simplifying and standardizing operational processes remains crucial for achieving sustainable growth.

We have also developed standardized stores, which enabled us to accelerate store development within limited time and costs. Under the environment of decreasing population and fierce competition, standardized stores without overwhelming competitiveness could not gain sustainable profits. Although we maintain the chain store management systems, we adapt processes of store development to the changes.

Social Issues

Imbalance between Food Supply and Demand

- Intense competition between formats
- Aging and lack of successors in regional agriculture
- Possible impact of TPP agreement 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

Business Models

1 Business Process Integration optimizing supply chains

Creation of Group Synergies

- Production
- Wholesale
- Distribution
- Maintenance
- Retail

2 Multi-format Retailing response to various needs of communities and enhancement of share

Super market ↔ Drugstore ↔ Home Improvement Center ↔ Pet Shop ↔ Sports Club

Local Communities

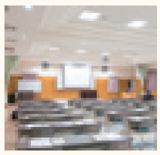
Our Solutions

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



Maintenance of Living Environment for Local Communities

- Format development
- Taking over functions performed by local suppliers

Recycling-oriented Economic System

- Carbon dioxide emissions control
- Reduction of food waste
- Recycling encouragement

Supermarket Business

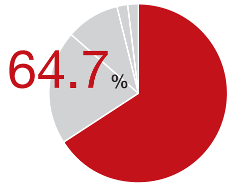
No. of stores··············· 275 Ave. floor space··············· 1,731 m²

(Valor Co., Ltd.)

This business segment includes the operations of supermarket operators Valor Co.,Ltd., Tachiya Co., Ltd., Shokusenkan-Taiyo Co., Ltd. and Kohseiya 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. The target business model is one that optimizes the entire business process from sourcing to retailing.

Besides opening new stores, operating companies in this segment have expanded in scale through M&A. The main companies that have been converted into subsidiaries are Tachiya Co., Ltd., Youth Co., Ltd. (merged into Valor in October 2013), SunFriend Co., Ltd. (currently Shokusenkan-Taiyo) and Kohseiya Co., Ltd.. Valor Co., Ltd. expands stores in 13 prefectures, centering in Gifu and Aichi prefectures; Tachiya Co., Ltd. has stores in Aichi, Gifu and Mie prefectures; Shokusenkan-Taiyo Co., Ltd. operates in Shizuoka prefecture; and Kohseiya Co., Ltd. has stores in Yamanashi prefecture. The Group is looking to increase store density steadily across each of these parts of Japan.

Revenues from operations by segment

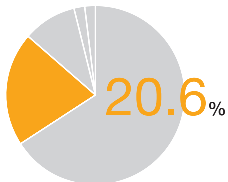


Drugstore Business

No. of stores··············· 337 Ave. floor space··············· 790 m²

Established in February 1984 as a retailer of medicines, Chubu Yakuhin Co., Ltd. has since steadily expanded its network of drugstores. Surpassing 100 stores in 2003, 200 stores in 2012, and 300 stores in 2016, the chain now extends across eight prefectures, centering in Aichi and Gifu.

Revenues from operations by segment

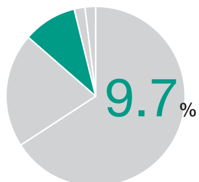


Home Improvement Center Business

No. of stores··············· 35 Ave. floor space··············· 5,822 m²

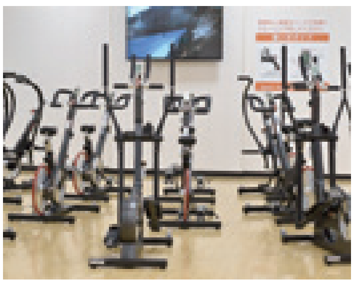
The home improvement center business began operations in August 1990 after the transfer of assets from the other Group companies. It grew in scale in October 1995 resulting from a merger with Fujiya. Located mainly in Gifu Prefecture, the chain is also expanding in Aichi and Mie prefectures.

Revenues from operations by segment



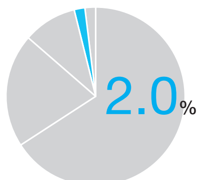
Sports Club Business

No. of stores··············· 75



The sports club business commenced operations in April 1998 following the transfer of assets from Valor. Its clubs feature a combination of training gyms, swimming pools, tennis courts and other facilities. It also began operating the low-investment chain of “Will_G” fitness gyms in September 2013, which offers memberships on a relatively low monthly subscription basis. The network of 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.

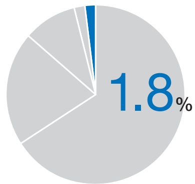
Revenues from operations by segment



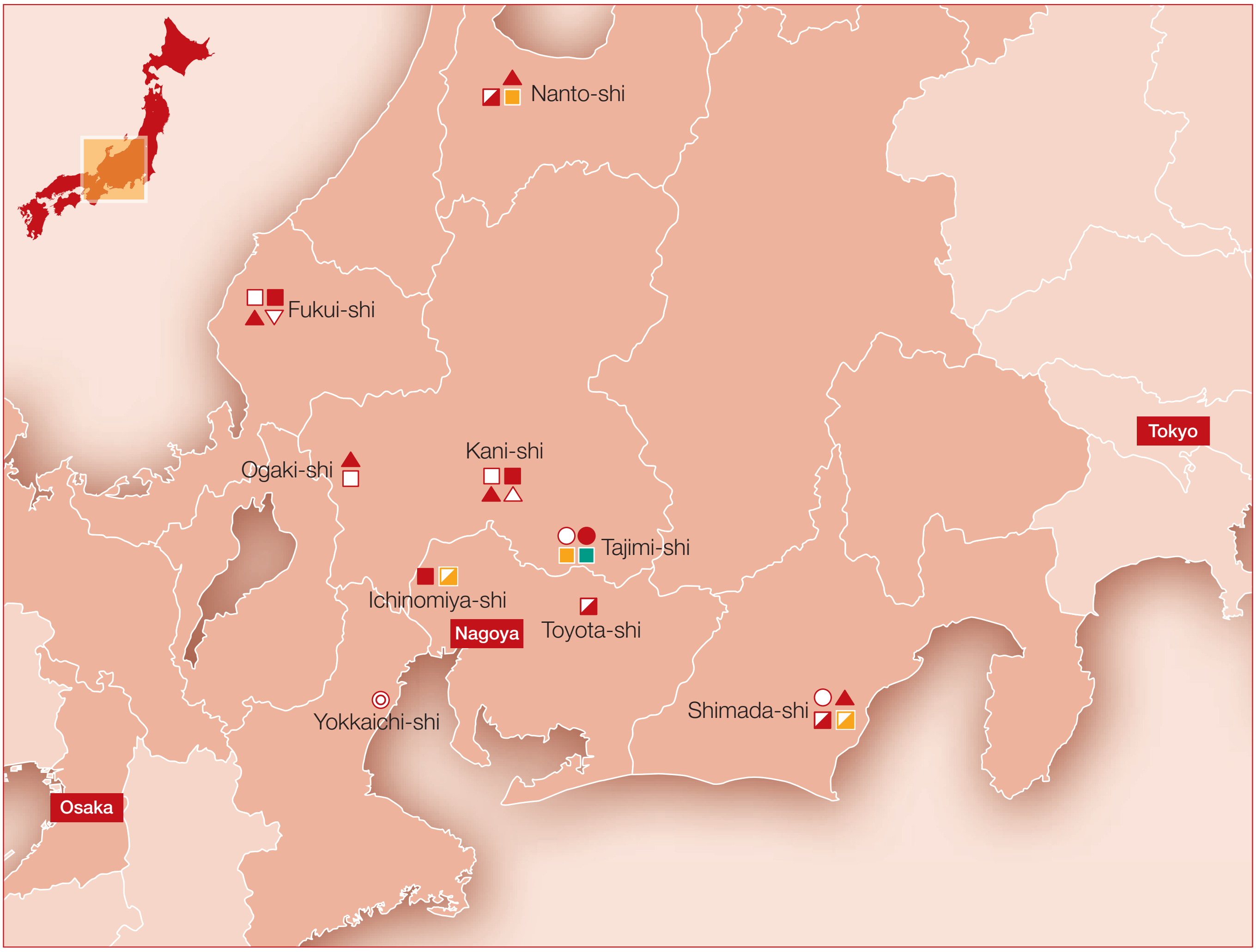
Distribution-related operations

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.

Revenues from operations by segment



Locations of infrastructures for the Supermarket, Drugstore and Home Improvement Center businesses



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

Business Strategies “Three Gears”

Offering New Values for Local Communities through anticipating changes

The Valor Group has created its unique business model that optimizes the entire process from sourcing to retailing. It is sustained by business strategies called the “Three Gears”:

1. Growth & Expansion
2. Business Process Integration between manufacturing and retailing
3. Frontline Performance Development

We make the gears mesh properly to obtain sustainable growth and increase corporate values.

Our business model requires a sufficient scale of operations to provide value-added products at reasonable costs. We have expanded our store network around distribution centers, while raising density of coverage. It allows us to capture an overwhelming market share and increase operational efficiency.

Business Process Integration between manufacturing and retailing

Controlling the entire process enables us to share demand forecast & production plan and eliminate waste in supply chains .We have designed effective distribution channels by coordinating our own sourcing companies, production bases and distribution centers.

We have developed private labels, which offer value for money and better margin than national brands. They are sold under the brand names of “V-Select”, low-priced and “V-Quality”, value-added. In June 2014, we launched new brand, “V-Premium”. It contains ingredients, which are selected and available at limited seasons. We provide the brands for supermarkets, drugstores, home improvement centers and other companies through V-Solution Co., Ltd., a subsidiary. We manage the risk of demand-supply mismatches by highly accurate sales plans and outstanding sales capabilities.

In the fresh meat category, we provide stores with packaged meat from our five processing centers, which source raw materials from Chubu Meat Co., Ltd., a subsidiary. It brings us to reserve intermediate margins within the Valor Group. We also reduce costs at stores by eliminating operating processes such as trimming and cutting meat and decreasing spaces for processing.

The recent changes in fresh produce distribution forced us to secure stable procurement as well. They are mainly caused by aging & lack of successors in regional agriculture and climate changes connected with global warming. We intend to collaborate with local suppliers and develop value-added products together.

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.

Tea 500ml

Sliced Ham 160g

Quality

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

Sesame Dressing

Japanese Soy Beans Tofu

premium

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

Coarsely Ground White Sausage

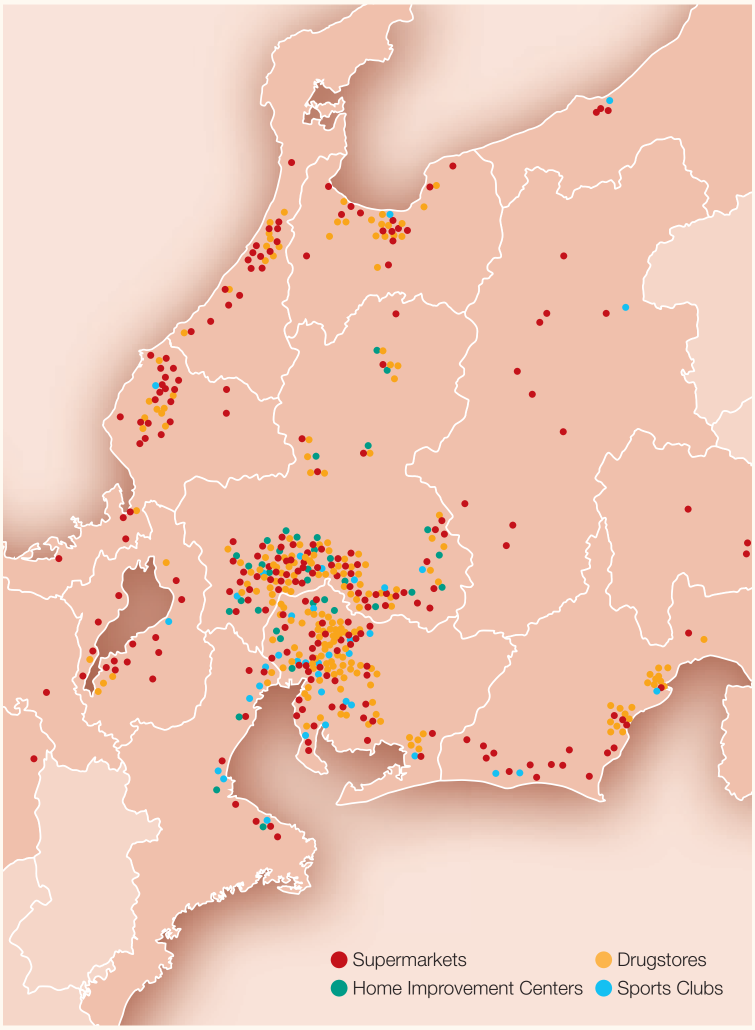
Black Pork Dumplings

Growth & Expansion

In addition to the supermarket business, we also consider our drugstore and home improvement center businesses as key drivers for growth. "V-drug", a drugstore chain has also focused on establishing store network to gain shares and achieve economies of scale.

V-drug collaborates with local nursing homes to support their health care, while it meets customers' needs for convenience through a broad range of food.

"Home Center Valor", a home improvement center chain has developed relatively large stores over 10,000 square meters, which carry a professional assortment of building and farming materials for business customers.



Frontline Performance Development

To gain benefit from expanding scale of operations, we must upgrade skills of frontline employees and improve productivity at stores. The skills combine a thorough knowledge of store operations with abilities to implement sales plan and provide outstanding customer services.

FY2015-2017 Strategic Plans

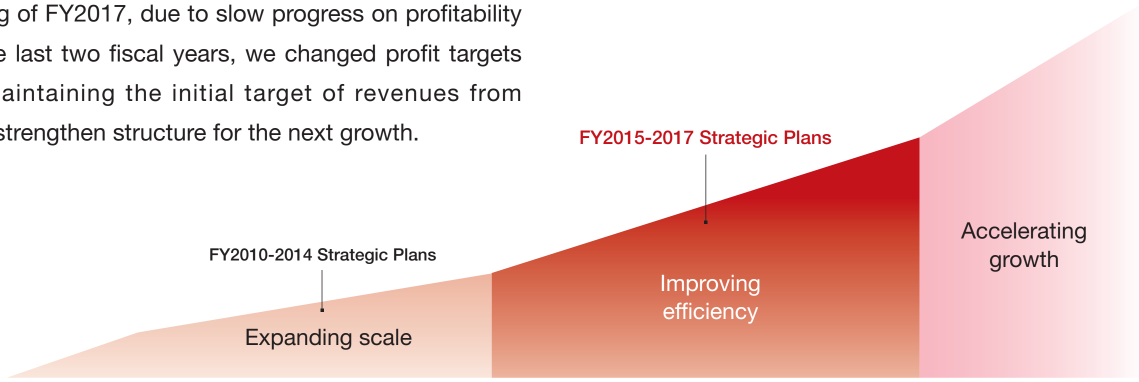
Improving Efficiency and establishing a Solid Foundation for Growth

The FY2015-2017 strategic plans focus on improving efficiency through reforming the supermarket segment, our core business. It could bring us to next long-term targets, which are projected to accelerate growth with profitability. Thoroughly executing the FY2015-2017 plans, we intend to build a strong relationship with stakeholders such as customers, business partners and shareholders.

The FY2015-2017 strategic plans consist of three major sections. Firstly, we improve profitability by strengthening existing supermarkets through refurbishing stores and improving assortment. We also increase quality of products and productivity through utilizing infrastructures. Secondly, we identify drugstore and home improvement center as key drivers for growth. Thirdly, we sustain growth of each business unit and strengthen corporate governance by reforming organizational structures.

Positioning of FY2015-2017 Strategic Plans

Before the beginning of FY2017, due to slow progress on profitability improvement for the last two fiscal years, we changed profit targets as below, while maintaining the initial target of revenues from operations. We will strengthen structure for the next growth.



(Millions of yen)

	FY2009	FY2014	FY2017 target (initial plan)	FY2017 target (revised plan)	Long-term target
Business strategies	The “Three Gears” strategy				
Strategic goals		Expanding scale	Improving efficiency		Accelerating growth
Revenues from operations	344,900	470,564	**550,000**	**550,000**	1,000,000
Operating income	9,452	15,000	**21,000**	**17,300**	
Ordinary income	9,916	16,108	**22,000**	**18,700**	
Net income	3,945	9,214	**13,000**	**11,500**	
CAGR (Revenues from operations)		6.4%	**5.3%**	**5.3%**	7-8%
ROA	5.7%	6.7%	**8.0%**		
ROE	7.0%	10.7%	**above 11.0%**		
D/E ratio	1.2	1.0	**below 0.9**		
Dividend payout ratio	25.8%	18.4%	**Over 25% (medium & long-term target)**		

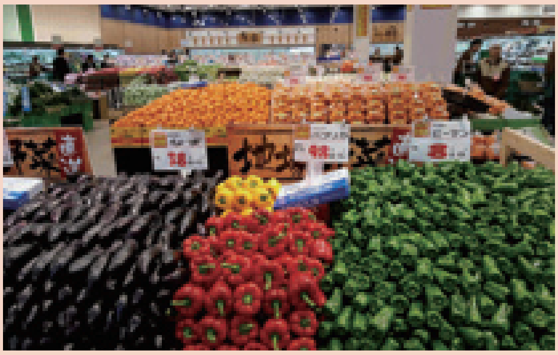
Strategic Plan Progress Report (FY2016)

1 Structural reforms

The refurbishment of 18 stores in the Valor supermarket chain was aimed at creating a more competitive format by strengthening the fresh produce section and emphasizing the breadth and depth of the merchandise on display. The "everyday low prices" (EDLP) policy, under which we emphasize changes in the fresh produce section to attract customers and do not as a rule use promotional flyers, was extended from six stores in FY2015 to four more in FY2016. Two stores adopted the EDLP sales policy after refurbishment, and the two others were new Valor supermarkets in Neyagawa (Osaka Prefecture) and Chagasaki (Otsu, Shiga Prefecture). We also focused on using our supply infrastructure to develop products. Chubu Foods, which produces and sells prepared foods, conducted a periodic renewal of its in-house-developed product range to improve the texture and flavor of basic items, notably its Japanese-style prepared dishes.

TOPICS

EDLP policy extended to total of 10 stores



2 Development of key growth drivers

In the drugstore business, we expanded the store network, mainly in the prefectures of Aichi and Gifu. Strong same-store sales and the addition of 40 new outlets helped revenues surpass ¥100 billion. The high number of new stores was complemented by a refurbishment program. The V-drug stores at Toyokawa and Togo-nishi (both in Aichi Prefecture) were upgraded to feature improved ranges of pharmaceuticals and cosmetics, and new integrated food counters were added selling prepared foods and fresh bakery produced in-store by Chubu Foods.

In the home improvement center business, we opened Home Center Valor Kani-Sakado (Gifu Prefecture) on an extensive site of around 11,300m^2. This store offers a specialized lineup of building supplies, along with a "Tire Ichiba(Market)" outlet that supplies car tires and an off-season tire storage service.

TOPICS

Chubu Yakuhin achieves revenues of over ¥100 billion

3 Organizational reforms

In October 2016, we established Core Support Co., Ltd. to help improve the efficiency of operations management at Valor Holdings and Valor Group companies, and to develop personnel with specialized knowledge. Group companies will progressively transfer payroll, account settlement and other functions to Core Support as part of efforts to achieve efficiency gains from the consolidation of management functions, which was one of the aims of adopting a holding company structure.

In February 2017, we began issuing the "Lu Vit Card" in a business initiative aimed at taking advantage of the Valor Group's store network. A prepaid source of electronic money, these cards also give consumers access to a point-based loyalty scheme. We introduced them first at the Home Center Valor chain. Going forward, we plan to promote their use among other Valor Group stores. The cards will help us better gauge customer purchase trends and supply products and services likely to be more popular among customers.

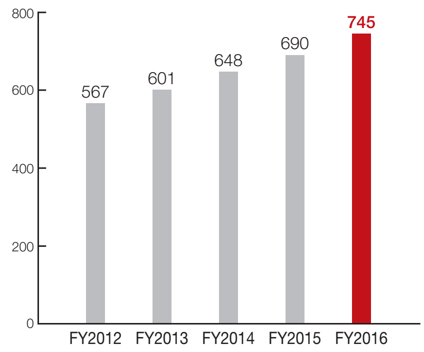
TOPICS

Group synergies targeted with launch of new card

"Lu Vit Card"

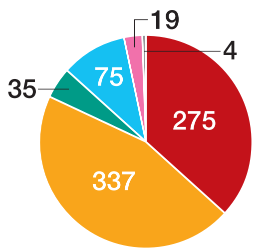
Vision

Number of stores



Number of stores by format

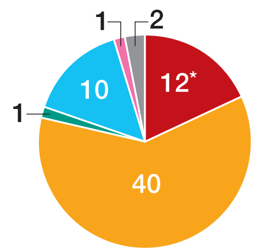
Supermarkets Drugstores Home Improvement Centers Sports Clubs Pet Shops Others



745 stores in total

New store openings by format

Supermarkets Drugstores Home Improvement Centers Sports Clubs Pet Shops Others



66 stores in total

Note: including five stores of Kohseiya Co., Ltd. acquired in August, 2016.

(Millions of yen)

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

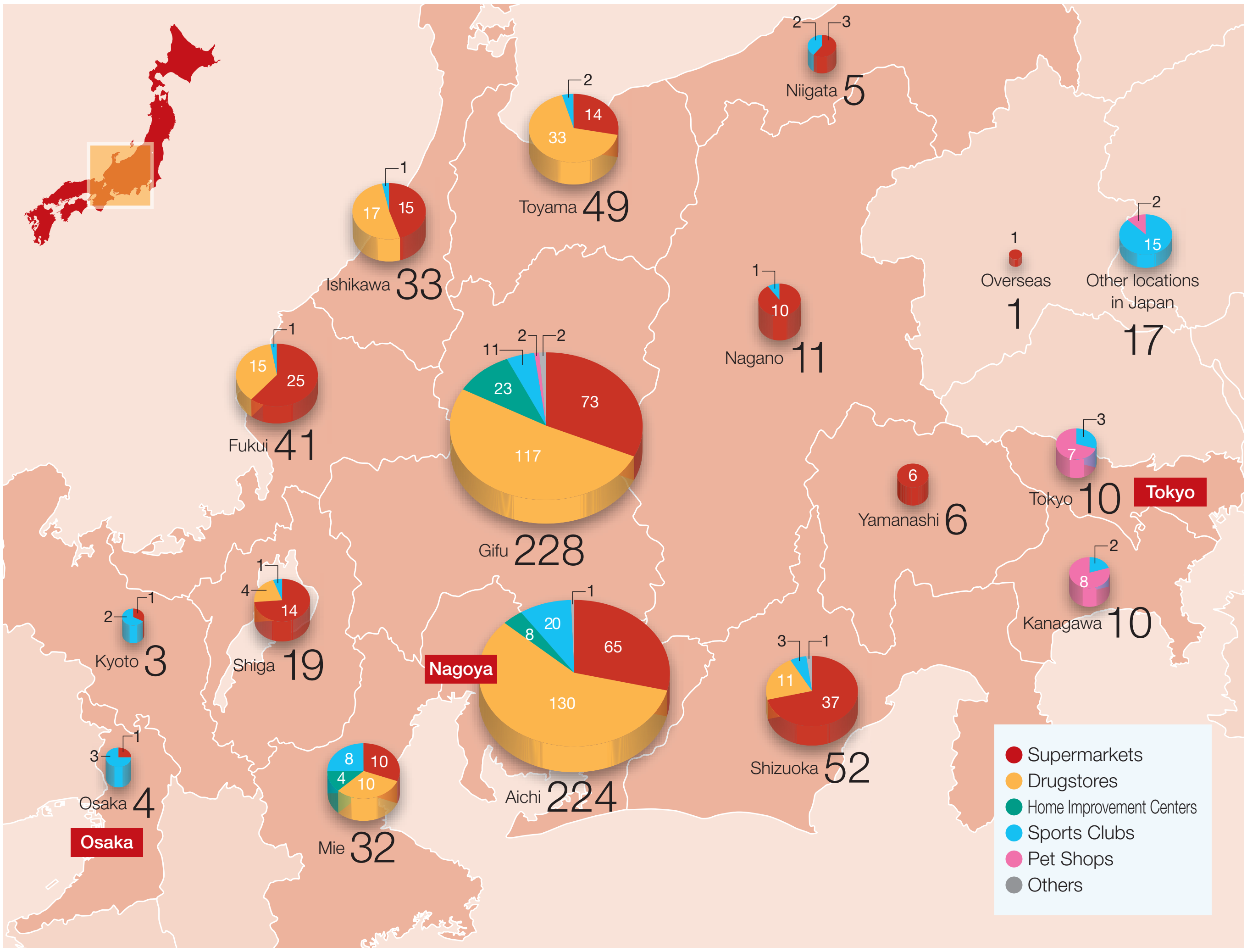
Store Network

	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Supermarkets	187	202	218	238	251	263	263	275
Valor	131	147	163	179	221	232	232	238
Tachiya	10	10	11	11	13	13	13	14
Youth*	29	28	29	31	—	—	—	—
Shokusenkan-Taiyo	10	17	15	15	15	17	17	17
Kohseiya	—	—	—	—	—	—	—	5
Varo Mart	—	—	—	2	2	1	1	1
Other	7	—	—	—	—	—	—	—
Drugstores	159	174	193	214	241	271	271	337
Home Improvement Centers	36	36	34	35	35	36	36	35
Sports Clubs	51	51	51	52	54	58	58	75
Pet Shops	17	16	17	17	17	17	17	19
Others	12	15	15	11	3	3	3	4
Total	**462**	**494**	**528**	**567**	**601**	**648**	**690**	**745**

Note: *merged into Valor in October, 2013.

Stores by format and by prefecture (FY2016)

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

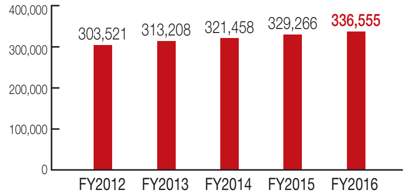


Supermarket Business

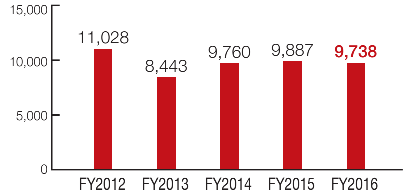
● Revenues from operations/operating income

Revenues from operations ···	¥336,555 million
Operating income ···········	¥9,738 million

Revenues from operations (millions of yen)



Operating income (millions of yen)



FY2016 Results

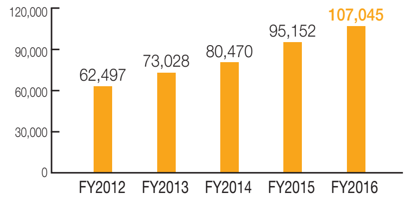
In the Supermarket Business, following the completion of the improvement of the supply chain infrastructure in FY2015, we focused on strengthening of frontline store competitiveness and improvement of our product offerings. Stores opened in FY2016 were five Valor supermarket stores, one Tachiya store, and one Shokusenkan-Taiyo store. In August 2016, Kohseiya Co., Ltd. that operates five supermarket stores in eastern Yamanashi Prefecture became the Company's subsidiary. Two Valor supermarket stores and one Shokusenkan-Taiyo store were closed. As a result, the number of supermarket stores of the Valor Group was 275 as of March 31, 2017. Although Valor supermarket chain's same store sales decreased 1.3% year on year, growth of Kohseiya Co., Ltd. and Tachiya Co., Ltd., which were added to the scope of consolidation, contributed and the segment revenues increased. Profit decreased because of the impact of intensifying competition on profitability of stores despite continued progress with the improvement of infrastructure efficiency.

Drugstore Business

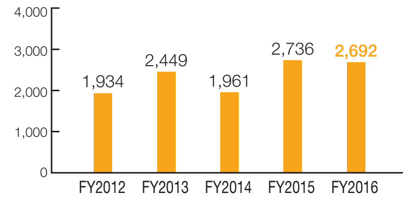
● Revenues from operations/operating income

Revenues from operations ···	¥107,045 million
Operating income ···········	¥2,692 million

Revenues from operations (millions of yen)



Operating income (millions of yen)



FY2016 Results

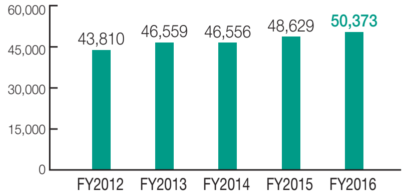
In the Drugstore Business, we expanded our drugstore chain centering on Aichi Prefecture and Gifu Prefecture. We opened 40 new outlets and closed four stores. As a result, the number of drugstores was 337 as of March 31, 2017. In addition to the vigorous new store openings, we refurbished a total of 21 stores including three stores whose floor areas were increased by relocation or by scrap & built, in order to further strengthen competitiveness. Regarding Chubu Yakuhin Co., Ltd., the food operation continued its strong performance. Same-store sales increased 4.6% year on year and stores opened in FY2015 and FY2016 also contributed. While the adverse impact of reductions in drug prices in line with the revision to the NHI medical fees and the change in the fee system continued, the gross profit ratio improved owing to robust sales of pharmaceuticals and cosmetics. However, increased store opening costs led to lower profit despite higher revenues.

Home Improvement Center Business

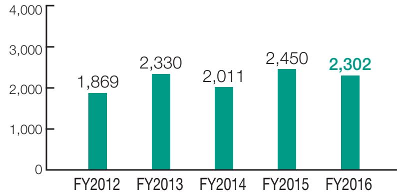
● Revenues from operations/operating income

Revenues from operations	¥50,373 million
Operating income	¥2,302 million

Revenues from operations (millions of yen)



Operating income (millions of yen)



▶ FY2016 Results

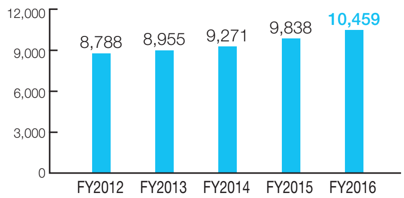
In the home improvement business, sales of horticultural and agricultural supplies were robust. In addition, the pet products section grew and we expanded the "Tire Ichiba (Market)" business. These have been positioned as priority categories since FY2015. As a result, Home Center Valor's same-store sales increased 1.9% year on year. In February 2017, we introduced the "Lu Vit Card," prepaid electronic money with a point-based loyalty scheme, at Home Center Valor stores as a pilot project. Lu Vit Card membership increased centering on good customers, resulting in higher sales per customer. New stores opened in FY2015 and FY2016 also contributed to higher revenues. However, profit decreased owing to the cost of refurbishment of the flagship store and the bearing of the labor cost concerning new stores scheduled to open in FY2017.

Sports Club Business

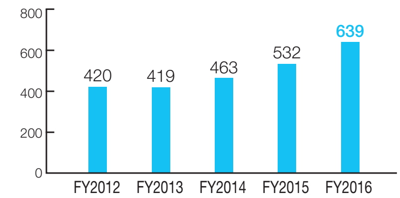
● Revenues from operations/operating income

Revenues from operations	¥10,459 million
Operating income	¥639 million

Revenues from operations (millions of yen)



Operating income (millions of yen)



▶ FY2016 Results

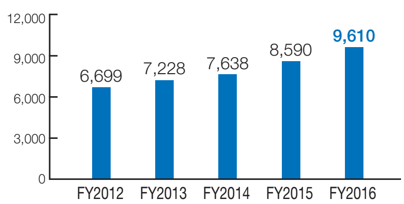
Revenues from operations in the sports club business amounted to ¥10,459 million, an increase of 6.3% year on year, and operating income rose 20.1% to ¥639 million. We opened 10 outlets of the fitness gym "Will_G" (including one outlet opened based on a franchise contract), for which investment is minimized and monthly membership fees are set low. As a result, the number of sports clubs was 75 as of March 31, 2017. The sports club business achieved higher revenues and higher profit owing to the increase in the membership and higher revenues from fee-based programs, such as stretching supported by staff, and the expansion of the healthcare-related business based on contracts with companies and local governments.

Distribution-related operations

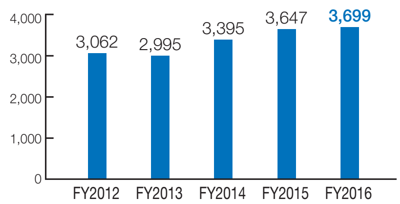
● Revenues from operations/operating income

Revenues from operations	¥9,610 million
Operating income	¥3,699 million

Revenues from operations (millions of yen)



Operating income (millions of yen)



▶ FY2016 Results

Revenues from the distribution-related operations increased 11.9% year on year to ¥9,610 million and operating income increased 1.4% to ¥3,699 million. Other Group companies related to the distribution business promoted introduction of facilities that will lead to lower environmental impacts and strove to improve infrastructure and the service level in order to keep up with the expansion of the distribution business. Regarding the logistics business, the Hokuriku Distribution Center in Nanto-shi, Toyama Prefecture had been serving the needs of the Valor supermarket stores and drugstores in the Hokuriku region. In order to respond to expansion of the drugstore business, we opened the Chubu Yakuhin Hokuriku Distribution Center in November 2016, at a site to the south of the Hokuriku Distribution Center.

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 · Change of the composition of the Board of Directors and change of the quorum of Outside Directors	P.20-21
Governance	2. Faster decision-making		· Framework for decision-making concerning business execution	P.20-21
Governance	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.23
Governance	3. Risk management in relation to the business model	· Risk management systems	· Integrated information management · Expansion of the scope of application to include operating companies	P.24
Human resources development	Human resources development to sustain growth	· Recruitment and education of human resources · Supporting diversified workforce	· Increase in the number of sites for recruiting offices · Support recruitment of part-time employees · Support of female workers, disabled workers and others to enable them to maximize their capabilities	P.25-26
Human resources development	Human resources development to sustain growth	· For better places to work	· Introduction of work location selection system · Employer-provided child care services	P.27
Environment	Reduction of environmental impacts	· Reduction of CO_2 emissions · Waste reduction · Promotion of recycling	· Reduction of power consumption, energy-saving operations · Reduction of food waste · Promotion of recycling of food waste	P.28-29

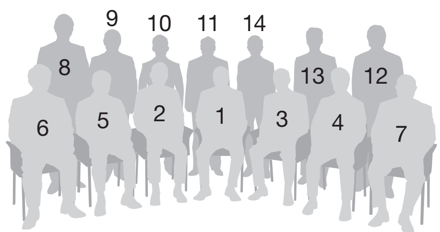
Constructive Dialogues with Shareholders

The IR Office represents the Company in its constructive dialogues with shareholders. It actively engages in dialogues with shareholders and provides feedback to management. In pursuit of appropriate disclosure in a timely manner, the IR Office has published the disclosure policy at the Company's corporate website, and discloses not only financial information but also non-financial information including corporate philosophy, business strategies and mid-term business plan. For effective IR activities, the IR Office has identified the composition of the Company's shareholders and endeavors to reflect it in the dialogues.

Dialogues with shareholders in FY2016

59th Ordinary General Meeting of Shareholders (Held June 30, 2016)	874 shareholders attended
Dialogues with institutional investors	Direct dialogues: 135 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 29, 2017)



	Name	Title	Significant concurrent positions at major subsidiaries
1	Masami Tashiro	Chairman & CEO	
2	Akira Shinohana	Managing Director Human Resources Management & General Affairs	
3	Yukihiko Shizu	Director Finance & Information System	
4	Satoshi Yoneyama	Director	Managing Director Valor Co., Ltd.
5	Masami Shidara	Director	Director, Sourcing and Merchandise Valor Co., Ltd.
6	Morisaku Wagato	Director	CEO Home Center Valor Co., Ltd.
7	Takao Yamashita	Director Store Development & Property Management	
8	Satoru Yokoyama	Director	CEO AXTOS Co., Ltd.
9	Katsuyuki Mori	Director	CEO Tachiya Co., Ltd.
10	Motohiko Takasu	Director	Managing Director Chubu Yakuhin Co., Ltd.
11	Koichiro Kubo	Director Audit & Supervisory Committee Member (full-time)	
12	Mutsuo Masuda	Outside Director Audit & Supervisory Committee Member	
13	Hirofumi Hata	Outside Director Audit & Supervisory Committee	
14	Tokimitsu Ito	Outside Director Audit & Supervisory Committee	

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.

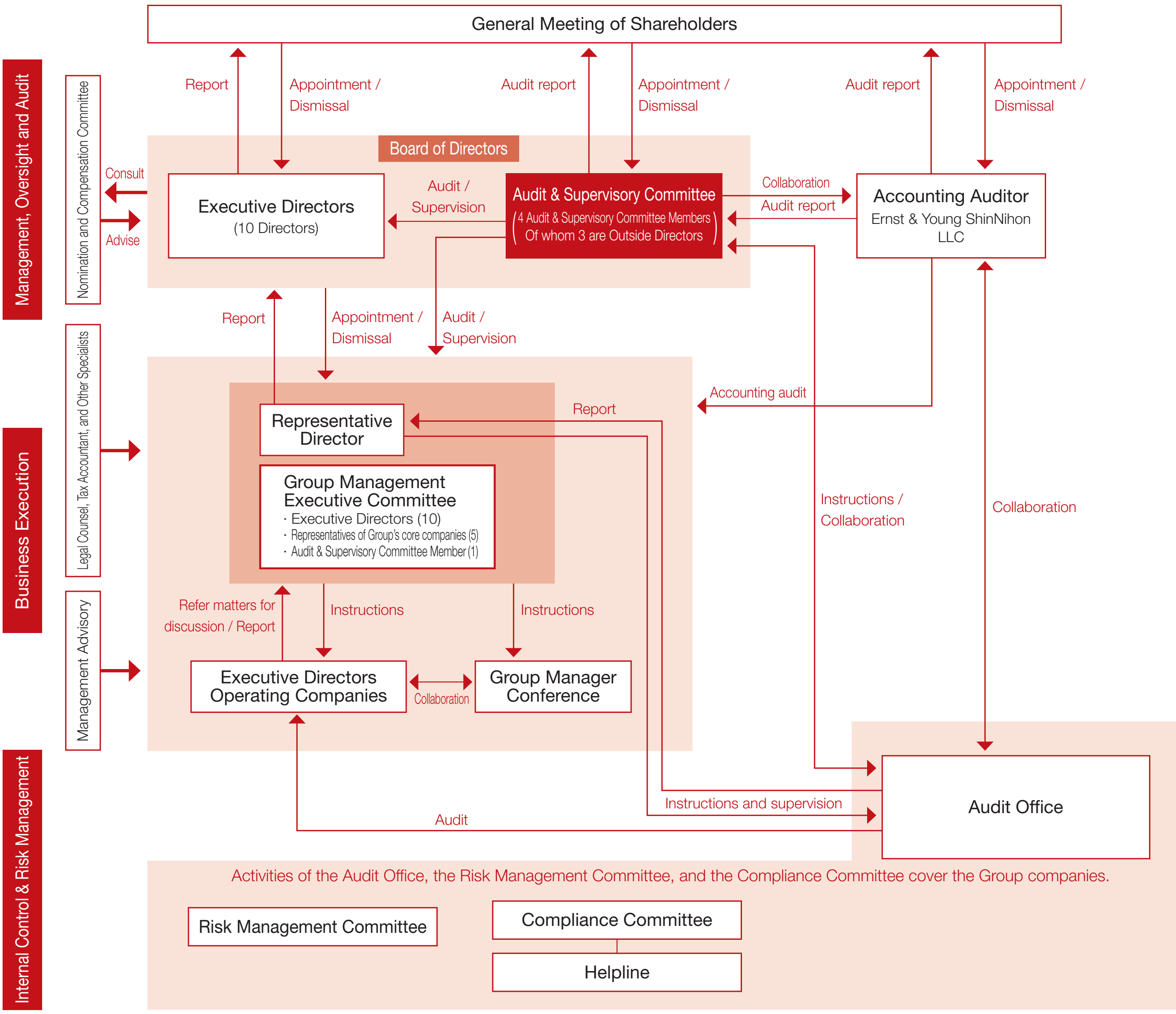
At the 59th Ordinary General Meeting of Shareholders held on June 30, 2016, a partial amendment to the Articles of Incorporation was approved and the Company transitioned to a company with Audit & Supervisory Committee System. By establishing an Audit & Supervisory Committee with more than half of the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

Corporate Governance Initiatives

	Initiatives	Basic Policy on Corporate Governance*				
		1	2	3	4	5
April 2015	Establishment of the IR Office					○
June 2015	Appointment of two Outside Directors				○	
October 2015	Transition to a holding company structure				○	
	Relaunch of the Company's website			○		
December 2015	Establishment of Basic Policy on Corporate Governance and a policy on constructive dialogues with shareholders	○	○	○	○	○
	Establishment of the Nomination and Compensation Committee (voluntary advisory organ consisting of two Outside Directors and two Executive Directors)				○	
January-February 2016	Performance evaluation of the Board of Directors Discussion at the Board of Directors meeting based on the results of analysis and evaluation				○	
June 2016	Transition to a company with audit & supervisory committee Change of the composition of the Board of Directors (total of 14 Directors consisting of 10 Executive Directors and four Directors who are Audit & Supervisory Committee Members)				○	
August 2016	Issuance of the annual report (Japanese and English)	○	○	○		○
January-February 2017	Performance evaluation of the Board of Directors Discussion & analysis of effectiveness of the Board at the meeting of the Board of Directors				○	
June 2017	Abolition of retirement benefits for Directors Introduction of Share-based Compensation Plan for Directors				○	

*1. Upholding shareholders' rights and equality, 2. Appropriate collaboration with stakeholders other than shareholders, 3. Appropriate disclosure and securing of transparency, 4. Responsibility of the Board of Directors etc., and 5. Dialogues with shareholders.

Overview of Valor's Corporate Governance Structure



Performance evaluation on the Board of Directors

The Company has been considering whether or not the Board of Directors is functioning effectively, and 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 on the effectiveness of the Board once a year starting from the previous year, and the Board has comprehensively reviewed the results.

The questionnaires are designed to evaluate the effectiveness of Structure of the Board of Directors, Discussion & Consideration, Monitoring etc. by five scores. Average scores are calculated, while some of them are compared with the previous year. The results are compiled as reports and used as evaluation materials. In addition to scores, comments written at the questionnaires are also disclosed.

On February 6, 2016, the Board of Directors analyzed and discussed the results of the questionnaires. Average scores for each segment were above 3.0, which gives the Board of Directors an evaluation of generally effective.

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 2016)

	Meetings of the Board of Directors	Meetings of the Audit & Supervisory Board*
Number of meetings	10	7
Attendance of Outside Directors**	100%	100%

Note: *The figures are based on the number of meetings held after the 59th Ordinary General Meeting of Shareholders held on June 30, 2016, until March 2017.
**For Outside Director Mr. Tokimitsu Ito, the rate of attendance is calculated based on the number of meetings held after his appointment.

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.

Status of Operational Audits

	FY2013	FY2014	FY2015	FY2016
Number of operational audits	181	268	258	277
For the headquarters	22	24	24	26
For stores	158	239	228	244
For manufacturing and processing sites	1	5	6	7

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.

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

Commitment to Food Safety

Risk concerning food safety has a great bearing on the business model that optimizes the entire process from sourcing to retailing, which is pursued by the Group. The mainstay supermarket business includes not only the supermarket outlets but also many other sites that handle food, such as sites for food production and processing and production of agricultural produce. Moreover, the drugstore and home improvement center businesses also sell food. Much of the information concerning this risk is gained from customers and we believe sharing such information throughout the Group leads to enhancement of the level of overall control of the Group.

Taking the opportunity of the transition to a holding company, the Company established the Risk Management Department comprising the Quality Control Office, the Customer Relations Office, and the Legal Affairs Office. Meetings are held periodically in which the Risk Management Department, the Audit Office and the personnel responsible for quality control and customer relations at operating companies participate; we are also establishing systems for information sharing and improvement.

We focused on the following activities in FY2016.

· Operation of VOC (Voice of Customers) system

The system is designed to share customer feedback on products, services and others with all operating companies. Feedback on food safety is processed as data with a designated risk level, which is assessed from 1 to 3 by the degree of damage on human health. In addition, food safety risks are managed consistently from the identification of causes through to countermeasures and prevention.

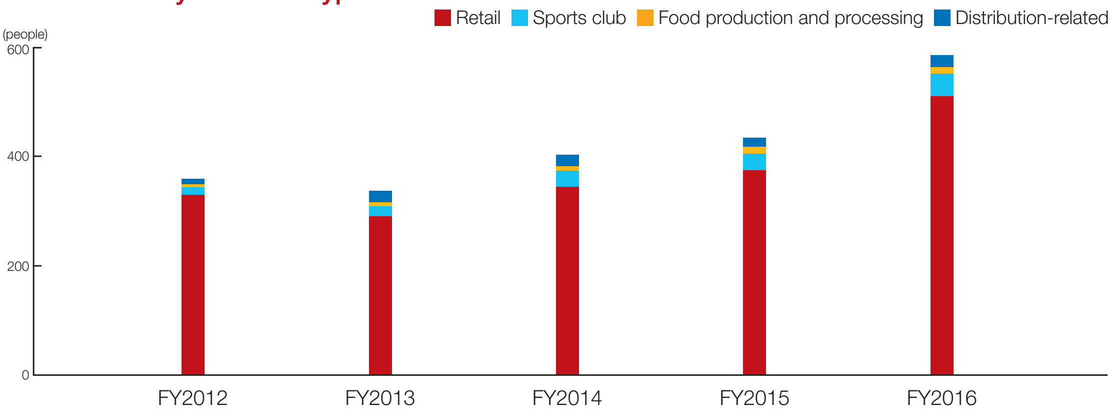
Human resources development fuels growth

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 and processing and distribution, in order to establish a business model that optimizes 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.

Adding recruiting offices

In order to respond to expansion of the scope of the business and diversification of the expertise required for operations, we are creating an environment that facilitates recruitment, making it easier for recruitment staff to conduct interviews and enhancing convenience of the recruitment process for the candidates. In April 2014, we opened the relatively accessible Valor Recruiting Office Meieki in Nagoya, Aichi Prefecture. In February 2015, in line with the expansion of our geographical coverage, we opened the Valor Recruiting Satellite Kyoto Shijo-Karasuma in Nakagyo-ku, Kyoto. Additionally, with the opening of the Company's Nagoya Headquarters in March 2015, we took the opportunity of integrating the recruiting office in Nagoya into the Nagoya Headquarters, where operating companies of the Group also conduct interviews with the candidates.

Recruitment by business type



[Solutions to Labor Shortages] Support for recruiting part-time employees

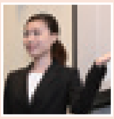
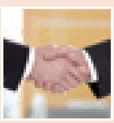
The process of recruiting part-time employees is normally conducted at each store, which gradually faces difficulties in gathering candidates by the area it operates or the advertising media it uses. To improve the situation, the headquarters of the Company has come to provide support for selecting advertising media, arranging the date & time of interviews with the candidates and preparing documents for entry, instead of stores located in Aichi and Gifu prefectures that require large numbers of part-time employees. As a result, the Company has obtained outcomes including an increase in contracts concluded, and the headquarters has expanded the number of stores for support.

Education & training system

The Group's education & training system is based on Group-wide standard education & training programs plus programs on the expertise needed at each operating company. Group-wide programs consist of position-based programs and programs for next-generation managerial positions. The position-based programs are mainly designed for those who have just joined the Company or those who have been promoted as a result of passing the Group's qualification exams. Focused on the Corporate Philosophy (DNA), the programs are positioned as an opportunity to connect philosophy and practice by cultivating the attitude and mindset concerning work expressed in the Corporate Philosophy advocated by Valor's founder Yoshimi Ito and from lectures by the current management. The curriculum of the programs for next-generational managerial positions is committed to practices on how to achieve goals while enhancing the motivation of co-workers, with the Corporate Philosophy (DNA) as a base. Outcomes from practices at stores are shared with all employees of the Group at the annual Group Conference.

HR systems to help diverse people flourish

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

	Status		FY2015	FY2016
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. Development of potential candidates for managerial positions (buyers, deputy store managers, managers, etc.) 2. Improvement of the workplace environment corresponding to the phase of the individual's life and career - Raising awareness about maternity leave, child care leave, and family care leave - Creation of a 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)	7.4% (28people/378people)	6.0% (23people/383people)
		Number of female workers who took maternity leave or child care leave		
		Maternity leave	97 people	78 people
		Child care leave	118 people	104 people
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	—	2.28%*
		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	93.1%	82.1%
Promotion to full-time employees 	Eight of the nine 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	123 people	128 people

Note*: Valor Holdings Co., Ltd. and key operating companies (Valor Co., Ltd., Home Center Valor Co., Ltd., Chubu Yakuhin Co., Ltd., Tachiya Co., Ltd., Shokusenkan-Taiyo Co., Ltd., AXTOS Co., Ltd., Chubu Foods Co., Ltd., Chubu Kosan Co., Ltd., and Chubu Ryutu Co., Ltd.), which account for about 90% of the Valor Group's workforce.
*In FY2016, we started group reporting of the rate of hiring people with disabilities for 23 operating companies, of which voting rights are directly held by the Company.

Creating better places to work

1. Responding to greater diversity in values and attitudes about work styles: introduction of work region selection system

The spread of regional development 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 is 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. To respond to increasingly diverse values and attitudes concerning work styles, 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., workers select one of the two categories defined below. We will continue promoting the establishment of systems that will lead to the realization of better places to work.

	Work region category
National employee	Employees willing to work in any region
Regional employee	Employees who prefer to be based in a particular region

2. Supporting diverse human resources: opening of an on-site nursery school

In September 2017, to support employees who wish to combine work with childcare, we plan to open 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. This nursery school will be available for the children of both employees and local residents. Going forward, we plan to continue enhancing workplace conditions throughout the Valor Group. Smile Nest Valor Hiromi Nursery School is eligible for a Cabinet Office grant for company-sponsored childcare projects.

Foundation

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. Reduction of CO_2 emissions mainly through energy saving and resource saving
2. Reduction of food waste and other waste
3. Expansion of sales of environmentally friendly products
4. Promotion of green purchasing

Material Flow

INPUT

Head office, offices, related facilities

▶ Electricity and others

Electricity consumption 33MWh (FY2015 37MWh)

Copier paper 165t (FY2015 179t)

▶ Fuel

All company-owned vehicles

Gasoline 892kl (FY2015 1,042kl)

▶ Fuel

All delivery vehicles

Light oil 12,648kl (FY2015 10,179kl)

▶ Electricity, water, gas

Electricity consumption 353,315MWh (FY2015 347,590kl)

Water consumption ... 1,733,000m³ (FY2015 1,607,000m³)

Gas consumption ... 2,604,000m³ (FY2015 2,744,000m³)

→

Head office, offices, etc.
(including Valor Holdings)

Company-owned vehicles

Distribution centers
Delivery vehicles

Stores
SHOP
Supermarkets
Home improvement centers

→

OUTPUT

CO_2 emissions 16t
(from electricity consumption)
(FY2015 18t)

▶ Exhaust gas

CO_2 emissions 2,069t (FY2015 2,419t)

▶ Exhaust gas

CO_2 emissions 32,632t (FY2015 26,312t)

CO_2 emissions ... 178,099t
(Total electricity and gas consumption)
(FY2015 179,546t)

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.

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	FY2015 results	FY2016 targets	FY2016 results	Evaluation	Causes and Effects	FY2017 targets
Reduction of CO_2 emissions	Reduction of power consumption	· Demand management · Management of air-conditioning temperature · Turning off of unnecessary lighting · Product display that does not interrupt the flow of refrigeration · Introduction of highly efficient facilities and equipment	Rate of power consumption to sales floor space: **508** (excluding DC usage) (**3.2**% reduction of the consumption rate compared with the previous year)	Rate of power consumption to sales floor space: **503** (excluding DC usage) (**1**% reduction of the consumption rate compared with the previous year)	Rate of power consumption to sales floor space: **500** (excluding DC usage) (**0.6**% reduction of the consumption rate compared with the previous year)	△	All lighting of supermarket stores excluding main lighting was changed to LED lighting to enhance the efficiency of electricity usage. With a view to installing efficient equipment, we will continue with efforts to reduce electricity consumption.	Rate of power consumption to sales floor space: **495** (excluding DC usage) (**1**% reduction of the consumption rate compared with the previous year)
	Energy-efficient driving	Trucks for logistics · Turning off engines when vehicles are stationary · Instructions and education for energy-efficient driving	Compared with the previous year · Driving distance: **107**% · Amount of fuel used: **110**% · Fuel consumption: **103**%	**1**% reduction of fuel consumption	Compared with the previous year · Driving distance: **119**% · Amount of fuel used: **124**% · Fuel consumption: **96**%	△	Because of store openings at distant locations, driving distance and fuel consumption increased compared with the previous year. On the other hand, fuel economy was improved.	**1**% reduction of fuel consumption
Reduction of waste	Increase of the proportion of customers avoiding use of plastic bags	· Charging for plastic bags · Implementation of “My Bag” campaign · “No Plastic Bag Day”	Proportion of customers avoiding use of plastic bags: **84.7**% (All stores of Valor Co., Ltd.)	Proportion of customers avoiding use of plastic bags: **87.0**% (All stores of Valor Co., Ltd.)	Proportion of customers avoiding use of plastic bags: **85.7**% (All stores of Valor Co., Ltd.)	△	Proportion of consumers avoiding use of plastic bags increased by **1.0**% compared with the previous year. The number of stores charging plastic bag fees increased from **224** to **225**. We will cooperate with our customers to reduce the use of plastic bags.	Proportion of customers avoiding use of plastic bags: **87.0**% (All stores of Valor Co., Ltd.)
	Reduction of food waste	· Planned production · Early small discounts · Review of merchandise mix for the evening and adjustment of volume	Rate of waste generated to net sales: **0.0536** (**109.7**% YoY)	Rate of waste generated to net sales: **0.0530** (**99**% YoY)	Rate of waste generated to net sales: **0.0625** (**116.6**% YoY)	×	We will make continued efforts to reduce unsold products and other waste.	Rate of waste generated to net sales: **0.0530** (**85**% YoY)
Promotion of recycling	Promotion of recycling of food waste	· Reduction of products to be disposed of · More departments conducting recycling · More products to be recycled	Number of stores recycling food waste: **223**	Number of stores recycling food waste: **230**	Number of stores recycling food waste: **238**	◎	We will increase the number of stores recycling food waste. Further efforts to reduce the volume of products for disposal are necessary.	Number of stores recycling food waste: **240**
	Promotion of recycling of used paper	· Sorting and storage of used paper at designated places · More stores to recycle used paper	· Number of stores recycling used paper: **67** · Recycling volume: **52,318** kg	· Number of stores recycling used paper: **80** · Recycling volume: **52,500** kg (**100**% YoY)	· Number of stores recycling used paper: **87** · Recycling volume: **98,105** kg (**187.5**% YoY)	◎	Recycling volume was increased by expanding stores recycling used paper, which was generated from operational activities. We will revise the system for recycling used paper.	· Number of stores recycling used paper: **100** · Recycling volume: **111,800** kg (**114**% YoY)
	Promotion of recycling of containers and packaging	· Installation of more recycling boxes · Expansion of the scope of recyclable items · Review of recycling stations	Number of stores with installation of recycling boxes · Milk cartons: **235** · Aluminum/steel cans: **226** · Plastic food trays: **226** · PET bottles: **223**	Increase in the number of stores with installation of recycling boxes	Number of stores with installation of recycling boxes · Milk cartons: **235** · Aluminum/steel cans: **238** · Plastic food trays: **229** · PET bottles: **222**	○	The next step is to install more large recycling boxes and expand the number of recyclable items.	Increase in the number of stores with installation of recycling boxes

Note: * Calculation of “Reduction of CO2 emissions” covers Valor Co., Ltd. and Home Center Valor Co., Ltd. Calculation of other items covers Valor Co., Ltd.

Summary of consolidated results and financial conditions

In FY2016, the second year of the three-year strategic plans, the Valor Group worked to improve operational efficiency and focused on three key policies: 1) structural reforms centering on reinforcement of the existing stores in the supermarket segment and efficient utilization of infrastructure, 2) development of key growth drivers to expand drugstore and home improvement center operations, and 3) reform of the organizational structure to achieve growth of operating companies and strengthen governance.

Consolidated operating results for FY2016 were revenues from operations of ¥520,530 million, an increase of 4.6% year on year; operating income of ¥15,439 million, a decrease of 7.5%; ordinary income of ¥16,762 million, a decrease of 4.7%; and profit attributable to owners of parent of ¥10,522 million, a decrease of 2.2%. Although revenues from operations increased for the 22nd consecutive year, operating income and ordinary income decreased for the first time in three years and net profit decreased for the first time in eight years.

The breakdown of the increase in revenues (¥23,067 million) was ¥11,892 million for the drugstore business, ¥7,289 million for the supermarket business, and ¥1,743 million for the home improvement center business. In the drugstore business, growth rate of existing stores was strong at 4.6% and new store openings, the highest for the third consecutive year, also contributed. In the supermarket business, Kohseiya Co., Ltd., which became a subsidiary in August 2016, contributed to higher revenues. The breakdown of the decrease in earnings (¥1,243 million) was ¥148 million for the supermarket business, ¥147 million for the home improvement center business, and ¥43 million for the drugstore business. This indicates that the improvement in earnings of major segments has been slow. Additionally, following the transition to the holding-company system, the Company has been responsible for management of real estate of Valor Co., Ltd. and Home Center Valor Co., Ltd. Increase in management of property for these two companies before opening stores and after closure of stores led to an increase in corporate expenses, resulting in lower profit.

The gross profit ratio decreased 0.2 percentage points from the previous year and the expense ratio worsened 0.3 percentage points. As a result, the ratio of ordinary income to revenues from operations decreased from 3.5% for the previous year to 3.2%. As a result, ROA deteriorated from 7.0% for the previous year to 6.4%. ROE deteriorated from 11.4% to 10.2% owing to a decrease in profit attributable to owners of the parent.

The debt equity ratio improved from 0.9 to 0.8 as a result of promoting the repayment of interest-bearing debts.

Financial position

Total assets increased ¥13,572 million from the end of the previous year to ¥269,488 million. The main factors were an increase of ¥3,139 million in inventories because of new store openings and an increase of ¥8,778 million in property, plant and equipment mainly due to capital expenditure. Total liabilities increased ¥4,871 million from the end of the previous year to ¥161,761 million, mainly due to an increase of ¥1,341 million in notes and accounts payable-trade and an increase of ¥3,100 million in bonds payable despite a decrease of ¥2,201 million in loans payable. Net assets excluding subscription rights to shares and non-controlling interests increased ¥8,648 million from the end of the previous year to ¥107,057 million and the shareholders' equity ratio increased from 38.5% for the previous year to 39.7%.

Cash flows

Cash and cash equivalents at March 31, 2017 were ¥14,659 million, a decrease of 14.3% year on year. Although free cash flow (cash flow from operating activities minus cash flow from investing activities) was positive at ¥700 million, cash flow from financing activities was negative at ¥3,168 million.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥22,270 million, having decreased ¥721 million compared with the previous year. This decrease was mainly attributable to income before income taxes amounting to ¥15,870 million, depreciation and amortization amounting to ¥13,125 million, and an increase in notes and accounts payable-trade amounting to ¥873 million, despite cash outlays including an increase in inventories amounting to ¥3,025 million and income taxes paid amounting to ¥6,186 million.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥21,569 million, having increased ¥2,524 million compared with the previous year. The main factors were purchase of property, plant and equipment amounting to ¥19,458 million for new store openings and refurbishment and payments for guarantee deposits amounting to ¥1,597 million, despite proceeds from collection of guarantee deposits amounting to ¥912 million.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥3,168 million, having increased ¥3,590 million compared with the previous year. The main factors were repayments of long-term loans payable amounting to ¥13,797 million, redemption of bonds amounting to ¥7,040 million, and cash dividends paid amounting to ¥1,943 million, despite proceeds from long-term loans payable amounting to ¥11,184 million and proceeds from issuance of bonds amounting to ¥9,947 million.

Policy on Profit Distribution and Dividends for FY2016

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 FY2016, the Company increased the year-end dividend by ¥2, compared with the previous year to ¥21 per share. Combined with the interim dividend of ¥19 per share, this resulted in total annual dividends for FY2016 of ¥40 per share, ¥4 higher than for the previous year. The payout ratio was 19.4%.

Forecasts for FY2017

The Valor Group will continue its efforts to achieve the three-year strategic plans with the aim of improving operational efficiency and establishing the foundations for further growth. In the supermarket business, the drugstore business, and the home improvement center business, we will focus on establishing competitive formats; at the same time, we will work to improve profitability through efficient utilization of infrastructure, which we have been upgrading in recent years, and through the optimum allocation of resources via the holding company system. For FY2017, the final year of the three-year strategic plans, the initial targets were revenues from operations of ¥550.0 billion, operating income of ¥21.0 billion, ordinary income of ¥22.0 billion, and profit attributable to owners of the parent of ¥13.0 billion. Although we will maintain the target for revenues from operations, we will lower the earnings targets and prioritize strengthening of the Group's fundamentals for the next stage of growth.

In FY2017, the plan calls for the opening of 68 stores: 10 supermarket stores, 35 drugstores, one home improvement center, 20 sports clubs, and two pet shops. In addition to expansion of the existing stores, we also intend to expand our operations. The plan calls for capital expenditure (payment basis) of ¥23.1 billion, consisting of investment in new stores of ¥16.2 billion, investment in existing stores of ¥4.5 billion, and other investment of ¥2.4 billion.

Based on the above-mentioned assumptions, forecasts for consolidated financial performance for FY2017 are as follows: revenues from operations of ¥550.0 billion, an increase of 5.7% year on year; operating income of ¥17.3 billion, an increase of 12.0%; ordinary income of ¥18.7 billion, an increase of 11.6%; and profit attributable to owners of the parent of ¥11.5 billion, an increase of 9.3%. For dividends, the Company intends to pay annual dividends of ¥45 per share, an increase of ¥5 compared with FY2016, consisting of an interim dividend of ¥21 per share, an increase of ¥2 compared with FY2016, and a year-end dividend of ¥24 per share, an increase of ¥3.

Valor Holdings Co.,Ltd. and Subsidiaries
The financial year ended March 31, 2016 and 2017

Consolidated Balance Sheet

(Millions of yen)

	FY2015	FY2016
(Assets)		
Current assets		
Cash and deposits	17,247	14,818
Notes and accounts receivable-trade	6,348	7,241
Merchandise and finished goods	30,774	33,911
Raw materials and supplies	505	507
Deferred tax assets	1,569	1,832
Other	10,223	10,741
Allowance for doubtful accounts	(52)	(7)
Total current assets	66,615	69,045
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	184,277	198,516
Accumulated depreciation	(94,822)	(103,031)
Buildings and structures, net	89,454	95,485
Machinery, equipment and vehicles	7,067	7,190
Accumulated depreciation	(4,026)	(4,561)
Machinery, equipment and vehicles, net	3,041	2,628
Land	37,415	38,556
Lease assets	12,294	14,674
Accumulated depreciation	(4,953)	(6,223)
Lease assets, net	7,341	8,451
Construction in progress	2,912	3,242
Other	27,905	30,715
Accumulated depreciation	(21,153)	(23,382)
Other, net	6,752	7,333
Total property, plant and equipment	146,918	155,697
Intangible assets		
Goodwill	173	751
Lease assets	19	11
Other	7,105	7,639
Total intangible assets	7,298	8,402
Investments and other assets		
Investment securities	2,306	2,290
Long-term loans receivable	785	794
Deferred tax assets	3,995	4,231
Guarantee deposits	24,960	25,830
Other	3,261	3,415
Allowance for doubtful accounts	(225)	(219)
Total investments and other assets	35,084	36,343
Total noncurrent assets	189,301	200,443
Total assets	255,916	269,488

(Millions of yen)

	FY2015	FY2016
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	35,376	36,718
Short-term loans payable	16,970	16,954
Current portion of bonds	7,000	40
Current portion of long-term loans payable	12,892	17,678
Lease obligations	1,182	1,500
Income taxes payable	3,653	2,951
Provision for bonuses	2,357	2,531
Provision for directors' bonuses	163	136
Provision for point card certificates	484	647
Provision for loss on recollection of gift certificates	200	215
Asset Retirement Obligations	—	3
Other	15,177	15,643
Total current liabilities	95,459	95,020
Noncurrent liabilities		
Bonds payable	—	10,060
Long-term loans payable	38,483	31,512
Lease obligations	8,423	9,486
Deferred tax liabilities	239	140
Provision for directors' retirement benefits	853	868
Provision for retirement benefits	2,738	3,049
Asset retirement obligations	5,014	5,625
Long-term deposits received	5,559	5,879
Other	117	116
Total noncurrent liabilities	61,429	66,740
Total liabilities	156,889	161,761
(Net assets)		
Shareholders' equity		
Capital stock	11,916	11,916
Capital surplus	12,713	12,722
Retained earnings	75,841	84,442
Treasury stock	(2,596)	(2,558)
Total shareholders' equity	97,875	106,522
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	368	364
Deferred gains (loss) on hedges	(23)	—
Foreign currency translation adjustment	161	139
Remeasurements of defined benefits plan	26	30
Total accumulated other comprehensive income	533	534
Subscription rights to shares	52	96
Minority interests	565	573
Total net assets	99,027	107,727
Total liabilities and assets	255,916	269,488

Valor Holdings Co.,Ltd. and Subsidiaries
(Fiscal years ended March 31, 2016 and 2017)

Consolidated Statement of Income

(Millions of yen)

	FY2015	FY2016
Net sales	479,934	501,627
Cost of sales	360,223	377,610
Gross profit	119,711	124,016
Operating revenues	17,529	18,903
Operating gross profit	137,240	142,919
Selling, general and administrative expenses		
Advertising expenses	5,946	6,269
Packaging expenses	73	99
Supplies expenses	537	659
Distribution expenses	618	655
Provision for point card certificates	1,679	2,024
Provision of allowance for doubtful accounts	60	2
Directors' remuneration	475	459
Salaries and wages	47,361	49,615
Bonuses	3,614	3,783
Provision for bonuses	2,181	2,312
Provision for directors' bonuses	163	146
Retirement benefit expenses	598	593
Provision for directors' retirement benefits	90	59
Welfare expenses	7,241	7,829
Utilities expenses	8,114	7,594
Rent expenses	19,488	21,296
Repair and maintenance	2,571	2,708
Depreciation	11,250	11,774
Amortization of goodwill	164	153
Other	8,323	9,441
Total selling, general and administrative expenses	120,556	127,480
Operating income	16,683	15,439
Non-operating income		
Interest income	113	109
Office work fee	878	932
Rent income	811	627
Other	1,433	1,383
Total non-operating incomes	3,235	3,052
Non-operating expenses		
Interest expenses	791	714
Rent cost of real estate	1,034	509
Other	506	505
Total non-operating expense	2,332	1,729
Ordinary income	17,586	16,762
Extraordinary income		
Subsidy income	97	228
Other	90	79
Total extraordinary income	188	307
Extraordinary loss		
Loss on sales of noncurrent assets	1	0
Loss on retirement of noncurrent assets	35	106
Impairment loss	681	663
Loss on reduction of noncurrent assets	151	228
Loss on valuation of investment securities	1	3
Provision of allowance for doubtful accounts	196	20
Other	263	177
Total extraordinary loss	1,331	1,199
Income before income taxes	16,443	15,870
Income taxes-current	5,655	5,819
Income taxes-deferred	51	(519)
Total income taxes	5,706	5,300
Net income	10,736	10,570
Profit (loss) attributable to non-controlling interests	(23)	47
Profit attributable to owners of parent	10,759	10,522

Valor Holdings Co.,Ltd. and Subsidiaries
(Fiscal years ended March 31, 2016 and 2017)

Consolidated Statements of Cash Flows

(Millions of yen)

	FY2015	FY2016
Cash flows from operating activities		
Income before income taxes	16,443	15,870
Depreciation and amortization	12,683	13,125
Impairment loss	681	663
Amortization of goodwill	166	153
Increase (decrease) in allowance for doubtful accounts	(229)	(52)
Increase (decrease) in defined benefit liabilities	321	267
Increase (decrease) in provision for directors' retirement benefits	(83)	(15)
Increase (decrease) in provision for point card certificates	60	102
Interest and dividends income paid	(131)	(142)
Interest expenses received	791	714
Loss on retirement of noncurrent assets	35	106
Loss on reduction of noncurrent assets	151	228
Loss (gain) on valuation of investment securities	1	3
Equity in losses (earnings) of affiliates	71	46
Subsidy income	(97)	(228)
Decrease (increase) in notes and accounts receivable-trade	(616)	(878)
Decrease (increase) in inventories	(2,580)	(3,025)
Increase (decrease) in notes and accounts payable-trade	2,357	873
Increase (decrease) in accrued consumption taxes	(849)	110
Increase (decrease) in accounts payable-other and accrued expenses	90	735
Other	(419)	455
Subtotal	28,847	29,115
Interest and dividends income received	27	45
Interest expenses paid	(766)	(704)
Income taxes paid	(5,116)	(6,186)
Net cash provided by operating activities	22,991	22,270
Cash flows from investing activities		
Payments into time deposits	(60)	(89)
Proceeds from withdrawal of time deposits	53	166
Purchase of property, plant and equipment	(15,895)	(19,458)
Proceeds from sales of property, plant and equipment	22	441
Purchase of intangible assets	(1,191)	(1,224)
Purchase of investment securities	(41)	(1)
Payments of loans receivable	(110)	(97)
Proceeds from collection of loans receivable	115	(29)
Payments for guarantee deposits	(1,853)	(1,597)
Proceeds from collection of guarantee deposits	507	912
Proceeds from guarantee deposits received	282	580
Repayments of guarantee deposits received	(335)	(264)
Purchase of stocks of affiliates	(390)	(438)
Subsidy income	97	228
Other	(245)	(695)
Net cash provided by investing activities	(19,045)	(21,569)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(700)	(16)
Proceeds from long-term loans payable	10,100	11,184
Repayments of long-term loans payable	(11,925)	(13,797)
Proceeds from issuance of bonds	—	9,947
Redemption of bonds	(42)	(7,040)
Repayments of finance lease obligations	(1,254)	(1,515)
Purchase of treasury stock	(1,253)	(1)
Proceeds from sales of treasury stock	72	30
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2)	(17)
Cash dividends paid	(1,753)	(1,943)
Net cash provided by financing activities	(6,758)	(3,168)
Effect of exchange rate change on cash and cash equivalents	(43)	23
Net increase (decrease)in cash and cash equivalents	(2,856)	(2,444)
Cash and cash equivalents at beginning of period	19,960	17,103
Cash and cash equivalents at end of period	17,103	14,659

Valor Holdings Co.,Ltd. and Subsidiaries
(Fiscal years ended March 31, 2016 and 2017)

Consolidated Statements of Changes in Net Assets

FY2015

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income							
	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	Subscription rights to shares	Non-controlling interests	Total net assets
Balance, March 31, 2015	11,916	12,699	66,834	(1,416)	90,034	306	4	131	(175)	267	38	540	90,881
Changes of items during the period													
Equity transaction with noncontrolling interests		(0)			(0)								(0)
Dividends from surplus			(1,753)		(1,753)								(1,753)
Net income			10,759		10,759								10,759
Purchase of treasury stock				(1,253)	(1,253)								(1,253)
Disposal of treasury stock		14		74	88								88
Net changes of items during the period						61	(27)	29	202	265	13	25	305
Total changes of items during the period	—	13	9,006	(1,179)	7,840	61	(27)	29	202	265	13	25	8,146
Balance, March 31,2016	11,916	12,713	75,841	(2,596)	97,875	368	(23)	161	26	533	52	565	99,027

FY2016

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income							
	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	Subscription rights to shares	Non-controlling interests	Total net assets
Balance, March 31, 2016	11,916	12,713	75,841	(2,596)	97,875	368	(23)	161	26	533	52	565	99,027
Cumulative effects of changes in accounting policies			20		20								20
Restated balance, March 31,2016	11,916	12,713	75,861	(2,596)	97,895	368	(23)	161	26	533	52	565	99,047
Changes of items during the period													
Equity transaction with noncontrolling interests		9			9								9
Dividends from surplus			(1,942)		(1,942)								(1,942)
Net income			10,522		10,522								10,522
Purchase of treasury stock				(1)	(1)								(1)
Disposal of treasury stock		(0)		38	37								37
Net changes of items during the period						(3)	23	(22)	3	1	44	7	53
Total changes of items during the period	—	8	8,580	37	8,627	(3)	23	(22)	3	1	44	7	8,680
Balance, March 31, 2017	11,916	12,722	84,422	(2,558)	106,522	364	—	139	30	534	96	573	107,727

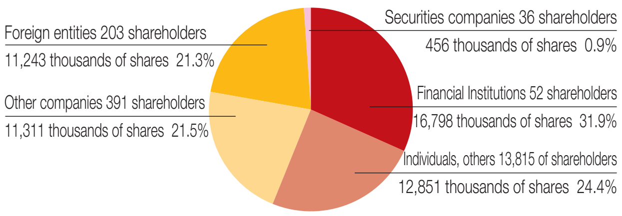
Corporate Data

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	¥11,916 million

Share Information

Number of authorized shares	200,000,000
Number of outstanding shares	52,661,699
Number of shareholders	14,497
Stock exchange listings	Tokyo Stock Exchange, first section
	Nagoya Stock Exchange, first section

Distribution of shareholders by Type



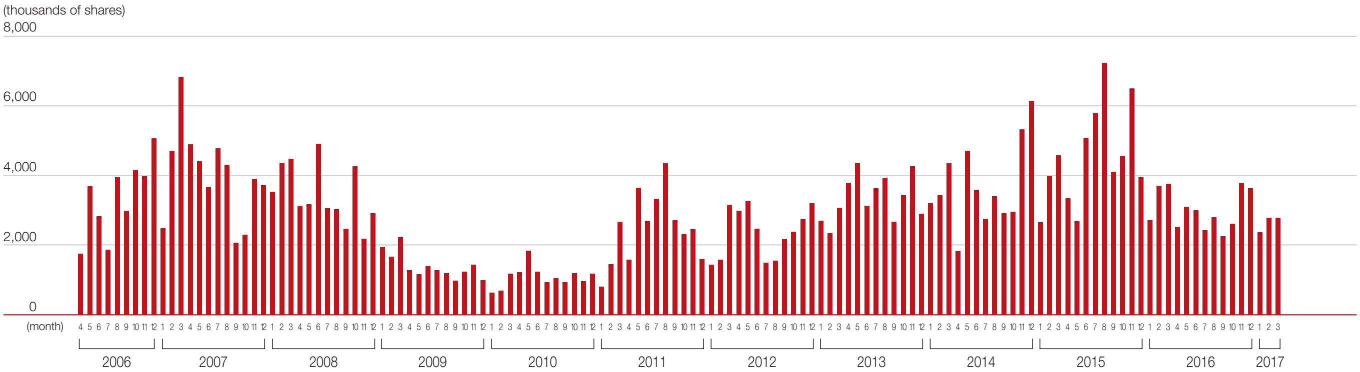
Major Shareholders

Shareholder	Number of Shares Held (Thousands)	Percentage of Shares Held
The Norinchukin Bank	2,542	4.8%
The Juroku Bank	2,536	4.8%
Ito Youth Scholarship Foundation	2,400	4.5%
Masami Tashiro	1,571	2.9%
Japan Trustee Services Bank, Ltd. (Trust Account)	1,426	2.7%
Tomoko Ito	1,360	2.5%
Shiunsha Co., Ltd.	1,326	2.5%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,256	2.3%
ORBIS SICAV	1,213	2.3%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,172	2.2%

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. Chubu Foods Co., Ltd. Daien Foods Co., Ltd. Shufu-no-Mise Shoji Chubu Honsha Co.,Ltd. Fukui Chuo Tsukemono Co., Ltd. V-Solution Co., Ltd.	Chubu Taisei Co., Ltd. Chubu Meat Co., Ltd. Hida-Osaka Buna-Shimeji Co., Ltd. Gujyo Kinoko Farm Co., Ltd. Toho Sangyo Co., Ltd. Kita-Shinshu Kinoko Farm Co., Ltd. Valor Farm Kaizu 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.
● Sports Clubs	AXTOS Co., Ltd.	
● Distribution-related operations	Chubu Ryutu Co., Ltd. Chubu Kosan Co., Ltd. MENTEX Co., Ltd. Seiso Co., Ltd.	VMC (Vending Machine Corporation) V-Flower Co., Ltd. Shanghai Valor co., Ltd.
● Others	Home Center Valor Co., Ltd.* Gito Family Department Co., Ltd. Chubu Hoken Service Co., Ltd. Core Support 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.

"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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