Annual Report 2017
From April 1, 2016 to March 31, 2017
Good Medical Practice through Good Management

Medical institutions like hospitals and clinics need good management to provide good medical care. Providing good medical care from the outset, however, also results in good management. Therefore, good medical care and good management are both essential to the provision of efficient, high-quality healthcare. When treating patients, doctors have pride and a sense of mission that cause them to do everything in their power for the patient they are treating. Consequently, Sogo Medical’s mission is to provide the institutional support that enables doctors to focus on the provision of this good medical care.

Management Principles

At Sogo Medical, a unique set of management principles is at the center of the work that we do and the way we undertake it. Our Pledge dedicates our lives to valuing human life through our vocation and putting our hearts into our work. The Mission Statement declares the Company’s purpose. Our Corporate Credo outlines the assurances and promises we make to society.

<table>
<thead>
<tr>
<th>Our Pledge</th>
<th>Mission Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>We shall, in our own lives, highly value the irreplaceable lives of others.</td>
<td>We shall work to build a better society through good medical practice.</td>
</tr>
<tr>
<td>We shall strive always to be right-thinking, grateful, diligent, modest,</td>
<td></td>
</tr>
<tr>
<td>honest, refined, straight and fair independent people.</td>
<td></td>
</tr>
<tr>
<td>We believe that our work contributes to the advancement of society and</td>
<td></td>
</tr>
<tr>
<td>benefits many people, and shall therefore conduct our work responsibly and</td>
<td></td>
</tr>
<tr>
<td>efficiently.</td>
<td></td>
</tr>
<tr>
<td>We shall not hesitate to do good nor prevent harm.</td>
<td></td>
</tr>
</tbody>
</table>

Corporate Credo

1. We shall be a company that values each life as irreplaceable.
2. We shall be a good partner to our suppliers and earn their trust.
3. We shall encourage our employees to live full lives, and grow together with them as a company.
4. We shall seek to cultivate the character, skills, and insight of each employee, to meet our responsibilities both as a company as a whole and as individual citizens.

Sogo Medical’s Vision of Good Medical Practice

Bringing people together in optimal settings for integrated support of compassionate medical practice.

◆ Brining people together
  Recipients and providers of medical practice and the local community understand and share each other’s thoughts and situations with trust and respect.

◆ Optimal settings
  - Permanent settings for efficient medical resource allocation and development
  - Reliable, safe settings for medical practice recipients and providers
  - Settings for differentiated medical functions, coordinated to realize the potential of specialization
  - Settings for appropriate information disclosure to facilitate consent and choice

◆ Compassionate medical practice
  Compassionate medical practice from the beginning to the end of life through the social, economic, physical, and psychological aspects of care, enhancing the quality of life for all, and enabling them to smile with a sense of hope.

(Such peripheral areas as prevention and long-term care are considered a part of medical practice.)
SOGO MEDICAL CO., LTD.

Good Medical Practice through Good Management

Management Principles

Sogo Medical’s Vision of Good Medical Practice

Bringing people together in optimal settings for integrated support of compassionate medical practice.

of this good medical care.

Consequently, Sogo Medical’s mission is to provide the institutional support that enables doctors to focus on the provision of medical practice, that cause them to do everything in their power for the patient they are treating.

Thus, good medical care and good management are both essential to the provision of efficient, high-quality healthcare. When treating patients, doctors have pride and a sense of responsibility and efficiency.

Providing good medical care from the outset, however, also results in good management.

Medical institutions like hospitals and clinics need good management to provide good medical care.

Corporate Credo outlines the assurances and promises we make to society.

We believe that our work contributes to the advancement of society and shall therefore conduct our work responsibly and efficiently.

We shall strive always to be honest, refined, straight and fair.

We shall, in our own lives, highly value the irreplaceable lives of others.

We shall seek to cultivate the character, skills, and insight of each life as irreplaceable.

We shall live full lives, and grow together as a whole and as individual citizens.

We shall work to build a better society with trust and respect.

Recipients and providers of medical practice and the local community understand and share each other's thoughts and situations.

We shall, in our own lives, highly value right-thinking, grateful, diligent, modest, honest, refined, straight and fair.

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Recipients and providers of medical practice and the local community understand and share each other's thoughts and situations.

Corporate Information

62 Corporate Information

Stock Information

63 Stock Information

A cautionary note on forward-looking statements

This annual report contains forward-looking statements relating to performance projections and future predictions that are based on judgments made in light of information available at the time of writing, and as a result includes risks and uncertainties. For this reason, there is a possibility that actual results may differ from such forecasts.

If it becomes necessary to make revisions to items presented in this annual report after publication, the revised items will be updated on the company website in the “Investor Relations” section.
Long-Term Vision & Business Outline

We shall work to build a better society through good medical practice.
Long-Term Vision
Achieving a Japanese Healthcare Business Model to Support an Integrated Community Care System

It is through achieving a unique Japanese healthcare business model that we will help create a medical system that provides citizens with efficient, high-quality medical care. For more details, see p. 20

Action 2020 Medium-Term Management Plan
Realization of a Japanese Healthcare Business Model
(For the three-year period from April 2017 to March 2020)

We are building a platform for regional healthcare networks through our DtoD system and high-value pharmacies, as well as through collaboration with other companies. For more details, see p. 16

Providing Total Consulting-Based Medical Management Support

Sogo Medical offers total consulting-based medical management support that enables hospitals and clinics to provide efficient, high-quality healthcare. We are engaged in a variety of activities that support good medical practice. Our DtoD system helps to stimulate local medical care through doctor introductions, support for the succession of medical practices, and the coordination of medical care. We have also established 674 dispensing pharmacies nationwide, and lease medical equipment and rent TVs to help improve the quality of amenities for patients.
Business Overview

Medical Practice Support

We provide management consulting, including basic concept formulation and management enhancement support for medical facilities, as well as support for physician practice start-ups, transfers, and coordination through our DtoD system. We also provide rental televisions to hospital patients, medical device leasing, and planning, design, and construction of long-term care facilities.

Please refer to p. 22 for our achievements in Medical Practice Support.

Pharmacies

We operate 674 dispensing pharmacies across Japan, including our Sogo Pharmacies that serve as “general healthcare stations.” Our keyword is “coordination”—working with medical institutions and doctors in the care of patients, and lending support to local medical care. We take various measures to enable our pharmacists to work to their fullest capabilities so that people come to consider them their “primary care pharmacist” at their “primary care pharmacy.”

Please refer to p. 28 for our achievements in Pharmacies.

Others

We are expanding our elderly care business through Sogo Care Network Co., Ltd., which manages fee-based residential homes for the elderly, and Sun Villa Co., Ltd., which manages fee-based homes with long-term care for the elderly.
Contributing to the Revitalization of Local Medical Care through the DtoD (Doctor to Doctor) System

15 Years of Helping Doctors Reach Their Aspirations

Our DtoD (Doctor to Doctor) system, which offers support for succession of medical practices, healthcare coordination, and practice transfers, was launched in October 2001 and is celebrating its 15th anniversary this year.

The DtoD system is a framework that supports both the ambitions of doctors and good medical practices. For example, one service offered under the DtoD system provides extensive nationwide placement information to doctors wishing to change their practice, suggesting opportunities that provide the best match. The DtoD system also provides comprehensive support to doctors seeking to go into private practice, from practice start-up preparation, including the drawing up of management principles and a business plan, through post-launch follow-up. The system can also introduce successors to medical practice owners who have worked to build up a practice over many years when they have no person ready to carry forward the business. We also introduce hospitals with superior doctors who meet their needs and we support overall healthcare coordination.

The DtoD system also connects hospitals, employed physicians, and doctors in private practice within the region, contributing to the creation of important ties among practitioners to realize efficient, high-quality healthcare

High-Value Pharmacies with Local Roots

By putting our pharmacists’ abilities to work, we have promoted in-home medical care, supported disease prevention efforts, offered self-medication support, and accelerated the use of generic pharmaceuticals, all to promote the establishment of high-value pharmacies.

Also, through our GOES independent training system, we are furthering efforts to improve the quality of medical service by providing our pharmacists with the necessary medical and pharmaceutical knowledge, communication ability, technical skills, and proper attitude.

*1 Self-medication: Taking responsibility for one’s own health, a person treats slight physical ailments on his or her own.

*2 GOES: Gradable OJT Educational System
We will continue to support good medical practice to build a better society.
2017 Highlights

Each humble activity adds up and leads to steady growth.

### Medical Practice Support

#### 418 new practice questionnaires collected.

**New Practice Questionnaires**

Interviews were carried out with doctors to determine what an ideal medical practice would be. These questionnaires have allowed Sogo Medical to support each physician in providing better medical care.

#### A total of 345 doctors attended our seminars on how to open a practice.

**Seminar Participation from Doctors**

We hold seminars for doctors seeking to start their own private practices, providing support to make these doctors’ dreams into a reality.

#### 69,159 doctors are registered with ourDtoD system.

**Support for Doctors Who Wish to Change Jobs or Open a Practice**

Our support creates an environment in which employed physicians can give their full attention to providing medical care and realize their aspiration to change jobs or open a private practice.

#### We have 39 healthcare management consultants.

**Officially Registered as Healthcare Management Consultants with the Japan Association of Healthcare Management Consultants**

Our consultants provide a wide range of management consulting services as partners to medical institutions, from solving immediate problems to setting up structures for the future.

#### Succeed Members now total 1,666.

**Succeed Members**

We provide support for running a medical practice and achieving good management at medical institutions from a variety of angles that includes human resources, facilities, funding, and information.

### Financial Information

#### Operating Income / Operating Income to Net Sales Ratio

- **Operating Income**
  - 2008: ¥3.0 billion
  - 2009: ¥4.7 billion
  - 2010: ¥3.8 billion
  - 2011: ¥4.6 billion
  - 2012: ¥4.6 billion
  - 2013: ¥5.0 billion
  - 2014: ¥4.9 billion
  - 2015: ¥4.6 billion
  - 2016: ¥5.0 billion
  - 2017: ¥6.0 billion

- **Operating Income to Net Sales Ratio**
  - 2008: 14.7%
  - 2009: 15.0%
  - 2010: 15.9%
  - 2011: 17.4%
  - 2012: 19.5%
  - 2013: 21.6%
  - 2014: 14.1%
  - 2015: 13.6%
  - 2016: 12.6%
  - 2017: 13.1%
We ran economic comparison simulations for 83 pharmacies.

**Economic Comparison Reports**
As new policies have been adopted for locating pharmacies outside of hospitals and clinics, we forecast and analyze economic conditions for medical institutions before and after this shift to facilitate the smooth functioning of pharmaceutical dispensing.

---

**2,364 Pharmacists**

*Pharmacists*
A broad-based training system helps pharmacists improve their skills and expand pharmacy services.

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**We provided feedback to doctors from 95,948 trace reports.**

**Trace Reports**
Information from patients, including dosage schedules, was shared with doctors to improve the quality of care given to patients in collaboration with medical institutions.

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**HealthCare Note (Electronic Medicine Scheduler) registered users now total 52,915.**

**HealthCare Note**
This application brings convenience by shortening patient waiting times, for example, and by allowing pharmacists to review patients’ medication records ahead of time, promoting more reliable dispensing of medicine.

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**There are now 674 Sogo Pharmacies.**

**Sogo Pharmacies**
We have expanded our network of dispensary pharmacies nationwide to serve as “general healthcare stations” with roots in their local communities. By putting our pharmacists’ skills into action we are helping to improve local medical care.

---

**Total Assets / Capital Adequacy Ratio**

- **Total assets**
- **Capital adequacy ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total assets</th>
<th>Capital adequacy ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>29.5</td>
<td>49.0</td>
</tr>
<tr>
<td>2009</td>
<td>29.9</td>
<td>50.1</td>
</tr>
<tr>
<td>2010</td>
<td>36.2</td>
<td>43.0</td>
</tr>
<tr>
<td>2011</td>
<td>43.0</td>
<td>53.1</td>
</tr>
<tr>
<td>2012</td>
<td>53.1</td>
<td>57.1</td>
</tr>
<tr>
<td>2013</td>
<td>57.1</td>
<td>66.9</td>
</tr>
<tr>
<td>2014</td>
<td>66.9</td>
<td>69.8</td>
</tr>
<tr>
<td>2015</td>
<td>69.8</td>
<td>74.6</td>
</tr>
<tr>
<td>2016</td>
<td>74.6</td>
<td>86.7 billion</td>
</tr>
<tr>
<td>2017</td>
<td>86.7 billion</td>
<td>37.6%</td>
</tr>
</tbody>
</table>

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**Total Net Assets / ROE**

- **Total net assets**
- **ROE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total net assets</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>14.7</td>
<td>14.1</td>
</tr>
<tr>
<td>2009</td>
<td>15.0</td>
<td>8.6</td>
</tr>
<tr>
<td>2010</td>
<td>15.9</td>
<td>10.0</td>
</tr>
<tr>
<td>2011</td>
<td>17.4</td>
<td>13.1</td>
</tr>
<tr>
<td>2012</td>
<td>19.5</td>
<td>13.6</td>
</tr>
<tr>
<td>2013</td>
<td>21.6</td>
<td>13.6</td>
</tr>
<tr>
<td>2014</td>
<td>23.9</td>
<td>12.3</td>
</tr>
<tr>
<td>2015</td>
<td>26.5</td>
<td>12.6</td>
</tr>
<tr>
<td>2016</td>
<td>29.6</td>
<td>11.0</td>
</tr>
<tr>
<td>2017</td>
<td>32.8 billion</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Fiscal year ending March 31
We are building a platform for regional healthcare networks through our DtoD system and high-value pharmacies.
President’s Message

12 General Outline of the Fiscal Year Ending March 31, 2017

13 Medium-Term Management Plan Priority Initiative 1
   Undertaking New Businesses

14 Medium-Term Management Plan Priority Initiative 2
   Improving Existing Businesses

15 Medium-Term Management Plan Priority Initiative 3
   Enhancing Corporate Value

16 Achieving Our Long-Term Vision
   Formulating Our New Medium-Term Management Plan

20 Our Long-Term Vision
In this fiscal year what kind of results were seen with regard to the medium-term management plan “Further Challenge—Toward a better society in which people can live with a sense of security”?

Development of new and existing businesses during the term put realization of our Long-Term Vision on a solid footing.

Our two principal strengths are our DtoD system, with strong links to physicians and medical institutions, and our nationwide network of 674 high-value pharmacies. By pursuing our business based on these twin pillars, we believe we succeeded in laying a foundation during the term for the realization of our Long-Term Vision.

In our medical practice support business, we focused on healthcare mall development and management support for hospitals. We believe we succeeded in further evolving our efforts relating to healthcare malls. For example, we were able to attract pediatricians to healthcare malls in areas where the population of young persons is increasing, and succeeded in creating an environment where busy parents can obtain immediate medical attention for sick children. We strongly believe that healthcare malls have an essential role to play going forward in helping to solve a variety of challenges facing local communities, as well as bringing peace of mind to local residents.

In the field of hospital management support, we believe that demand for consulting services will grow in the future, with Sogo Medical promoting functional specialization by, and strengthened coordination between, medical institutions. This trend will enable us to contribute to the realization of more efficient healthcare.

In our pharmacy business, we seized opportunities generated by the Primary Care Pharmacist System established by the government in April 2016 to promote the further development of primary care pharmacists and pharmacies. We focused on enhancing the quality of our pharmacists and pharmacies through such measures as increasing pharmacist specialization, initiating in-home medical care, and strengthening healthcare support-related services. As a result, our pharmacists were able to build strong relationships of trust with patients, and we believe this led to growth as our pharmacies were increasingly chosen by patients.
Undertaking New Businesses

— Please tell us about efforts made during this fiscal year to support hospital management.

By providing internal and external support for hospitals, we are achieving steady growth.

During the three-year term of the previous medium-term management plan, we focused on hospital management support, with internal and external support provided by Sogo Medical management consultants. We have already achieved a return to profitability by supported hospitals, and are currently continuing our support to help them achieve further growth.

We expect demand for management support to grow further as the role and situation of hospitals in local medical care is reevaluated. We continue to secure personnel who can serve as heads of hospital administration or management planning departments, and are contributing to greater healthcare efficiency through hospital management support. As we push these initiatives forward, we will continue to consider new business opportunities.

— Please tell us about this year’s efforts in collaboration with Hokendohjinsha Inc. on the theme of healthcare and prevention.

We are synergizing to enhance the content of our businesses.

Hokendohjinsha supports enterprises pursuing healthcare management and the health of their employees. In 2007, the company extended its EAP* business.

Proprietors of enterprises employing more than 50 people are required to carry out an annual stress check. Through Hokendohjinsha, we are strengthening the marketing of our stress check requirement package. To respond to diverse customer requests including unified checks across group companies, or group company-specific employee guidance (or check duration, or high-stress indicators) with unified headquarters control—we began offering Co-Labo stress check packages for group companies in January 2017. Going forward, we will coordinate with Hokendohjinsha to promote businesses that will contribute to the health of local community residents.

* EAP: Employee Assistance Program
Please summarize efforts during the term relating to DtoD-based medical practice support and high-value pharmacy creation.

We have developed and expanded efforts in both areas and are aiming to contribute to local medical care.

Our medical practice support business was active in numerous areas, including healthcare mall development, consulting for medical institutions, and support for succession of medical practices. With the opening of Kajigaya-Ekimae Clinic Mall (Kanagawa), Miyahara Clinic Mall (Osaka), and Shingu Chuo-Ekimae Mall (Fukuoka), our network of healthcare malls expanded to 75 locations at the close of the term.

We also increased the breadth of our hospital bed reorganization consulting services, carrying out 20 such cases during the term, and furthermore carried out 46 cases of practice succession support for clinics. These efforts are helping to strengthen the support for the reorganization of local medical care functions.

In our pharmacy business, we established pharmacies that serve as general healthcare station with deep community roots, and aggressively promoted the strengthening of primary care pharmacy functions. In October 2016, we began applying for approval for our pharmacies to act as healthcare support pharmacies, and Sogo Pharmacy Hagi (Hagi City, Yamaguchi Prefecture) received approval in the same month. As of March 31, 2017, 35 pharmacies had received approval. We also added 105 pharmacies to our network (including 92 from M&A transactions). As a result, the number of pharmacies at the end of the term increased by 98, to 674.

Please talk about the efforts made and results achieved this year with regard to creating mechanisms that enable employees to take pride in their work and feel a sense of purpose, and that allow the organization to grow with its employees.

We further developed our human resource systems and structures, and worked to promote diversity and work-life balance.

We extended the efforts of the previous term to promote an organization where employees with disabilities can achieve independence and work with confidence and pride as a strategic strength of the company. We also promoted greater participation on the part of female employees, implementing training courses to develop female managers and seminars to promote opportunities for women.
Achieving Our Long-Term Vision  Formulating Our New Medium-Term Management Plan

— Please describe the focus of activities for the new medium-term management plan to realize the company’s long-term vision.

We will continue to develop and expand existing businesses while considering opportunities for new business start-ups and international expansion.

The new medium-term management plan aims to realize a Japanese healthcare business model. In the area of medical practice support, our Higashinihon Office will strengthen its Healthcare Mall Development Division, while the Nishinihon Office will establish a Healthcare Mall Development Group to promote rapid mall development. We will also continue to promote management consulting and support for third-party medical practice succession. In our pharmacy business, it will be important to enlarge the roles of pharmacists and pharmacies to realize better health care in the wake of changes in applicable regulations. We will not only expand our efforts relating to in-home care and healthcare and prevention, but also emphasize enhanced quality with the aim of establishing general healthcare stations.

Moreover, we are looking ahead to the creation of new businesses utilizing ICT, as well as future international expansion. To this end, we established the International Business Promotion Group in April 2017, and initiated research into model international case studies and candidate locations for expansion. We will also apply expertise we acquire outside Japan to our domestic businesses to achieve both international and domestic growth.

What we achieve over the next three years will have an important impact on our future development. We will bolster our foundation to promote long-term growth, working as a unified team to perfect a Japanese healthcare business model.

Please see the following pages for further details on the new medium-term management plan.

16 Policy Background
17 Action 2020 Medium-Term Management Plan
18 Action Plan
20 Our Long-Term Vision
Evaluation of Previous Medium-Term Management Plan and Main Points of the New Plan

During the term of our previous medium-term management plan, we engaged in a wide variety of activities relating to DiDoD and high-value pharmacies, contributing to building a platform for regional healthcare networks. Over the plan’s three years, we were once again impressed with the necessity of further strengthening and developing healthcare mall development, hospital management support, and creation of high-value pharmacies.

Anticipated Changes in Operating Environment

During the three-year term of the new medium-term management plan, we expect a variety of changes to take place, including simultaneous revisions to treatment and care fees, new plans for medical treatment and the care insurance business, and an increase in the consumption tax in October 2019. In response, we will reinforce our business foundation toward realization of our long-term vision.

Policy Background

Summary Evaluation of the Previous Plan

1. Undertaking New Businesses
   - Provided management support to hospitals and other medical facilities contributing to local communities, from acute to in-home care
   - Pharmaceutical sales to medical institutions, initiation of healthcare and prevention services business activities

2. Improving Existing Businesses
   - 858 practice start-ups (including 52 healthcare malls)
   - Initiated new “start-up from scratch” support system
   - Generic drug utilization rate over 70% (quantitative base)
   - 220,000 trace reports (feedback to physicians)

3. Enhancing Corporate Value
   - Consolidated new personnel system, made impartial evaluations visible
   - Delegated significant decision authority, speeding up decision-making

* Sogo Medical provides the management resources—personnel, equipment, and funding—for a practice start-up, reducing physicians’ start-up risk and helping them realize their dreams

Anticipated Changes in Operating Environment

During the three-year term of the new medium-term management plan, we expect a variety of changes to take place, including simultaneous revisions to treatment and care fees, new plans for medical treatment and the care insurance business, and an increase in the consumption tax in October 2019. In response, we will reinforce our business foundation toward realization of our long-term vision.

Macro Factors
- End of House of Representatives Term
- End of House of Councils Term / Consumption Tax Increase
- Tokyo Olympics and Paralympics

Evaluation of Previous Medium-Term Management Plan Term

<table>
<thead>
<tr>
<th>Revised Treatment Income</th>
<th>Revised Drug Income</th>
<th>Revised Long-Term Care Income</th>
<th>Treatment Plan</th>
<th>Care Insurance Business Plan</th>
<th>Macro Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal year ending March 31, 2017</td>
<td>Fiscal year ending March 31, 2018</td>
<td>Fiscal year ending March 31, 2019</td>
<td>Fiscal year ending March 31, 2020</td>
<td>Fiscal year ending March 31, 2021</td>
<td>Fiscal year ending March 31, 2021</td>
</tr>
<tr>
<td>107.9</td>
<td>103.3</td>
<td>120.7</td>
<td>122.2 billion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note: EBITDA = Earnings before tax + depreciation expense + goodwill amortization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA Margin = EBITDA/Total Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Revised fiscal year, treatment income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fiscal year ending March 31, 2017: 86.6 |
Fiscal year ending March 31, 2018: 9.1 |
Fiscal year ending March 31, 2019: 9.2 |
Fiscal year ending March 31, 2020: 8.8 |
Fiscal year ending March 31, 2021: 8.9 |
Action 2020 Medium-Term Management Plan

Realization of a Japanese Healthcare Business Model

Based on the growth we have achieved through the fiscal year ending March 31, 2017, we are convinced that three factors will drive a Japanese healthcare business model: healthcare malls to address medical care challenges in local communities; management support for hospitals, which will be instrumental in the formation of an efficient, effective healthcare system; and creation of high-value pharmacies to support and enhance local residents’ health. Going forward, we will promote these three areas and aim to establish a foundation for a business structure that will enable us to achieve our long-term vision. Furthermore, to achieve the long-term vision on a higher dimension, we will promote activities to expand our business scope and develop international business.

Objectives for the Fiscal Year Ending March 31, 2020

01 Develop Healthcare Malls
Social infrastructure acting as core facilities for medical treatment, nursing care, and support for daily life Toward 200 Locations

02 Support Hospital Management
Support functional specialization and coordination to build an integrated community care system Toward 37 Hospital Management Support Cases

03 Create High-Value Pharmacies
Support an integrated community care system with pharmacies that serve as general healthcare stations Organic growth*1 of 2.3 million prescriptions (20%)

04 To Achieve Our Long-Term Vision
Enhancement/strengthening of existing businesses and scope expansion of health-related businesses Exploiting New Areas, Leveraging Bidirectional Domestic/International Expertise

Building a Platform for Regional Healthcare Networks

Management Targets (Fiscal year ending March 31, 2020)

<table>
<thead>
<tr>
<th>Cash Flow</th>
<th>Growth Investment</th>
<th>Financial Strategy</th>
<th>Total Shareholder Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales ¥160 billion (organic)</td>
<td>Facilities Investment ¥20 billion allocated over three years Aggressive use of M&amp;A and coordination in separate category</td>
<td>Net Debt-to-Equity Ratio*3 Approx. 0.5 (times) Where funding is required to support strategic growth, we will use mainly interest-bearing debt and limit the ratio to approximately 1.0</td>
<td>Payout Ratio Maintained at minimum 20% Maintaining stable, continuous dividend payouts</td>
</tr>
</tbody>
</table>

*1 Organic Growth: independent growth exclusive of M&A

*2 EBITDA: Earnings before tax + depreciation expense + goodwill amortization

*3 Net debt-to-equity ratio: Interest-bearing debt – cash and deposits – certificates of deposit/shareholders’ equity

Interest-bearing debt includes lease obligations and installment purchase accounts payable that are included in the consolidated balance sheet
Creating healthcare malls to meet the challenges faced by local communities is a step toward enhanced community security.

Because we believe development of healthcare malls is a step toward more secure communities from a medical standpoint, Sogo Medical is actively supporting the creation of such malls nationwide. Concentrating medical capabilities required by communities in healthcare malls and promoting coordination between physicians enhances utility for patients and creates a sense of security. Furthermore, by promoting the creation of ideal healthcare malls that incorporate functions other than medical treatment, including nursing care, healthcare and prevention, and daily life support, and by deepening mutual coordination between physicians, we will contribute to building a society that allows local residents to continue living in familiar neighborhoods with peace of mind. As regional cities become more compact, we are helping to make communities better places to live by supporting the development of healthcare malls that bring dispersed medical and other functions together in one location.

Because we believe development of healthcare malls is a step toward more secure communities from a medical standpoint, Sogo Medical is actively supporting the creation of such malls nationwide. Creating healthcare malls to meet the challenges faced by local communities is a step toward enhanced community security.

Healthcare mall categories

Independent Clinic Grouping
Healthcare mall housing multiple clinics and offering highly specialized treatment Promoting coordination between physicians enhances patient utility and peace of mind.

General Treatment Clinic Type & Specialized Treatment Clinic Type
Healthcare mall offering treatment by specialist physicians in multiple treatment disciplines Patients can undergo health examinations in a number of treatment specialties in a single clinic, enhancing patient utility through unified patient data management, reception, and payment.

Model Case Study
Sogo Medical is developing healthcare malls that can serve mild-symptom, chronic-phase and other patients with the same effectiveness as advanced acute care hospitals. Healthcare malls scheduled to open in October 2017 will offer 10 specialties also found in advanced acute care hospitals. These malls will deliver treatment services in coordination with hospitals, contributing to formation of an efficient, effective treatment delivery structure.

Estimated Opening
October 2017

Planned medical departments
Internal medicine, gastroenterology, cardiology, pulmonology, endoscopy, dermatology, urology, ENT, OB-GYN, etc.

Medical capabilities
Provide advanced treatment to acute-phase patients.
Provide advanced treatment to chronic-phase and mild-symptom patient needs with wide range of medical departments.

Healthcare Mall Evolution
Malls will offer nursing care, healthcare and prevention, and other functions in addition to medical treatment to support healthcare and daily life in local communities. These malls will serve as centers of support for local residents to continue living in familiar neighborhoods with peace of mind.
02 Hospital Management Support

We will support specialization and coordination of medical functions and establish environments that allow physicians to devote themselves to treatment.

As demand rises for consulting related to hospital bed reorganization, Sogo Medical is providing consulting with private hospitals on an implant or visit basis. Going forward, we will expand our internal capabilities through such measures as addition of personnel, and will leverage our network to promote coordination between medical institutions and differentiation of medical functions to create environments where medical institutions can effectively fulfill their respective roles.

<table>
<thead>
<tr>
<th>Solutions</th>
<th>Securing personnel</th>
<th>Information gathering</th>
<th>Service expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Invitation of partner physicians</td>
<td>Gather information relating to consulting needs of corporate and private hospitals</td>
<td>Expand Success Members services</td>
</tr>
<tr>
<td></td>
<td>Secure consultants able to serve as heads of administration or management planning</td>
<td>Promote specialized treatment clinic-type healthcare malls</td>
<td></td>
</tr>
</tbody>
</table>

03 Create High-Value Pharmacies

We are expanding our pharmacy network, bolstering profitability, and delivering high-quality services nationwide.

By strengthening our primary care and healthcare support functions, we are endeavoring to enhance the quality of our services. Furthermore, we are adding pharmacies through both new openings and acquisitions, creating a nationwide network of pharmacies that serve as “general healthcare stations.”

04 To Achieve Our Long-Term Vision

We are exploring new business opportunities that will enable us to utilize existing resources in Japan and abroad.

We have established “healthcare and prevention” and “medical ICT” as major themes for exploration and are considering commercializing them in new areas while using them to extend and strengthen existing businesses. Furthermore, we are exploring opportunities for international expansion, promoting activities with an eye to the future.

<table>
<thead>
<tr>
<th>Management Support Case Targets</th>
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</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>New cases</td>
</tr>
<tr>
<td>Total cases at the close of the term</td>
</tr>
</tbody>
</table>

05 Exploiting New Areas, Leveraging Domestic / International Expertise

With “healthcare and prevention” and “medical ICT” as major themes for exploration, we will:

- Extend and strengthen existing businesses.
- Consider commercialization of these themes in new areas.

- Research model case studies focusing on Europe and North America.
- Consider deployment of new businesses targeting Asia and elsewhere.

<table>
<thead>
<tr>
<th>Pharmacy Number Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of pharmacies, beginning of term</td>
</tr>
<tr>
<td>New pharmacies due to healthcare mall development</td>
</tr>
<tr>
<td>Other new pharmacies</td>
</tr>
</tbody>
</table>

New Medium-Term Management Plan Term
Our Long-Term Vision (Fiscal year ending March 31, 2028)

Achieving a Japanese Healthcare Business Model to Support an Integrated Community Care System

Sogo Medical's goal is to build regional healthcare networks capable of realizing the full potential of advanced acute care hospitals, acute care hospitals, Rehabilitation hospitals, and chronic care hospitals as well as healthcare malls with primary care treatment capabilities. We will do this by promoting coordination between these facilities and through tie-ups with other companies. Development of ideal healthcare malls and hospital management support are both important for realizing this goal. We will create coordination by supporting hospital specialization and work to develop healthcare malls with nursing care, healthcare and prevention, and daily life support capabilities. Through these efforts, we will progress toward achieving a Japanese healthcare business model.

Positioning of the New Medium-Term Management Plan

We will advance our current efforts, and achieve concrete results while closing the gap between the current state and our long-term vision.

New Medium-Term Management Plan
(April 2017 to March 2020)

Realization of a Japanese Healthcare Business Model

Our Long-Term Vision
(Fiscal year ending March 31, 2028)

Achieving a Unique Japanese Healthcare Business Model
SOGO MEDICAL CO., LTD.
Annual Report 2017

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Pharmacy Business

28 Summary & Data

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31 Strengthening Healthcare Support Functions

32 Enhancing Advanced Pharmaceutics Management

33 Other Topics
Medical Practice Support Business

We are supporting the maintenance and enhancement of local medical care, and promoting the creation of medical environments to allow residents to live with peace of mind.

The goal of our medical practice support business is to create a healthy management base that will allow physicians to concentrate on their practices. To achieve this, the support we provide must be appropriate to the current state of the institution as well as the surrounding community environment. We strive to enrich and enhance the content of the support we provide, to enable medical institutions to make greater contributions to local communities.

Developing and Expansion of Healthcare Malls

We have developed 75 healthcare malls nationwide as centers for treatment and nursing care.

Promoting Support for Medical Practice Succession

Preserving local medical practices that support daily life.
We supported 46 medical practice successions during the term.

Hospital Management Support

To help meet the challenges of a changing medical environment, we provided hospital bed reorganization consulting for 20 medical institutions.
Healthcare malls not only provide patients with greater convenience, they promote more efficient treatment by fostering coordination among physicians, and are contributing to the provision of in-home care through coordination with other professionals. We are continuing to focus on healthcare mall development, and the number of healthcare malls totaled 75 at the end of the term. Going forward, we will actively promote the creation of healthcare malls as centers for treatment and nursing care.

Healthcare malls opened during the term

One of the major challenges facing local medical care is the aging of practice owners and a lack of available successors. Sogo Medical is promoting support for third-party medical practice succession, using our nationwide DtoD network of physicians wishing to transfer or start their own practices, to introduce practice owners to potential successors. During the term, we contributed to the stability and development of local medical care by providing support for 46 cases of hospital succession.

Medical practice succession support cases

Under the Ministry of Health, Labour and Welfare’s Community Health Care Visions, the question is what functions medical institutions should fulfill in each locality. Sogo Medical receives numerous inquiries from medical institutions concerning hospital bed reorganization, and during the term we provided consulting for 20 reorganization projects. We provide comprehensive support, not only improving the institution’s management situation, but considering the role the institution should play in view of expected changes in the local external environment, and solutions to challenges likely to be encountered in fulfilling that role.
High-quality medical care for the entire local community. We worked to realize one doctor’s dream.

“I had been feeling dissatisfied with how few small- and medium-sized hospitals there were in the Nagoya region. I was concerned that patients in Aichi Prefecture weren’t able to find treatment in their local communities.”

In 2012, when Dr. Saito became director of the new hospital, he decided to replace the aging structure and upgrade Kiyosu’s medical infrastructure. To realize his ideal of treatment for both acute- and chronic-phase patients, Sogo Medical coordinated resources at its head office, as well as at the regional office and branch levels, to deliver total support, including finding a new location, building design and construction, and personnel recruitment. At the same time, Sogo Medical consultants began providing internal and external management support.

Haruhi Respiratory Medical Hospital, the only specialized institution of its kind in Aichi Prefecture, opened in Kiyosu City in May 2016.

In 2012, we matched a corporate health insurance association-supported hospital, which the corporation was looking to divest, with Dr. Yuji Saito, a physician registered with our DtoD service. This marked the start of the project, and over four years later, the new hospital opened.
Our goal was to create a center of local medical care by providing internal and external management support.

The transformed hospital opened in May 2016. Bathed in spring sunshine, Haruhi Respiratory Medical Hospital took the first step on a new journey.

Dr. Saito noted, “We received support in a wide range of areas, and the internal and external management support was especially reassuring. We were able to open the new hospital smoothly, without concerns.”

Sogo Medical consultant Sotaro Nagahata pointed out, “My role was to create an environment in which an ideal could be realized of a hospital providing integrated treatment for acute- and chronic-phase patients. Two Sogo consultants understand the hospital’s current situation, and we’re helping to implement a range of management improvement proposals relating to areas like personnel, labor issues, and advertising.”

Nagoya Branch member Takahiro Honda is responsible for other aspects of management support. “I coordinate with Mr. Nagahata to provide support in a variety of areas like physician introductions, leasing and installment payments, and rentals. Our goal is for Haruhi Respiratory Medical Hospital to become an important part of Aichi Prefecture’s regional healthcare network. We’re working hard to contribute to local medical care by combining our respective skill sets with our physician, local, and corporate networks.”

Dr. Saito agrees: “I believe that as more people become aware of the activities of this hospital and of Sogo Medical, more medical institutions will take advantage of support, and local medical care will be progressively revitalized.”

Going forward, Sogo Medical will continue working to enhance the quality of medical practice by further deepening its coordination with local physicians such as Dr. Saito, and with local medical institutions.
Kajigaya-Ekimae
Clinic Mall

Serving a wide age range, from children to adults.
A new healthcare mall that will continue to engage with the local community.

Kajigaya-Ekimae Clinic Mall opened in Kawasaki City, Kanagawa Prefecture in May 2016. Offering such services as pediatrics, ophthalmology, dentistry, Sogo Pharmacy, a nursery school, and daytime nursing care in a facility close to the train station, the mall is a highly convenient environment for young and old. As the population of the surrounding community skews relatively young, the presence of the mall has been met with an especially joyous response from local mothers raising children.

We are also actively supporting events held in the mall to promote engagement with local residents. In addition to business planning, Sogo Medical is providing a wide range of other support required for the start-up, including rent negotiation with the landlord and financing negotiations with financial institutions.

With the mall now in operation, we are continuing our support to promote deep roots in the local community. This support includes generating connections between medical institutions, pharmacies, and the local populace.

Going forward, we will continue to contribute to the growth of Kajigaya-Ekimae Clinic Mall, and to the creation of a local community where people can reside with peace of mind.

Miyahara Clinic Mall

This healthcare mall in the heart of Osaka is meeting local medical needs and providing peace of mind for young and old.

Miyahara Clinic Mall opened in September 2016 in a convenient location just one stop away from Shin-Osaka Station. The area is home to shopping districts, elementary and junior high schools, and a population that ranges from young to elderly.

Beginning around December 2014, Sogo Medical initiated discussions with the site owner concerning the healthcare mall concept. After an analysis of the locality, we decided to seek practitioners of internal medicine, orthopedics, pediatrics, gynecology, and ophthalmology. Subsequently we contracted to provide start-up support in internal medicine, orthopedics, and pediatrics, and moved ahead with full-scale mall development, providing overall support with structural design advice, tenant leasing contracts, layout and construction, interior fitting-out, and equipment selection and installation.

Just before the opening, we coordinated closely with physicians on planning for an open house to thoroughly familiarize residents with the facility. The mall received more than a thousand visitors over two days, and many of those who visited returned to the mall as patients after it opened. Residents appreciated the ability to consult with a female doctor of internal medicine, and with its orthopedic and pediatric services, which had not been available in the neighborhood, the mall has already become an essential part of the community.

Furthermore, we are continuing to search for a practitioner in gynecology, or ophthalmology, and will continue to support the mall in its efforts to meet the needs of young and old.
Medical treatment suited to a growing, changing community. A healthcare mall with residents’ needs in mind.

The 2015 national census showed that Japan’s fastest-growing community was the town of Shingu, in the Kasuya District of Fukuoka Prefecture. With a new elementary school opening and other signs pointing to future expansion, the Shingu Chuo-Ekimae Mall opened in October 2016. The mall offers treatment in neurosurgery and pediatrics as well as a Sogo Pharmacy. Sogo Medical provided a variety of support for the pediatrics practice, including a local market survey, business planning, and scheduling through to the launch, allowing the doctors to open the practice with peace of mind. We were on hand to address any concerns and doubts as they arose, promptly and effectively.

After the mall opened, we continued to meet the needs of physicians and patients and worked to enhance clinic operations with support for additional personnel recruitment. We also updated the business plan based on patient usage patterns, and Sogo Pharmacy agreed to stock Chinese herbal suppositories prepared by the pediatric practice. We are now considering an extension to clinic hours at the request of patients.

To ensure that the mall will become an indispensable part of daily life for the local community, the clinic and pharmacy are working together to provide medical services that meet the needs of residents.

Contributing to medical practice succession support for the continuation of a private obstetrics practice that is essential to the community.

The director of Elm Josei Clinic, located in Goshogawara City, Aomori Prefecture, had approached a physician, whom he had known from their university days, to take over the clinic because the director’s health was declining. The physician was unsure how to respond to this unexpected proposal, but was inspired by the director’s dedication and decided to take over the clinic. He needed specialized support to make the transition go smoothly, and thus asked Sogo Medical for help.

In May 2016, Elm Josei Clinic was reborn. Patients appreciate the meticulous service, which inspires trust, and access to important medical tests, which brings peace of mind. Sogo Medical will continue providing a wide range of support to realize the new director’s goal of strengthened coordination with nearby medical centers and seamless medical care both pre- and post-partum.
Pharmacy Business
Summary & Data

Supporting health for more people through enhanced pharmacy functions and additional locations.

We are engaged in a broad range of pharmacy business activities nationwide, including enhancing pharmacist specialization and providing healthcare support for local residents. By opening new pharmacies and acquiring existing pharmacies, we have achieved steady growth in the scope and quality of the business.

Creating high-value pharmacies

With "coordination" as a keyword, we are creating pharmacies with deep local roots across the nation.

Sogo Medical’s goal for pharmacists and pharmacies

Sogo Pharmacies serve as “general healthcare stations” that provide support to everyone wishing to maintain their health.

Pharmacy Business Total Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/3</td>
<td>63,420</td>
</tr>
<tr>
<td>14/3</td>
<td>72,171</td>
</tr>
<tr>
<td>15/3</td>
<td>80,660</td>
</tr>
<tr>
<td>16/3</td>
<td>96,405</td>
</tr>
<tr>
<td>17/3</td>
<td>95,966</td>
</tr>
</tbody>
</table>

(Source: prepared by Sogo Medical from Ministry of Health, Labour and Welfare data)
We have actively promoted the strengthening of pharmacy functions, for example by helping pharmacists acquire highly specialized capabilities and by providing support for health improvement. In addition, by opening new and acquiring existing pharmacies, we expanded our network to 674 locations.

Sogo Medical has worked to expand the role of its pharmacies as “general healthcare stations.” In its “Vision for Patient-Centered Pharmacies,” the Ministry of Health, Labour and Welfare called for serving in dedicated roles as primary care pharmacists and pharmacies with healthcare support and advanced pharmaceutics functions. We are working to achieve this vision through our “general healthcare station” pharmacies. Going forward, we will further pursue this ideal as we respond to social needs and changes in the regulatory environment.

Ministry of Health, Labour and Welfare’s “Vision for Patient-Centered Pharmacies” calls for development of primary care pharmacies with roles at the forefront of healthcare and with local roots.

(Source: prepared by Sogo Medical from Ministry of Health, Labour and Welfare data)
On-the-job Training Program Launched

We launched a practical training program for approximately 1,500 pharmacists nationwide. This training will enable us to enhance the quality of our frontline service.

To support the Primary Care Pharmacist System established by the government in April 2016, we began a new personnel training program in August of the same year. The program consists of two components. The first includes providing guidance to patients regarding safe and effective non-prescription medications, as well as self-medication support advice relating to daily life patterns and other topics. The second component uses simulated patients to strengthen pharmacists’ communication skills. Training is given over a two to three month period in each of 44 national districts, with the goal of producing more effective primary care pharmacists.

Full-scale Launch of In-home Care Specialist Pharmacist* Activities

We help pharmacists specialize.

All group pharmacies are working to provide in-home medical services.

To further bolster our capabilities to meet expanding in-home medical care needs, we launched a training program for in-home care specialist pharmacists in FY2016.

Selected pharmacists took part in the nationwide program, acquiring a wide range of knowledge and skills and deepening their understanding of such topics as how aging affects physiological functions and influences oral care.

We are currently creating a structure to provide dispensing for in-home patients at all group pharmacy locations, and offer clean-room and clean-bench compounding at selected locations. In this way, we are contributing further to local medical care with advanced services.

Managing Leftover Medications

All Sogo Pharmacies offer free leftover medication bags.

This effort helps ensure appropriate pharmacologic treatment, and saves approximately ¥5 million in monthly healthcare costs.

Leftover medications resulting from patients forgetting or neglecting to take their medication, is an issue in medical treatment. Managing leftover medications for patients delivers convenience and helps reduce healthcare costs.

Starting in May 2016, Sogo Medical Group began distributing free leftover medication bags. Upon their visit to the pharmacy, we confirm whether or not patients have leftover medications. If they do, we collect the medication on the spot, or provide them with a bag for return of the medication on a subsequent visit. Over the approximately seven months since the program began, the value of surplus medications collected totaled approximately ¥35 million, or ¥5 million per month on average.
Healthcare Support Pharmacy Activities

Healthcare support pharmacy case studies
Managing medications requiring guidance for use
Healthcare advice seminars and healthcare support implementation

We are reinforcing our health advice and multidisciplinary coordination to create high-value pharmacies.

Healthcare support pharmacies are equipped with basic primary care pharmacist and pharmacy functions, and actively support the health of local community residents. In October 2016, Sogo Pharmacy Hagi was the first to be certified as a healthcare support pharmacy. By the end of the term, the number of such pharmacies totaled 35.

Healthcare support pharmacies are positioned as centers to promote the health of local residents. They are intended to function in the same general way as the “general healthcare stations” we have promoted to date, with deep roots in local communities. Going forward, we will continue to actively promote these pharmacies to create high-value pharmacies.

Activity examples
- Private consulting spaces and dispensing booths
- Hosting of health-related events (early detection of cognitive impairment, diabetes prevention, nutritional seminars, etc.)

Strengthening Our Health Event Program

In response to increasing demand for healthcare support functions from pharmacies, we began staging our ongoing health events with content packages to enhance their quality.

Certified healthcare support pharmacies have already begun staging content package events. Going forward, we will continue to upgrade the content of these events and plan to extend them to our pharmacies nationwide.

We are enhancing our event quality with content packages, another example of how we support health promotion for local residents.

Package content
1. Lectures by pharmacists and nationally certified senior nutritionists
   Information relating to cognitive impairment and diabetes prevention
2. Hands-on health events
   Simple memory tests, brain stimulation programs
3. Health measurement events
   Measurement of such metrics as blood pressure, vascular age, and body composition, with pharmacist advice on results
Promotion of Specialist Cancer and Diabetes Training for Pharmacists

To meet patients’ advanced pharmaceutics management needs, Sogo Medical Group is pursuing an internal certification program in specialized cancer and diabetes training for pharmacists. In FY2016 we selected 13 pharmacies in seven areas across Japan, and provided training to approximately 30 pharmacists. Since 2011, Sogo Pharmacy Tenjin Chuo has offered services from specialist pharmacists with cancer and diabetes training certifications to provide patients with optimal care. Based on the expertise thus accumulated, we are expanding these efforts throughout the company through systematic training in such areas as disease awareness, patient psychology, and care procedures.

To meet the requirements of advanced pharmaceutics management, we are enhancing pharmacist specialization.

Main activities of Sogo Pharmacy Tenjin Chuo (Chuo Ward, Fukuoka City)

We are enhancing pharmacist specialization through the following advanced activities to provide higher-quality care.

- **Condition-Specific Pharmacist System**
  
  In 2011, we introduced a designated pharmacist system for patients with cancer and diabetes. The designated pharmacist familiarizes him- or herself with the patient to provide customized care. Five designated cancer pharmacists have provided care for approximately 450 patients, and three diabetes pharmacists have overseen around 330 patients.

- **Cancer Conversation Café: Learning From Cancer Patients**
  
  Sogo Medical has held Cancer Conversation Cafés on a monthly basis since March 2013, with the goal of creating a society where cancer patients can regain their optimism and lead rewarding lives. Cancer patients and their families can give voice freely to their thoughts in a relaxed atmosphere over a cup of tea and receive advice addressing their concerns.

- **Recruitment of Accredited Pharmacists of Ambulatory Cancer Chemotherapy**
  
  Four pharmacists at Tenjin Chuo have acquired certification as Accredited Pharmacists of Ambulatory Cancer Chemotherapy from the Japanese Society of Pharmaceutical Oncology (as of April 2017, only 22 pharmacy-based pharmacists held this certification nationwide). This is the only certification in Japan for pharmacists aiming to acquire and utilize cancer treatment knowledge and technique, and the capacity to provide patient support.
Applying advanced techniques and expertise throughout its network, Miyonodai Pharmacy Group is helping to build an integrated community care system.

In December 2016, Miyonodai Pharmacy Group became part of the Sogo Medical Group. Miyonodai Pharmacy Group anticipates the needs of an aging society, and is equipped with the advanced expertise needed to address diverse in-home medical care needs. From an early stage, they were a pioneer in such areas as in-home guidance in the use of medications, sterile compounding, rental of syringe pumps for continuous infusion of pain medications, and night-time services.

Furthermore, Miyonodai Pharmacy Group has a first-rate business base in the Tokyo metro area, where demand for in-home medical care is increasing.

Going forward, Miyonodai Pharmacy Group will deploy its techniques and expertise in in-home medical care, accumulated over many years, to Sogo Pharmacies nationwide. This will contribute to the formation of an integrated community care system and cultivate pharmacists who can make genuine contributions to society as care providers, thereby enhancing the corporate value of the Sogo Medical Group.

Outstanding activities by individual pharmacies are presented and shared with the entire network. Sogo Medical is working to enhance the activities of its pharmacies in unique ways.

To achieve high levels of quality in all of our pharmacy locations, Sogo Medical Group pharmacies share case studies of outstanding activities at annual Pharmacy Forums.

The 2016 forum was the nineteenth to date, with over 570 participants, a record number. In addition to oral and poster-based science presentations, the Business Improvement Division made an oral presentation and held workshops. In addition, a “Sogo Pharmacies Disaster Response Seminar” was held to convey what pharmacies should do in times of disaster. Overall, the forum featured the most diverse and richest content to date.
Development of Private Brand Products and Opening a Virtual Shop

In September 2016, Sogo Pharmacy Tenjin Chuo launched a virtual shop to offer branded SOGO SMILE products. This was the first test of concept and the first virtual shop to appear in any pharmacy or drug store nationwide. Using the ExOrder smartphone app enables easy settlement, and products are delivered as soon as the following day. The system saves customers from having to carry home heavy drinks or bulky products. Orders can also be placed outside regular business hours, making it easier than ever for consumers to take advantage of Sogo products.

Moreover, starting in late March, 2017, we began adding a flyer version to the poster version of Tenjin Chuo’s virtual shop. Diapers and other nursing care products were added for an enhanced product lineup. Our goal is to extend the flyer version to 280 locations, approximately 40% of our network, by September 2017.

* Smartphone app developed by AliveCast Inc.

Animated Video

To help more people understand our goals and activities, we created an animated video to introduce Sogo Pharmacy. This was our second corporate branding video, after the short released in 2015, “Jobs that Support Lives of Local Communities,” which focused on the theme of third-party medical practice succession.

The new video shows a Sogo pharmacist helping a patient solve his leftover medication problem, and conveys the essence of the Sogo Pharmacy approach.

This original animated video promotes awareness of Sogo Pharmacy.

Sogo pharmacists and nationally certified senior nutritionists collaborated to develop original products. Now these products are available for order and home delivery through our virtual shops!
SOGO MEDICAL CO., LTD.
Annual Report 2017

Pharmacy Business

Action Report 5
Other Topics

Development of Private Brand Products and Opening a Virtual Shop

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In September 2016, Sogo Pharmacy Tenjin Chuo launched a virtual shop to offer branded SOGO SMILE products. This was the first test of concept and the first virtual shop to appear in any pharmacy or drug store nationwide. Using the ExOrder* smartphone app enables easy settlement, and products are delivered as soon as the following day. The system saves customers from having to carry home heavy drinks or bulky products. Orders can also be placed outside regular business hours, making it easier than ever for consumers to take advantage of Sogo products.

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The new video shows a Sogo pharmacist helping a patient solve his leftover medication problem, and conveys the essence of the Sogo Pharmacy approach.

*Smartphone app developed by AliveCast Inc.

Business Performance by Segment

36 2017 Business Performance by Segment
2017 Business Performance by Segment

### Higashinihon Office

- **Net Sales (¥ million)**
  - Medical Practice: 39,614
  - Support: 30,997
  - Pharmacies: 43,838
  - Total: 48,054

- **Number of Healthcare Malls**
  - Existing: 39,084
  - Newly opened: 39,084

- **Number of Pharmacies**
  - Existing: 32,838
  - Newly opened: 32,838

### Nishinihon Office

- **Net Sales (¥ million)**
  - Medical Practice: 28,205
  - Support: 33,176
  - Pharmacies: 32,463
  - Total: 32,463

- **Number of Healthcare Malls**
  - Existing: 26,208
  - Newly opened: 26,208

- **Number of Pharmacies**
  - Existing: 17,324
  - Newly opened: 17,324

### Kyushu Office

- **Net Sales (¥ million)**
  - Medical Practice: 37,793
  - Support: 39,905
  - Pharmacies: 37,541
  - Total: 37,541

- **Number of Healthcare Malls**
  - Existing: 30,539
  - Newly opened: 30,539

- **Number of Pharmacies**
  - Existing: 16,410
  - Newly opened: 16,410

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**Percentage of Total Sales**

- Higashinihon Office: 40.7%
- Nishinihon Office: 27.5%
- Kyushu Office: 31.8%
Directors, Audit & Supervisory Board Members and Corporate Executive Officers (As of June 22, 2017)

**Board of Directors**

Kenji Sakamoto  
Representative Director, President and Chief Executive Officer  
In charge of Corporate Auditing Division, Management Strategy Division

Shinya Mikita  
Representative Director, Executive Vice President  
In charge of Higashinohn Office

Makoto Kuroda  
Director & Senior Executive Managing Officer  
In charge of Nishinohn Office

Masatoshi Sadahisa  
Director & Senior Executive Managing Officer  
In charge of Administration Division, Personnel Division

Moritaka Nakashima  
Director & Senior Executive Managing Officer  
In charge of Pharmacy Management Division

Takao Nakashima  
Director & Senior Executive Managing Officer  
In charge of Kyushu Office, DtoD Strategy Division, Consulting Division, Medical Practice Support Business Division

Itsuo Tashiro  
Director & Vice Chairman

Kiyotaka Watanabe  
Director (External Director)

Eiichi Seki  
Director (External Director)

Takashi Kamite  
Director (External Director)

**Audit & Supervisory Board Members**

Shoji Hirao  
Standing Auditor

Seiou Yamakawa  
Standing Auditor (External Auditor)

Naomasa Mitsukado  
Auditor (External Auditor)

Setsuko Gondou  
Auditor (External Auditor)

* Corporate executive officers indicated with an asterisk also serve on the board of directors.
Corporate Executive Officers

Kenji Sakamoto*  Shinya Mikita*
President and Chief Executive Officer  Executive Vice President

Makoto Kuroda*  Masatoshi Sadahisa*  Moritaka Nakashima*  Takao Nakashima*
Senior Executive Managing Officer  Senior Executive Managing Officer  Senior Executive Managing Officer  Senior Executive Managing Officer of DtoD Strategy Division

Kohichi Hashimoto  Joji Haraguchi  Yuriko Tanigawa  Akihiro Shitozawa
Executive Managing Officer  Executive Managing Officer  Executive Managing Officer  Executive Managing Officer
Manager of Management Strategy Division  Manager of Kyushu Office  Manager of Pharmacy Management Division  Manager of Medical Practice Support Business Division

Takahide Terada  Genichi Shimmura  Kazuya Watabe  Shigeyuki Nakano
Senior Managing Officer  Senior Managing Officer  Senior Managing Officer  Senior Managing Officer
Assistant Manager of Kyushu Office  Deputy Manager of DtoD Strategy Division  Manager of Administration Division  Manager of General Affairs Department

Takamichi Okuno  Nobuo Fujii  Toshikazu Matsuo  Osamu Yamasaki
Managing Officer  Managing Officer  Managing Officer  Managing Officer
Manager of Administration Division  Manager of Higashinihon Office  Manager of Pharmacy Management Division  Manager of Higashinihon Office

Masatomo Hara  Katsuyuki Honda  Tetsuro Irie  Takeshi Togami
Managing Officer  Managing Officer  Managing Officer  Managing Officer
Assistant Manager of Pharmacy Management Division  Manager of Personnel Division  Manager of Consulting Division  Assistant Manager of Management Support Division

Tadahiro Dantsuka
Managing Officer
Assistant Manager of Management Strategy Division

* Corporate executive officers indicated with an asterisk also serve on the board of directors.
Corporate Governance

Basic Policy

Sogo Medical considers one of its most important issues facing management to be recognizing the importance of corporate ethics based on legal compliance, while also making prompt decisions in response to the ever-changing business environment and working to make management sounder in order to record continued corporate value. To achieve that, it is necessary to build good relationships with customers, clients, local communities, employees, and other stakeholders, at the same time as enhancing corporate governance by strengthening, improving, and implementing functional systems required by law, including the general meeting of shareholders, board of directors, audit and supervisory board, and independent external auditors.

We also aim to increase management transparency by providing fast, accurate, and wide-ranging information disclosure to all our shareholders and investors.

Corporate Governance System (As of June 22, 2017)

The board of directors is made up of 10 members, of which 3 are outside directors, reflecting the company’s size while emphasizing mobility.

Sogo Medical has adopted an audit and supervisory board system with a board of auditors and believes including external auditors allows for the effective monitoring of management.

Board of directors’ meetings are held every month as a general rule with decisions made about important company matters.

Managing directors’ meetings attended by working managing directors and standing directors are held twice per month as a general rule, to make decisions about which matters to discuss at board of directors’ meetings and about important matters that are not decided at board meetings. Individual item meetings attended separately by working managing directors, standing directors and other relevant management are generally held twice per month, respectively. As a general rule these meetings decide important matters not decided at managing directors’ meetings, and discuss important issues brought up at managing directors’ meetings.

At management meetings, working managing directors, executive managing officers, and other involved management in attendance deliberate and exchange information regarding management-related issues.

Sogo Medical has adopted a corporate executive officer system in which officers selected by the board of directors perform the administration of business matters under the direction of the board of directors.

The company also holds regular new employee training and gradable training through the year as well as working to improve compliance with workplace training on the subject of corporate ethics and compliance management given by staff responsible for promoting compliance.

Sogo Medical declares the following basic policy, “We do not involve ourselves with anti-social forces or client companies who have a relationship with anti-social forces, under any circumstances.”

For the purpose of removing anti-social forces, together with the cooperation of outside expert organizations such as lawyers and relevant administrative bodies, we will work as a group to create a corresponding structure.

Auditing System (As of June 22, 2017)

The audit and supervisory board comprises 4 auditors, of which 2 are standing auditors and 2 are part-time auditors. Three of these are external auditors to ensure fairness and transparency. Each auditor attends board of directors’ meetings, while standing auditors also attend and offer opinions at managing directors’ meetings, management meetings, and individual item meetings.

Auditors monitor the legality of operations based on financial standards, audit planning, and task divisions, as outlined by the audit and supervisory board.

Internal audits are held systematically by the corporate auditing division, consisting of 10 members, auditing all divisions and reporting the results directly to the president. Audited divisions are given guidance on where they need to improve, with further reporting required on whether improvement has been made or not, ensuring an efficient audit process.

Collectively, the audit and supervisory board members, corporate auditing division, independent external auditors, and internal control division exchange information regarding audit planning and audit results as required, working to achieve efficient and effective audits.
### Governance Systems (As of June 22, 2017)

**General Meeting of Shareholders**

- **Board of Directors**
  - 10 members (3 external directors)

- **Directors**
  - Audit & Supervisory Board
    - 4 members (3 external auditors)

- **Corporate Auditor Division**
- **Corporate Auditing Division**

- **Company Profile**
- **President’s Message**
- **Action Reports**
- **Business Performance**

### Officer Remuneration

Shareholders monitor remuneration through a limit to the total amount of remuneration for directors and audit and supervisory board members (including bonuses) decided through resolutions at the general meeting of shareholders. The president (who is the representative director and an executive officer) decides remuneration for directors after consulting with the board of directors and compensation for auditors is decided after discussion among auditors, in both cases within the limits decided at the general meeting of shareholders.

**Total Remuneration of Each Category of Officers in the Fiscal Year Ending March 31, 2017**

<table>
<thead>
<tr>
<th>Officer category</th>
<th>Number of recipients</th>
<th>Basic compensation</th>
<th>Stock options</th>
<th>Bonuses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (not including external directors)</td>
<td>8</td>
<td>174</td>
<td>174</td>
<td>–</td>
</tr>
<tr>
<td>Audit &amp; supervisory board members (not including external auditors)</td>
<td>1</td>
<td>12</td>
<td>12</td>
<td>–</td>
</tr>
<tr>
<td>Outside officers</td>
<td>6</td>
<td>32</td>
<td>32</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>218</td>
<td>218</td>
<td>–</td>
</tr>
</tbody>
</table>

**Notes:**
1. Remuneration of directors (not including external directors) includes profit-linked compensation as decided at the board of directors’ meeting held on May 21, 2015.
2. Remuneration for Sogo Medical officers only includes the amount paid by Sogo Medical, excluding payments from subsidiaries.
3. No Sogo Medical officer receives a consolidated salary of more than ¥100 million.
4. Annual remuneration for directors (not including employee salaries for people who are both directors and employees) was given a firm limit of ¥300 million with a limit to increases of 2% of the previous fiscal year’s consolidated net income in a resolution at the 34th General Meeting of Shareholders held on June 20, 2012.
5. Annual compensation for audit and supervisory board members was limited to ¥50 million in a resolution at the 24th General Meeting of Shareholders held on June 18, 2002.
Sogo Medical is striving to build up its Group-wide compliance system by establishing a common corporate charter and code of ethics shared by the Sogo Medical Group.

In order for directors and employees to perform their duties with corporate social responsibility and corporate ethics in mind, we put our compliance policy (Sogo Medical action standards) into practice, while making the policy thoroughly understood and enforced. In order for directors and employees of the Sogo Medical Group to perform their duties in accordance with the law and the articles of association, we have placed a director in charge of compliance (legal department management officer) as well as formed an internal control committee, which is managed by the compliance division (according to policies of dividing duties).

We have also set up a help desk (compliance hotline), which employees can contact with requests for advice or to report information and get a speedy response.

In order to enhance compliance knowledge among directors and employees of the Sogo Medical Group, we are upgrading training, as part of our efforts to improve knowledge of respecting compliance.

**Information Management System**

Sogo Medical has a system in place for storing and managing information related to work carried out by directors. Based on the law and its own internal regulations, directors make and keep the minutes of board meetings and other information related to important work duties as well as the decisions made, which are collectively recorded and managed appropriately.

We have also established document management regulations for directors’ decisions and reports, based on which we store and manage this information. Information is managed carefully based on our information management, information system management regulations, and personal information protection regulations.

**Risk Management System**

We have installed a function in the compliance division that supervises risk management of the entire Group and placed a director in charge of it. In order to establish fundamental policy and promotion systems for risk management, we have determined risk management regulations, and constructed and put into operation risk management systems. The compliance division evaluates the effectiveness of the establishment and operations of risk management. In the case a problem is identified, the division provides recommendations for improvement to the respective departments to enhance effective monitoring.

Also, to make precise response guidelines for the entire Group when a crisis occurs, we have determined standard crisis management regulations, created a business continuity plan (BCP) and a disaster prevention manual, and are preparing a system that allows accurate response in times of emergency.
CSR Management & Topics

Our CSR activities are the very same as our business activities—working to build a better society through good medical practice. We work hard to develop valuable human resources who can make good medical practice and a better society a reality.

<table>
<thead>
<tr>
<th>Four Principal Elements of CSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. We shall understand and share our management principles and fulfill our corporate mission through our work.</td>
</tr>
<tr>
<td>2. We shall provide services that surpass customer expectations.</td>
</tr>
<tr>
<td>3. We shall create an environment in which employees feel secure and derive fulfillment in their work.</td>
</tr>
<tr>
<td>4. As a member of society, we shall be committed to compliance and earn the trust of customers and other people.</td>
</tr>
</tbody>
</table>

The Sogo Medical Group’s CSR activities are the same as its business activities—to build a better society through good medical practice. Our job is to support good medical practice, and that is connected to the development of society and improving the lives of many people. Through supporting good medical practice in the future, we aim to fulfill our social mission as a company.

Compliance Efforts and Stance

Compliance is generally thought of in the sense of “regulatory compliance,” or conforming with laws and internal regulations. However, we undertake compliance in a broader sense. In addition to complying with laws, we consider compliance to mean acting in an ethical manner and eschewing any activity that would inconvenience society as we strive aggressively to meet society’s expectations. Our compliance goes beyond obeying the letter of the law, and our actions extend to a respect for the social norms that form the background for these laws.

We endeavor to be a company that delivers essential value to all people. As such, we remain sensitive to changes in society, considering individually what society requires and following through with actions to satisfy those needs.
CSR Management & Topics

Promoting Diversity

The significance of Sogo Medical’s efforts to promote diversity lies in our employees’ realization of our mission statement through teamwork and the demonstration of their personal capabilities as they actively utilize the system to realize their personal career vision within their practice of Our Pledge, our Mission Statement, and our Corporate Credo.

In April 2017, the Personnel Division, which functions as the core promoter of diversity within the company, established the Diversity Promotion Group. In addition to measures to promote greater utilization of female employees and to change employees’ approach to work, the group will work to promptly implement broad measures to further utilize a diverse range of individuals, including persons with disabilities and senior citizens.

Major Activity 1: Promoting Employment for Persons with Disabilities

Launching a corporate network to promote employment of persons with disabilities

We have held corporate seminars and gatherings to reach out across boundaries and aim for a better environment where employment of persons with disabilities can be promoted and become routine. Since October 2016, we have hosted three exploratory gatherings featuring information exchanges between companies on their experiences, challenges, and systems relating to employment of persons with disabilities, along with lectures by outside experts and other activities. During the coming term, we plan to place these activities on a full-scale footing.

Participating Enterprises

| Shin-Idemitsu Co., Ltd. | Kyushu Railway Company |
| Daisho Co., Ltd. | GooDay Co., Ltd. etc. |

Major Activity 2: Promoting Female Employees’ Activities

Three years after the launch of the job transfer system, 12 women shift to professional positions

Sogo Medical revamped its personnel system, and in 2013 it launched a job transfer system. Over three years the system, which anticipates future business expansion, has resulted in 15 employees, including 12 women, switching from clerical to professional positions.

Sogo Medical Job Classifications

<table>
<thead>
<tr>
<th>Professional Positions (must fulfill all of the following requirements)</th>
<th>Clerical Positions (principally centered on the following)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Principally engaged in planning</td>
<td>• Principally engaged in standardized work</td>
</tr>
<tr>
<td>• May be ordered to transfer place of work, requiring relocation of residence</td>
<td>• Not subject to transfer orders</td>
</tr>
<tr>
<td>• Eligible for promotion to executive positions</td>
<td>• In principle, no change in job classification (however, job transfer system is available)</td>
</tr>
<tr>
<td></td>
<td>• Not eligible for promotion to executive positions</td>
</tr>
</tbody>
</table>

Examples of Systems to Support Diverse Work Styles

- Support for employees with non-work commitments
- Support for employees with children
- In-home medical care
- Overseas training
- Gradable OJT Educational System (GOES) for Pharmacists
- Practice Process Innovation (PPI) Internal Certification
- Practice Process Innovation (PPI) in Pharamceutical affairs, Medical knowledge, Communication, Skill, Overseas training

Development of Human Resources

- Adopting and implementing a graded training structure corresponding to employees’ growth and roles, including persons with disabilities and senior citizens.
- Creating training programs and executive development programs. Our corresponding to employees’ growth and roles, including persons with disabilities and senior citizens.
- Gradable OJT Educational System (GOES) for Pharmacists
- Practice Process Innovation (PPI) Internal Certification
- Practice Process Innovation (PPI) in Pharamceutical affairs, Medical knowledge, Communication, Skill, Overseas training
Promoting Work-Life Balance

We promote work-life balance because we believe that as our employees grow, our company grows with them. In particular, because more than half of our pharmacists are women, it is essential that we create work environments that make it easy for women to work and offer them growth opportunities.

In 2007, Sogo Medical was recognized by the Ministry for Health, Labour and Welfare as an enterprise that supports childrearing and awarded the Kurumin mark, which is given to companies that promote next-generation childcare support policies. In FY2017, we began a pilot program to allow employees to work from home, and with this and other measures, we are augmenting our efforts to create and promote the utilization of internal systems that match women’s life plans.

Examples of Systems to Support Diverse Work Styles

- **Support for employees with non-work commitments**
  - Childcare leave, reduced working hours for childcare, nursing care leave, reduced working hours for nursing care

- **Addressing the problem of long working hours**
  - Promotion of no-overtime days, consecutive vacation days, etc.

Not only can I balance childcare and work, my motivation is enhanced.

I have three children, and I’ve used the childcare leave system three times. I’m currently using the system that allows reduced working hours to make time for childcare. This system allows reduced working hours through the child’s first year of elementary school, which is very helpful since elementary schools require children to return home earlier than when they were in nursery school. The company’s internal support system is extensive, and many women including me make use of it. I feel it’s an environment that allows me to work with lots of motivation.

Systems used:

- Childcare leave (3 times)
- Reduced working hours for childcare
- Job transfer system
- Consecutive vacation days

Development of Human Resources

With the aim of ongoing human resource development, we are adopting and implementing a graded training structure corresponding to employees’ growth and roles, including graded programs and executive development programs. Our management principles are the foundation of every training program, and through these programs we are working to realize the characteristics that are needed in each employee.

Principal Training Programs

- **Practice Process Innovation (PPI) Internal Certification**
  PPI is Sogo Medical’s internal certification system for personnel working in the areas of start-up support, personnel placement, and pharmacy management.

- **Gradable OJT Educational System (GOES) for Pharmacists**
  GOES is an independent on-the-job training system for helping pharmacists fully utilize their skills.
Financial Section

47 Five-Year Summary of Consolidated Financial Statements
48 Management's Discussion and Analysis
54 Risk Information
56 Consolidated Financial Statements
## Five-Year Summary of Consolidated Financial Statements

<table>
<thead>
<tr>
<th>Years Ending March 31</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (¥ million)</td>
<td>86,658</td>
<td>103,318</td>
<td>107,945</td>
<td>120,776</td>
<td>122,216</td>
</tr>
<tr>
<td>Operating income (¥ million)</td>
<td>4,324</td>
<td>5,014</td>
<td>5,017</td>
<td>6,087</td>
<td>6,248</td>
</tr>
<tr>
<td>Ordinary income (¥ million)</td>
<td>4,343</td>
<td>5,068</td>
<td>5,227</td>
<td>6,196</td>
<td>6,440</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent (¥ million)</td>
<td>2,532</td>
<td>2,856</td>
<td>2,774</td>
<td>2,318</td>
<td>3,779</td>
</tr>
<tr>
<td>Total net assets (¥ million)</td>
<td>21,636</td>
<td>23,934</td>
<td>26,521</td>
<td>29,646</td>
<td>32,880</td>
</tr>
<tr>
<td>Total assets (¥ million)</td>
<td>57,138</td>
<td>66,982</td>
<td>69,811</td>
<td>74,621</td>
<td>86,760</td>
</tr>
<tr>
<td>Net assets per share (yen)</td>
<td>1,496.64</td>
<td>1,655.73</td>
<td>1,824.14</td>
<td>1,967.14</td>
<td>2,178.46</td>
</tr>
<tr>
<td>Net income per share (yen)</td>
<td>175.41</td>
<td>197.82</td>
<td>192.20</td>
<td>154.65</td>
<td>252.52</td>
</tr>
<tr>
<td>Cash dividends per share (yen)</td>
<td>40.00</td>
<td>40.00</td>
<td>40.00</td>
<td>45.00</td>
<td>50.00</td>
</tr>
<tr>
<td>(includes interim dividend) (yen)</td>
<td>(20.00)</td>
<td>(20.00)</td>
<td>(20.00)</td>
<td>(22.50)</td>
<td>(25.00)</td>
</tr>
<tr>
<td>Dividend payout ratio (%)</td>
<td>22.8</td>
<td>20.2</td>
<td>20.8</td>
<td>29.1</td>
<td>19.8</td>
</tr>
<tr>
<td>Capital adequacy ratio (%)</td>
<td>37.8</td>
<td>35.7</td>
<td>37.7</td>
<td>39.5</td>
<td>37.6</td>
</tr>
<tr>
<td>Net income to shareholders’ equity ratio (ROE) (%)</td>
<td>12.3</td>
<td>12.6</td>
<td>11.0</td>
<td>8.3</td>
<td>12.2</td>
</tr>
<tr>
<td>Price-earnings ratio (times)</td>
<td>9.5</td>
<td>10.5</td>
<td>17.8</td>
<td>24.7</td>
<td>16.6</td>
</tr>
<tr>
<td>Price-to-book ratio (times)</td>
<td>1.1</td>
<td>1.2</td>
<td>1.8</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Number of shares outstanding (thousands of shares)</td>
<td>15,340</td>
<td>15,340</td>
<td>15,340</td>
<td>15,340</td>
<td>15,340</td>
</tr>
<tr>
<td>Cash flows from operating activities (¥ million)</td>
<td>7,269</td>
<td>7,461</td>
<td>6,051</td>
<td>7,004</td>
<td>10,931</td>
</tr>
<tr>
<td>Cash flows from investing activities (¥ million)</td>
<td>(3,380)</td>
<td>(5,335)</td>
<td>(5,296)</td>
<td>(4,981)</td>
<td>(9,933)</td>
</tr>
<tr>
<td>Cash flows from financing activities (¥ million)</td>
<td>(2,777)</td>
<td>(1,370)</td>
<td>(1,637)</td>
<td>(635)</td>
<td>3,301</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period (¥ million)</td>
<td>5,095</td>
<td>5,851</td>
<td>4,968</td>
<td>6,356</td>
<td>10,655</td>
</tr>
<tr>
<td>Number of regular employees (people)</td>
<td>2,508</td>
<td>2,650</td>
<td>2,951</td>
<td>3,233</td>
<td>4,047</td>
</tr>
<tr>
<td>Number of part-time employees (people)</td>
<td>735</td>
<td>1,064</td>
<td>1,190</td>
<td>1,208</td>
<td>1,132</td>
</tr>
</tbody>
</table>

Note: The number of regular and part-time employees indicates the average number of people employed during the year (excluding members of the Sogo Medical Group dispatched outside the Group and including personnel dispatched from outside the Group to the Sogo Medical Group). Part-time employees indicates people working part-time, contract employees, and dispatched personnel.

### Other Financial Data (Consolidated)

<table>
<thead>
<tr>
<th>Years Ending March 31</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income to net sales ratio (%)</td>
<td>5.0</td>
<td>4.9</td>
<td>4.6</td>
<td>5.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Ordinary income to net sales ratio (%)</td>
<td>5.0</td>
<td>4.9</td>
<td>4.8</td>
<td>5.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Net income to net sales ratio (%)</td>
<td>2.9</td>
<td>2.8</td>
<td>2.6</td>
<td>1.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Total assets turnover (times)</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>7.9</td>
<td>8.2</td>
<td>7.6</td>
<td>8.6</td>
<td>8.0</td>
</tr>
<tr>
<td>Current ratio (%)</td>
<td>128.8</td>
<td>122.0</td>
<td>121.5</td>
<td>125.5</td>
<td>135.4</td>
</tr>
<tr>
<td>Fixed assets to capitalization (%)</td>
<td>80.0</td>
<td>81.7</td>
<td>83.7</td>
<td>81.7</td>
<td>78.0</td>
</tr>
<tr>
<td>Interest-bearing debt ratio (%)</td>
<td>25.1</td>
<td>23.2</td>
<td>23.7</td>
<td>24.7</td>
<td>28.3</td>
</tr>
<tr>
<td>Net debt-to-equity ratio (times)</td>
<td>0.43</td>
<td>0.40</td>
<td>0.44</td>
<td>0.41</td>
<td>0.42</td>
</tr>
</tbody>
</table>

Notes: 1. Interest-bearing debt includes lease obligations and installment purchase accounts payable that are included in the consolidated balance sheet.

(On April 1, 2015, we carried out a 2-for-1 split of common stock, and calculations have been carried out, assuming this stock split, for net assets per share, dividends per share, interim dividends per share, and total number of issued shares in and prior to the fiscal year ending March 31, 2015.)
Management’s Discussion and Analysis

1. Operation Results

Overview of Performance During the Year

In the fiscal year under review, while net sales of the pharmacy division declined due to such factors as changes in the price of medications, net sales for medical practice support segments such as the consulting division and the rental division increased. Consequently, net sales were 1.2% higher compared to the previous term, at ¥122,216 million. On the profit front, operating income rose 2.6% to ¥6,248 million, while ordinary income increased 3.9% to ¥6,440 million. Net income attributable to owners of the parent jumped 63.0% to a record ¥3,779 million, a result due in part to the impact of the impairment loss recorded in the previous term.

The fiscal year under review was the last year of our medium-term management plan, “Further Challenge—toward a better society in which people can live with a sense of security,” during which we worked to solve social issues in medical treatment through our DtoD system and high-value pharmacies.

We continued efforts geared toward the development and expansion of healthcare malls, establishing 10 new malls during the term. At the close of the term, the number of malls totaled 75.

In the area of hospital management support, the number of consulting projects related to hospital bed reorganization increased. During the term, 20 projects were implemented, and we are strengthening our support for functional reorganization of local medical care. We also implemented 46 medical practice succession cases, which are helping to maintain and revitalize local medical care.

In the pharmacy division, we responded to the April 2016 drug price and dispensing fee revisions, which called for pharmacists and pharmacies to become primary care pharmacists and pharmacies by leveraging the functions of our pharmacists and promoting efforts to make our pharmacies “general healthcare stations” that local residents will choose. As a result, we received an increased number of signed forms from patients consenting to the primary care pharmacist system.

We also promoted the collection of leftover medications, prevention of medication side effects, and other goals through the use of trace reports for pharmaceutical coordination. We also responded to patient needs for advanced pharmacists management by promoting specialist training leading to internal certification for pharmacists in such areas as cancer and diabetes, as well as in-home care, and expanded our activities relating to healthcare support pharmacies, with 35 such outlets as of the end of the term. In addition, recognizing the need to accelerate the enhancement of in-home medical care, we added the Miyonodai Pharmacy Group, a pioneer in this area, to the Sogo Medical Group in December 2016.

With the addition of 105 dispensing pharmacy outlets during the term (including 92 from M&A transactions), total outlets stood at 674 at the close of the term.

Segment Financial Results by Business and Region

From the fiscal year ending March 31, 2013, Sogo Medical reformed its organizational and management structure, adopting a region-based structure, in order to draw up strategies and conduct business through prompt decision making at a regional level. Accompanying this reform, the previous reportable segments, “Medical Practice Support,” “Pharmacies,” and “Others,” were abandoned in favor of the region-based reportable segments “Higashinihon,” “Nishinihon,” and “Kyushu.”

In this report, for the convenience of readers and to allow for comparison between years, there is analysis based on the previous segments in the “By Business” section and based on the new segments in the “By Region” section.

By Business

Medical Practice Support

The Medical Practice Support segment comprises the provision of such services as medical management consulting for medical institutions and doctors, the DtoD system, TV rental for patients in hospitals, leasing and installment sales of medical equipment, and the planning, design, and construction of medical facilities.

Net sales from medical practice support for the year were ¥25,305 million, an increase of 8.6% from the previous year that was enabled by an increase in income from consulting and rentals, although leasing and installment net sales declined. Operating income increased by 437.3% to ¥738 million.

The following describes the situation in each division.

(1) Consulting

Net sales from the consulting division posted a 7.4% increase year on year, to ¥2,035 million. Of this amount, medical institution management consulting sales rose 20.4% to ¥1,483 million. Sales related to support for doctors who wish to transfer or start up a practice decreased 16.6% to ¥551 million. In addition to supporting 5,183 transfer projects, medical practice succession support cases totaled 46.

(2) Rental

Net sales in the rental division were ¥6,836 million, a 25.1% increase from the previous year. Within these results, net sales of products increased 150.3% to ¥2,003 million, and rental sales increased 3.6% to 4,832 million.

(3) Leasing and Installment

Net sales in the leasing/installment division fell 8.0% year on year, to ¥10,153 million. This was the result of an 18.0% drop in lease net sales to ¥711 million, and a 10.5% drop in product sales to ¥7,774 million.
Elsewhere, lease receivables and investment assets fell 35.1% to ¥911 million; installment receivables were 2.8% lower at ¥1,821 million; and operating assets declined 16.6% to ¥2,732 million. The balance of lease contracts fell 9.3% to ¥9,008 million, due to a variety of factors including the influence of negative interest rates.

(4) Others (Design and Construction of Medical Facilities, Healthcare Information Services, etc.)
Total sales in the others division expanded 29.0% to ¥6,280 million, thanks in part to positive performance by GM Co., Ltd. (interior finishing of hospitals and clinics) and Somtech Co., Ltd. (planning, design and construction of hospitals, clinics and assisted living facilities).
Management's Discussion and Analysis

Pharmacies

In the pharmacy division, we are moving ahead with the creation of high-value pharmacies throughout Japan. We opened 105 new pharmacies (including 92 from M&A transactions), and as a result the number of pharmacies at year-end was 674, up 98 from last year, contributing ¥3,755 million toward net sales. Although net sales from the 47 pharmacies opened in the previous fiscal year increased 25.3% to ¥7,532 million, net sales from existing pharmacies fell 6.3% to ¥82,856 million. As a result, net sales from the pharmacy division fell 0.5% to ¥95,966 million. In addition, operating income fell 5.1% to ¥6,316 million.

Net Sales by Region

In addition to sales increases in the rental and consulting divisions, the pharmacy division saw increased revenue from pharmacies opened during the term. As a result of these and other factors, net sales rose 9.6% to ¥48,054 million. Operating income rose to ¥1,408 million, a 14.6% increase, due in part to increased sales in the rental division.

Nishinihon

Despite an increase in sales in the rental division and the design and construction business, net sales were ¥32,463 million, 2.1% below the level achieved in the previous term, due partly to lower sales in the leasing and installment division. Operating income rose 5.5%, to ¥2,197 million, driven by higher sales in the rental division, the design and construction business, as well as increased profits in the consulting division.

Kyushu

Although sales were higher for the rental division, the leasing and installment division and the design and construction business, net sales were 5.9% lower, at ¥37,541 million, partly due to a drop in average prescription revenue at the pharmacy division’s existing outlets. Operating income dropped 9.7% to ¥2,576 million, due to the impact of lower sales in the pharmacy division.
**Forecast for the Fiscal Year Ending March 31, 2018**

In April 2017, Sogo Medical inaugurated Action 2020, its new medium-term management plan, which will unfold over a span of three years. During the fiscal year ending March 31, 2018, the first year of the plan, we will build a platform for regional healthcare networks by working actively to develop healthcare malls, deliver hospital management support, and create high-value pharmacies; and to achieve our 2028 vision, we will strive to strengthen and add new capabilities to existing businesses and expand into other healthcare-related businesses.

The company forecasts net sales of ¥135,566 million (a 10.9% increase over the current term). Operating income is forecast to reach ¥7,001 million (up 12.0%), while ordinary income is expected to total ¥7,016 million (up 8.9%), and net income attributable to owners of the parent is projected to amount to ¥4,029 million (up 6.6%).

### Net Sales by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>2015/3 (¥ million)</th>
<th>2016/3 (¥ million)</th>
<th>2017/3 (¥ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higashiinoh</td>
<td>2,331</td>
<td>37,93</td>
<td>3,855</td>
</tr>
<tr>
<td>Nishinoh</td>
<td>39,614</td>
<td>43,838</td>
<td>48,054</td>
</tr>
<tr>
<td>Kyushu</td>
<td>28,205</td>
<td>33,176</td>
<td>32,463</td>
</tr>
<tr>
<td>Others</td>
<td>19,784</td>
<td>26,410</td>
<td>26,208</td>
</tr>
<tr>
<td>Operating Income</td>
<td>3,855</td>
<td>43,838</td>
<td>48,054</td>
</tr>
</tbody>
</table>

### Operating Income by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>2015/3 (¥ million)</th>
<th>2016/3 (¥ million)</th>
<th>2017/3 (¥ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higashiinoh</td>
<td>37,793</td>
<td>39,905</td>
<td>37,541</td>
</tr>
<tr>
<td>Nishinoh</td>
<td>8,420</td>
<td>6,765</td>
<td>6,254</td>
</tr>
<tr>
<td>Kyushu</td>
<td>2,643</td>
<td>2,854</td>
<td>2,576</td>
</tr>
<tr>
<td>Others</td>
<td>2,331</td>
<td>3,855</td>
<td>4,157</td>
</tr>
<tr>
<td>Operating Income</td>
<td>5,017</td>
<td>6,087</td>
<td>6,248</td>
</tr>
</tbody>
</table>

In addition to sales increases in the rental and consulting divisions, the pharmacy division saw increased revenue from pharmacies opened during the term. As a result of these and other factors, net sales rose 9.6% to ¥48,054 million.

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Operating income dropped 9.7% to ¥2,576 million, due to the impact of lower sales in the pharmacy division.

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2. Financial Position

Assets

Total assets at the end of the year increased by ¥12,138 million over the previous year to ¥86,760 million. Current assets increased by ¥5,809 million to ¥44,999 million. The main factors underlying this were an increase in cash and deposits totaling ¥4,454 million, and in notes and accounts receivable-trade of ¥1,777 million.

Noncurrent assets rose by ¥6,329 million to ¥41,760 million. This was the combination of an increase of ¥1,595 million in buildings and structures, net, and ¥3,870 million in goodwill.

Liabilities

Liabilities for the year were ¥53,879 million, a ¥8,903 million increase over the previous year. Current liabilities rose by ¥1,990 million to ¥33,228 million. This was the result of a ¥1,667 million increase in notes and accounts payable-trade. Noncurrent liabilities rose by ¥6,913 million year on year to ¥20,650 million. This was mainly due to a ¥5,966 million increase in long-term loans payable. In addition, interest-bearing debt (including lease obligations and accounts payable-installment purchases) increased by ¥6,143 million to ¥24,590 million, and the net debt-to-equity ratio—found by subtracting cash and deposits from interest-bearing debt and dividing the result by shareholders’ equity—rose by 0.01 points, to 0.42.

Net Assets

As of March 31, 2017, net assets were ¥32,880 million, a year-on-year increase of ¥3,234 million. Declines from the payment of dividends (¥710 million) were offset by comprehensive income attributable to owners of the parent (¥3,779 million). As a result, the capital adequacy ratio was 39.5%, an increase of 1.9 percentage points compared to 37.6% on March 31, 2016.

Cash Flow

As of March 31, 2017, cash and cash equivalents totaled ¥10,655 million, a year-on-year increase of ¥4,299 million (67.6%). The primary factors are described below.

Cash Flows from Operating Activities

Cash provided by operating activities increased by ¥10,931 million. The major cash increases were ¥6,391 million from income before income taxes, ¥3,902 million from adjustment for depreciation and amortization, and ¥987 million from goodwill amortization. The major cash decrease was ¥2,222 million from income taxes paid.

Cash Flows from Investing Activities

Cash decreased by ¥9,933 million as a result of investing activities. This was mainly due to purchase of investments in subsidiaries resulting in change in scope of consolidation (¥6,440 million) and purchase of own-used assets (¥3,152 million).

Cash Flows from Financing Activities

Cash increased by ¥3,301 million as a result of financing activities. This was due to an increase in cash due to long-term loans payable (¥10,933 million), while cash decreased by ¥4,446 million due to repayment of long-term loans payable, and by ¥1,924 million due to repayment of installment payables.

Trends in Cash Flows

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating cash flow</th>
<th>Investment cash flow</th>
<th>Free cash flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/3</td>
<td>(5,296)</td>
<td>(4,981)</td>
<td>(9,933)</td>
</tr>
<tr>
<td>2016/3</td>
<td>7,004</td>
<td>2,022</td>
<td>9,926</td>
</tr>
<tr>
<td>2017/3</td>
<td>6,051</td>
<td>755</td>
<td>6,806</td>
</tr>
</tbody>
</table>

Note: Free cash flow = cash flows from operating activities + cash flows from investing
3. Financial Strategies

Issues on the Financial Front

In accordance with the goals of our medium-term management plan, we maintain an ongoing focus on healthcare mall development, hospital management support, and creation of high-value pharmacies. We plan to continue moving in this direction and anticipate that suitable funds will be needed to achieve these goals in the years to come.

Capital for the facility leasing of medical institutions and the opening of 105 new pharmacies (including 92 pharmacies from M&A transactions) in the fiscal year ending March 31, 2017 was provided by our retained earnings as well as financial institution loans and leasing.

To make “good medical practice” a reality, Sogo Medical must not only target the stable management of medical institutions; we must also achieve stable management of our own operations. Holding to the basic principle of expanding shareholders’ equity through the accumulation of income, while considering an appropriate level of debt leveraging, we have sought to maintain a net debt-to-equity ratio of 0.5 over the past several years.

While making steady progress in line with our growth strategies, we must at the same time shore up our financial base. We recognize that in the future, we must step up our efforts to create a balanced capital structure.

Shareholder Returns

Our basic policy on shareholder returns is to maintain a payout ratio of approximately 20%. We recognize that there are calls to raise our payout ratio further, but at present we consider it important to retain earnings to avoid degrading our financial base over the long term, and we intend to apply the cash on hand toward investment in growth in order to expand the scale of our business operations. Through this investment in growth, we expect our stock price to rise, and we will pay back shareholders through increases in the value of their shares.

The Action 2020 medium-term management plan, which went into effect in April 2017, states a policy of maintaining the minimum dividend payout ratio at 20%. Based on this policy, the next annual dividend payment is expected to be ¥55.0 per share (interim and year-end dividends of ¥27.5).

In addition, in gratitude for the support of our shareholders, and to enhance the attractiveness of our shares and increase the number of medium- to long-term shareholders, we are introducing special shareholder incentives.

Interest-Bearing Debt / Net Debt-to-Equity Ratio

Trends in Dividends

Note: On April 1, 2015, we carried out a 2-for-1 split of common stock, and dividends per share prior to March 31, 2015 have been calculated assuming that the stock split had been performed.
Risk Information

Business Risks

Business risks related to the operational performance reported in this annual report that have a possibility of materially affecting investor decisions are listed below.

Points regarding future events are based on judgments made as of June 22, 2017.

1. M&A and Other Investments

The Group invests through mergers and acquisitions, etc. as part of business expansion efforts, and the accompanying goodwill is recorded. It is therefore possible that new goodwill could be generated that increases amortization costs. Or, if the firm invested in does not achieve initial performance targets and is not likely to achieve them into the future, it becomes necessary to book an impairment loss, which can affect the performance of the Group.

2. Pharmacies

A. Pharmacies and separation of dispensing and prescribing functions

In order to increase the quality of healthcare, the Japanese government is pursuing policies encouraging the separation of prescribing and dispensing functions so that medical institutions focus on medical activities such as medical treatment and pharmacies provide drug history management, patient compliance instructions, and other services. However, if the degree of separation reduces in the future, this could have an effect on new pharmacy openings and the overall performance of pharmacies.

B. Pharmacy regulations

To perform dispensing duties within our Group, it is necessary to receive permission to open a new pharmacy and be designated as a health insurance pharmacy by the prefectural or city governor, as well as receive other kinds of designation as necessary. In the unlikely event that a pharmacy was forced to suspend business or was closed down as the result of a legal infraction or some other reason, this could have an effect on the performance of pharmacies.

C. Drug price and dispensing fee revisions

Dispensing sales comprise revenue from prescription drugs and dispensing technical fees. Revenue from prescription drugs is based on official prices called the Drug Price Standards decided under the Health Insurance Act, while revenue from dispensing technical fees is also based on fees decided under the same act. Changes in drug prices and dispensing fees as a result of official revisions could have an effect on the performance of pharmacies.

D. Dispensing errors

Our Group treats the prevention of dispensing errors as an important issue, therefore we increase the skill and knowledge of pharmacists through training and implement multiple checks and a dispensing error prevention system. Our Group has also taken out liability insurance for pharmacists in all its pharmacies as a precautionary measure. However, in the case of a major dispensing error leading to loss of public trust, financial losses from lawsuits, or other losses, there could be an effect on the performance of pharmacies.

E. Consumption tax

Under the Consumption Tax Act, dispensing sales are not subject to consumption tax, but pharmaceuticals purchased by our Group are taxable. Consequently, consumption tax paid by our Group on purchases is recorded as consumption tax on the statement of income as part of dispensing cost of sales. When consumption tax was introduced and later increased, the increase was taken into account in drug price revisions and the company was also able to have it taken into account when negotiating with our suppliers. However, if future rises in consumption tax are not reflected in drug prices or our suppliers’ prices, there could be an effect on the performance of pharmacies.

F. Recruitment of pharmacists and the pharmacy opening plan

Under the Pharmaceutical and Medical Device Act, a fixed number of pharmacists are required at pharmacies, and under the Pharmacists Act, dispensing duties must be performed by pharmacists. Our Group presently has enough pharmacists at all its pharmacies to meet the criteria of the Pharmaceutical and Medical Device Act. Our company also has a pharmacist recruitment plan based on its new pharmacy opening plan and by implementing recruitment activities and supplementing the main period of hiring in recruitment season with initiatives throughout the year, our Group expects to recruit enough pharmacists such that there will be no obstacles to its pharmacy opening plan. However, if it proves impossible to recruit enough pharmacists or if our Group’s pharmacy opening plan is delayed and recruitment nonetheless goes ahead, so that for a time there are more pharmacists than are needed, there could be an effect on the performance of pharmacies.
3. Rental

A. Rental transactions

Sogo Medical operates a system whereby patients pay to use TVs and other items that are placed in medical institutions based on rental contracts. Net sales from rental transactions (revenue from rental fees) vary based on the number of TVs and the rental fee. Presently, there is a downward trend in the number of beds, which is having a knock-on effect on the number of TVs in medical institutions. Revenue from rental fees is affected by the number of beds, their occupancy rates and the number of hours patients spend watching TV.

B. Responding to technological advances

The shift to digital-only terrestrial broadcasting in July 2011 is now complete, but if it became necessary to respond to a similar advance in technology, while there would be the possibility of exploiting new business opportunities such as through product development, the obsolescence of existing equipment and subsequent investment could have an effect on the performance of the rental division.

C. Consumption tax

If consumption tax is increased but not reflected in patients’ TV rental fees or absorbed through the cutting of costs, it could have an effect on the performance of the rental division.

4. Leasing / installment

A. Changes in interest rates

Ultralow interest rate policies in the leasing/installment business environment have led to increasingly fierce competition with other companies over lease fees. Leasing/installment contracts and profit margins are affected by changes in interest rates.

B. Product sales

To increase the efficiency of funds collection, Sogo Medical sells part of the property from the contracts it acquires during the fiscal year and records it on the statement of income as product sales. These sales transactions refer to sales to another leasing company of the equipment from the lease contracts or installment contracts signed with customers. We collect receivables from customers and pay that money to the leasing company. We profit from the difference between the purchasing price from the supplier and the selling price to the leasing company. If sales increase, unearned lease contract and installment receivables decrease and revenue from lease fees and installment sales also decrease.

5. DtoD promotion

The DtoD system supports practice succession, healthcare cooperation, and doctors transferring practice. The system helps to solve problems by comprehensively providing assistance to doctors wishing to start or change practice, doctors in practice seeking successors, and medical institutions looking for excellent doctors and healthcare partners. Revenues from the DtoD system come not only directly in such forms as introduction fees as part of doctor transfer support and consulting fees for doctors starting new practices, but also indirectly through related business expansion that increases productivity and profitability.

As the number of employed physicians, medical practice owners, and medical institutions registered in the system increases, DtoD results will steadily improve. As a fundamental strategy, Sogo Medical plans to further promote and strengthen the DtoD system and expand its business. However, if DtoD business expansion does not go according to plan, it could have an effect on our performance.

6. Personal information protection

The Group handles personal information as defined in the Protection of Personal Information Act in all of its various businesses. In 2006, our Group acquired PrivacyMark certification and we are working to prevent personal information leaks. However, in the event that personal information was leaked, loss of public trust, financial losses from lawsuits, or other losses could affect our performance.
## Consolidated Financial Statements

### Consolidated Balance Sheet

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>4,988</td>
<td>6,376</td>
<td>10,830</td>
</tr>
<tr>
<td>Notes and accounts receivable-trade</td>
<td>17,485</td>
<td>19,617</td>
<td>21,395</td>
</tr>
<tr>
<td>Accounts receivable-installment sales</td>
<td>1,806</td>
<td>1,874</td>
<td>1,821</td>
</tr>
<tr>
<td>Lease receivables and investment assets</td>
<td>1,701</td>
<td>1,403</td>
<td>911</td>
</tr>
<tr>
<td>Inventories</td>
<td>7,543</td>
<td>6,583</td>
<td>6,557</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>628</td>
<td>789</td>
<td>811</td>
</tr>
<tr>
<td>Other</td>
<td>2,450</td>
<td>2,566</td>
<td>2,710</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(19)</td>
<td>(20)</td>
<td>(38)</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>36,584</td>
<td>39,189</td>
<td>44,999</td>
</tr>
<tr>
<td><strong>Noncurrent assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property for lease</td>
<td>5,929</td>
<td>5,177</td>
<td>4,823</td>
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<tr>
<td>Buildings and structures, net</td>
<td>8,763</td>
<td>11,716</td>
<td>13,312</td>
</tr>
<tr>
<td>Land</td>
<td>3,992</td>
<td>4,109</td>
<td>4,720</td>
</tr>
<tr>
<td>Other, net</td>
<td>3,116</td>
<td>2,539</td>
<td>2,216</td>
</tr>
<tr>
<td><strong>Total property, plant and equipment</strong></td>
<td>21,801</td>
<td>23,542</td>
<td>25,072</td>
</tr>
<tr>
<td><strong>Intangible assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>5,252</td>
<td>5,833</td>
<td>9,703</td>
</tr>
<tr>
<td>Other</td>
<td>1,031</td>
<td>1,201</td>
<td>1,537</td>
</tr>
<tr>
<td><strong>Total intangible assets</strong></td>
<td>6,283</td>
<td>7,034</td>
<td>11,241</td>
</tr>
<tr>
<td><strong>Investments and other assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>1,566</td>
<td>1,134</td>
<td>1,327</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>468</td>
<td>507</td>
<td>445</td>
</tr>
<tr>
<td>Other</td>
<td>3,107</td>
<td>3,231</td>
<td>3,673</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(0)</td>
<td>(19)</td>
<td>(0)</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td>5,141</td>
<td>4,853</td>
<td>5,446</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>33,226</td>
<td>35,431</td>
<td>41,760</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>69,811</td>
<td>74,621</td>
<td>86,760</td>
</tr>
</tbody>
</table>
### Consolidated Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and accounts payable-trade</td>
<td>18,841</td>
<td>18,590</td>
<td>20,258</td>
</tr>
<tr>
<td>Short-term loans payable</td>
<td>360</td>
<td>610</td>
<td>415</td>
</tr>
<tr>
<td>Current portion of long-term loans payable</td>
<td>2,903</td>
<td>4,046</td>
<td>4,607</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>363</td>
<td>267</td>
<td>256</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>2,072</td>
<td>2,972</td>
<td>2,629</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>1,452</td>
<td>1,572</td>
<td>1,762</td>
</tr>
<tr>
<td>Deferred profit on installment sales</td>
<td>190</td>
<td>182</td>
<td>187</td>
</tr>
<tr>
<td>Other</td>
<td>3,925</td>
<td>2,994</td>
<td>3,112</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>30,109</td>
<td>31,237</td>
<td>33,228</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term loans payable</td>
<td>6,835</td>
<td>9,204</td>
<td>15,171</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>1,028</td>
<td>714</td>
<td>920</td>
</tr>
<tr>
<td>Long-term accounts payable-installment purchase</td>
<td>3,055</td>
<td>1,938</td>
<td>2,160</td>
</tr>
<tr>
<td>Other</td>
<td>2,260</td>
<td>1,880</td>
<td>2,397</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td>13,180</td>
<td>13,737</td>
<td>20,650</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>43,290</td>
<td>44,975</td>
<td>53,879</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital stock</td>
<td>3,513</td>
<td>3,513</td>
<td>3,513</td>
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<tr>
<td>Capital surplus</td>
<td>4,136</td>
<td>5,566</td>
<td>5,566</td>
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<tr>
<td>Retained earnings</td>
<td>19,255</td>
<td>20,944</td>
<td>24,012</td>
</tr>
<tr>
<td>Treasury stock</td>
<td>(1,044)</td>
<td>(920)</td>
<td>(920)</td>
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<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>25,861</td>
<td>29,104</td>
<td>32,172</td>
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<tr>
<td><strong>Accumulated other comprehensive income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>475</td>
<td>338</td>
<td>432</td>
</tr>
<tr>
<td><strong>Total accumulated other comprehensive income</strong></td>
<td>475</td>
<td>338</td>
<td>432</td>
</tr>
<tr>
<td><strong>Non-controlling shareholders</strong></td>
<td>184</td>
<td>203</td>
<td>275</td>
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<tr>
<td><strong>Total net assets</strong></td>
<td>26,521</td>
<td>29,646</td>
<td>32,880</td>
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<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>69,811</td>
<td>74,621</td>
<td>86,760</td>
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</table>
## Consolidated Financial Statements

### Consolidated Statements of Income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>107,945</td>
<td>120,776</td>
<td>122,216</td>
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<tr>
<td>Cost of sales</td>
<td>93,139</td>
<td>103,178</td>
<td>103,761</td>
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<tr>
<td>Gross profit</td>
<td>14,805</td>
<td>17,598</td>
<td>18,454</td>
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<tr>
<td>Selling, general and administrative expenses</td>
<td>9,787</td>
<td>11,511</td>
<td>12,206</td>
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<tr>
<td>Operating income</td>
<td>5,017</td>
<td>6,087</td>
<td>6,248</td>
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<tr>
<td>Non-operating income</td>
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</tr>
<tr>
<td>Dividends income</td>
<td>20</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td>Rent income</td>
<td>38</td>
<td>31</td>
<td>21</td>
</tr>
<tr>
<td>Insurance cancellation refunds</td>
<td>106</td>
<td>36</td>
<td>21</td>
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<tr>
<td>Gain on sales of investment securities</td>
<td>–</td>
<td>–</td>
<td>168</td>
</tr>
<tr>
<td>Other</td>
<td>202</td>
<td>196</td>
<td>209</td>
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<tr>
<td>Non-operating expenses</td>
<td></td>
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<tr>
<td>Interest expenses</td>
<td>75</td>
<td>75</td>
<td>81</td>
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<tr>
<td>Loss on valuation of investments securities</td>
<td>17</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Loss on lease cancellation</td>
<td>–</td>
<td>–</td>
<td>35</td>
</tr>
<tr>
<td>Other</td>
<td>65</td>
<td>103</td>
<td>137</td>
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<tr>
<td>Ordinary income</td>
<td>5,227</td>
<td>6,196</td>
<td>6,440</td>
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<tr>
<td>Extraordinary loss</td>
<td>51</td>
<td>1,371</td>
<td>48</td>
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<tr>
<td>Impairment loss</td>
<td>51</td>
<td>1,014</td>
<td>48</td>
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<tr>
<td>Loss on sales of stocks of subsidiaries and affiliates</td>
<td>–</td>
<td>87</td>
<td>–</td>
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<tr>
<td>Loss on valuation of investment securities</td>
<td>–</td>
<td>270</td>
<td>–</td>
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<tr>
<td>Income before income taxes</td>
<td>5,175</td>
<td>4,824</td>
<td>6,391</td>
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<td>Income taxes-current</td>
<td>2,236</td>
<td>2,569</td>
<td>2,452</td>
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<td>Income taxes-deferred</td>
<td>163</td>
<td>(68)</td>
<td>87</td>
</tr>
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<td>Total income taxes</td>
<td>2,400</td>
<td>2,501</td>
<td>2,540</td>
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<tr>
<td>Net income</td>
<td>2,774</td>
<td>2,318</td>
<td>3,851</td>
</tr>
<tr>
<td>Net income attributable to non-controlling shareholders</td>
<td>0</td>
<td>4</td>
<td>71</td>
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<tr>
<td>Net income attributable to owners of the parent</td>
<td>2,774</td>
<td>2,318</td>
<td>3,779</td>
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### Consolidated Statements of Comprehensive Income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>2,774</td>
<td>2,323</td>
<td>3,851</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>234</td>
<td>(136)</td>
<td>94</td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td>234</td>
<td>(136)</td>
<td>94</td>
</tr>
<tr>
<td>Comprehensice income</td>
<td>3,009</td>
<td>2,186</td>
<td>3,945</td>
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<tr>
<td>Comprehensice income attributable to owners of the parent</td>
<td>3,009</td>
<td>2,181</td>
<td>3,873</td>
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<tr>
<td>Comprehensice income attributable to non-controlling shareholders</td>
<td>0</td>
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<td>71</td>
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### Consolidated Statements of Change in Net Assets

<table>
<thead>
<tr>
<th></th>
<th>Shareholders’ equity</th>
<th>Accumulated other comprehensive income</th>
<th>(¥ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital stock</td>
<td>Capital surplus</td>
<td>Retained earnings</td>
</tr>
<tr>
<td>Balance on March 31, 2014</td>
<td>3,513</td>
<td>4,136</td>
<td>17,058</td>
</tr>
<tr>
<td>Dividends from surplus</td>
<td>–</td>
<td>–</td>
<td>(577)</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>–</td>
<td>–</td>
<td>2,774</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposition of treasury stock</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net changes of items other than shareholders’ equity</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Balance on March 31, 2015</td>
<td>3,513</td>
<td>4,136</td>
<td>19,255</td>
</tr>
<tr>
<td>Dividends from surplus</td>
<td>–</td>
<td>–</td>
<td>(629)</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>–</td>
<td>–</td>
<td>2,318</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposition of treasury stock</td>
<td>–</td>
<td>1,429</td>
<td>–</td>
</tr>
<tr>
<td>Net changes of items other than shareholders’ equity</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Balance on March 31, 2016</td>
<td>3,513</td>
<td>5,566</td>
<td>20,944</td>
</tr>
<tr>
<td>Dividends from surplus</td>
<td>–</td>
<td>–</td>
<td>(710)</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>–</td>
<td>–</td>
<td>3,779</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposition of treasury stock</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net changes of items other than shareholders’ equity</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Balance on March 31, 2017</td>
<td>3,513</td>
<td>5,566</td>
<td>24,012</td>
</tr>
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</table>
## Consolidated Financial Statements

### Consolidated Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>5,175</td>
<td>4,824</td>
<td>6,391</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,746</td>
<td>3,836</td>
<td>3,902</td>
</tr>
<tr>
<td>Goodwill amortization</td>
<td>805</td>
<td>1,021</td>
<td>987</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>51</td>
<td>1,014</td>
<td>48</td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td>(22)</td>
<td>(23)</td>
<td>(27)</td>
</tr>
<tr>
<td>Capital cost and interest expenses</td>
<td>131</td>
<td>112</td>
<td>105</td>
</tr>
<tr>
<td>Decrease (increase) in notes and accounts receivable-trade</td>
<td>1,050 (993)</td>
<td>1,127</td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in accounts receivable-installment sales</td>
<td>(104) (75)</td>
<td>57</td>
<td></td>
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<tr>
<td>Net decrease (increase) in lease receivables and investment assets</td>
<td>313</td>
<td>298</td>
<td>491</td>
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<tr>
<td>Decrease (increase) in inventories</td>
<td>(953)</td>
<td>1,253</td>
<td>751</td>
</tr>
<tr>
<td>Increase (decrease) in notes and accounts payable-trade</td>
<td>(1,735) (1,436)</td>
<td>(670)</td>
<td></td>
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<tr>
<td>Increase (decrease) in other assets/liabilities</td>
<td>(223) (798)</td>
<td>(193)</td>
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<td>Other, net</td>
<td>33</td>
<td>620</td>
<td>258</td>
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<tr>
<td>Subtotal</td>
<td>8,269</td>
<td>9,652</td>
<td>13,230</td>
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<tr>
<td>Interest and dividends income received</td>
<td>22</td>
<td>23</td>
<td>27</td>
</tr>
<tr>
<td>Interest expenses paid</td>
<td>(131)</td>
<td>(111)</td>
<td>(103)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(2,108)</td>
<td>(2,559)</td>
<td>(2,222)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td>6,051</td>
<td>7,004</td>
<td>10,931</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of own-used assets</td>
<td>(3,767)</td>
<td>(4,233)</td>
<td>(3,152)</td>
</tr>
<tr>
<td>Proceeds from sales of own-used assets</td>
<td>–</td>
<td>172</td>
<td>4</td>
</tr>
<tr>
<td>Purchase of property for lease</td>
<td>(359)</td>
<td>(876)</td>
<td>(264)</td>
</tr>
<tr>
<td>Purchase of investment securities</td>
<td>(270)</td>
<td>(11)</td>
<td>–</td>
</tr>
<tr>
<td>Purchase of investments in subsidiaries resulting in change in scope of consolidation</td>
<td>(579) (147)</td>
<td>(6,440)</td>
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<tr>
<td>Other, net</td>
<td>(318)</td>
<td>115</td>
<td>(80)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) investing activities</strong></td>
<td>(5,296)</td>
<td>(4,981)</td>
<td>(9,933)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase (decrease) in short-term loans payable</td>
<td>9</td>
<td>64</td>
<td>(224)</td>
</tr>
<tr>
<td>Proceeds from long-term loans payable</td>
<td>4,749</td>
<td>6,485</td>
<td>10,933</td>
</tr>
<tr>
<td>Repayment of long-term loans payable</td>
<td>(3,211)</td>
<td>(3,001)</td>
<td>(4,446)</td>
</tr>
<tr>
<td>Repayments of lease obligations</td>
<td>(512)</td>
<td>(751)</td>
<td>(324)</td>
</tr>
<tr>
<td>Repayments of installment payables</td>
<td>(2,094)</td>
<td>(2,092)</td>
<td>(1,924)</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>(577)</td>
<td>(629)</td>
<td>(710)</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>(1)</td>
<td>(708)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>(1,637)</td>
<td>(635)</td>
<td>3,301</td>
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<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>(882)</td>
<td>1,387</td>
<td>4,299</td>
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<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>5,851</td>
<td>4,968</td>
<td>6,356</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>4,968</td>
<td>6,356</td>
<td>10,655</td>
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### Segment Information

#### 2015

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unaffiliated sales</td>
<td>39,614</td>
<td>28,205</td>
<td>37,793</td>
<td>105,613</td>
<td>2,331</td>
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<tr>
<td>Intersegment sales</td>
<td>55</td>
<td>738</td>
<td>2</td>
<td>796</td>
<td>4,823</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39,670</td>
<td>28,943</td>
<td>37,796</td>
<td>106,410</td>
<td>7,155</td>
</tr>
<tr>
<td><strong>Segment profit</strong></td>
<td>842</td>
<td>1,510</td>
<td>2,643</td>
<td>4,996</td>
<td>620</td>
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<tr>
<td><strong>Segment assets</strong></td>
<td>25,029</td>
<td>15,854</td>
<td>15,272</td>
<td>56,156</td>
<td>5,698</td>
</tr>
</tbody>
</table>

**Notes:**

1. Others includes items such as TV rental for hotels, which are not classified as reportable segments.
2. Reconciliations were as follows:
   (1) Reconciliation for reportable segment loss (–¥599 million) included elimination of intersegment sales (¥26 million) and overall corporate expenses (–¥572 million).
   The overall corporate expenses were mainly classified as general and administrative expenses and were not allocated to reportable segments.
   (2) Reconciliation for reportable segment assets (¥7,955 million) included elimination investment against equity (–¥8,464 million) and overall corporate assets (¥7,150 million). The overall corporate assets were mainly classified as parent company deposits and were not allocated to reportable segments.
3. Reportable segment profits were reconciled with the operating income of the consolidated income statement.

#### 2016

<table>
<thead>
<tr>
<th>Reportable Segments</th>
<th>2016 Apr. 1, 2015–Mar. 31, 2016</th>
<th>Others</th>
<th>Total</th>
<th>Reconciliations</th>
<th>Consolidated amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unaffiliated sales</td>
<td>43,838</td>
<td>33,176</td>
<td>39,905</td>
<td>116,920</td>
<td>3,855</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>40</td>
<td>560</td>
<td>0</td>
<td>601</td>
<td>6,020</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>43,879</td>
<td>33,737</td>
<td>39,906</td>
<td>117,522</td>
<td>9,875</td>
</tr>
<tr>
<td><strong>Segment profit</strong></td>
<td>1,228</td>
<td>2,082</td>
<td>2,854</td>
<td>6,165</td>
<td>490</td>
</tr>
<tr>
<td><strong>Segment assets</strong></td>
<td>25,823</td>
<td>18,720</td>
<td>16,635</td>
<td>61,180</td>
<td>4,745</td>
</tr>
</tbody>
</table>

**Notes:**

1. Others includes business segments that are not classified as reportable segments, which includes wholesale distribution of pharmaceutical products and healthcare information services.
2. Reconciliations were as follows:
   (1) Reconciliation for reportable segment loss (–¥568 million) included elimination of intersegment sales (¥1 million) and overall corporate expenses (–¥570 million).
   The overall corporate expenses were mainly classified as general and administrative expenses and were not allocated to reportable segments.
   (2) Reconciliation for reportable segment assets (¥8,695 million) included elimination investment against equity (–¥8,464 million) and overall corporate assets (¥18,902 million). The overall corporate assets were mainly classified as parent company deposits and were not allocated to reportable segments.
3. Reportable segment profits were reconciled with the operating income of the consolidated income statement.

#### 2017

<table>
<thead>
<tr>
<th>Reportable Segments</th>
<th>2017 Apr. 1, 2016–Mar. 31, 2017</th>
<th>Others</th>
<th>Total</th>
<th>Reconciliations</th>
<th>Consolidated amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unaffiliated sales</td>
<td>48,054</td>
<td>32,483</td>
<td>37,541</td>
<td>113,059</td>
<td>4,157</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>1</td>
<td>368</td>
<td>–</td>
<td>369</td>
<td>5,455</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>48,055</td>
<td>32,831</td>
<td>37,541</td>
<td>113,428</td>
<td>9,613</td>
</tr>
<tr>
<td><strong>Segment profit</strong></td>
<td>1,408</td>
<td>2,197</td>
<td>2,576</td>
<td>6,182</td>
<td>856</td>
</tr>
<tr>
<td><strong>Segment assets</strong></td>
<td>37,691</td>
<td>18,056</td>
<td>15,045</td>
<td>70,793</td>
<td>5,239</td>
</tr>
</tbody>
</table>

**Notes:**

1. Others includes business segments that are not classified as reportable segments, which includes wholesale distribution of pharmaceutical products and healthcare information services.
2. Reconciliations were as follows:
   (1) Reconciliation for reportable segment loss (–¥790 million) included elimination of intersegment sales (¥18 million) and overall corporate expenses (–¥809 million).
   The overall corporate expenses were mainly classified as general and administrative expenses and were not allocated to reportable segments.
   (2) Reconciliation for reportable segment assets (¥10,227 million) included elimination investment against equity (–¥117,598 million) and overall corporate assets (¥29,410 million). The overall corporate assets were mainly classified as parent company deposits and were not allocated to reportable segments.
3. Reportable segment profits were reconciled with the operating income of the consolidated income statement.
Corporate Information (As of June 1, 2017)

Corporate Outline

**Company Name:** Sogo Medical Co., Ltd.

**Head Office:** Fukuoka Tenjin Center Bldg. 16F, 2-14-8 Tenjin, Chuo-ku, Fukuoka

**Founded:** June 12, 1978

**Capital:** ¥3,513 million

**Listed:** First Section, Tokyo Stock Exchange (Code 4775)

**Banking Relationships:**


**Dispensing Pharmacies (On April 1, 2015, we carried out a 2-for-1 split of common stock. Figures on share price and trading volume prior to and including the fiscal year ending March 31, 2017 are adjusted for the split.)**


**Bases:** 710 branch offices, 23 branch offices, 4 sales offices, 1 satellite office, 677 pharmacies, 2 in-hospital stores

**Employees:** 5,711 workers (4,296 full-time workers, 1,415 part-time workers)

**Group Companies:**

- Somitech Co., Ltd. (design and construction of hospitals, clinics and assisted living facilities)
- Sogo Medipro Co., Ltd. (paramedical staff introduction and dispatch)
- Sogo Real Estate Co., Ltd. (lease and management business for medical facilities)
- S.M.E. Co., Ltd. (wholesale of pharmaceuticals)
- Sogo Care Network Co., Ltd. (assisted living facility business)
- Sun Villa Co., Ltd. (Senior living associated with nursing service)
- Hokingo-shinsha Inc. (healthcare information service)
- GM Co., Ltd. (interior finishing of hospitals and clinics)
- Sogo Care Network Co., Ltd. (interior finishing of hospitals and clinics)

**Dispensing Pharmacies:**


**Bases:** 710 branch offices, 23 branch offices, 4 sales offices, 1 satellite office, 677 pharmacies, 2 in-hospital stores

**Employees:** 5,711 workers (4,296 full-time workers, 1,415 part-time workers)

**Corporate Timeline**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun. 1978</td>
<td>Established Sogo Medical Leasing Co., Ltd. with a capitalization of ¥120 million for business purposes</td>
</tr>
<tr>
<td></td>
<td>of leasing medical equipment and consulting for medical institutions.</td>
</tr>
<tr>
<td>Nov. 1987</td>
<td>Started the TV rental business for patients.</td>
</tr>
<tr>
<td>Jun. 1988</td>
<td>Established the first Sogo Pharmacy.</td>
</tr>
<tr>
<td>Oct. 1989</td>
<td>Name changed to Sogo Medical Co., Ltd.</td>
</tr>
<tr>
<td>Nov. 1989</td>
<td>Started the “Green Members” (now “Succeed Members”) member system targeted to medical personnel.</td>
</tr>
<tr>
<td>Oct. 1994</td>
<td>Started the planning, design, and construction of medical facilities.</td>
</tr>
<tr>
<td>Aug. 2000</td>
<td>Listed on Second Section of Tokyo Stock Exchange.</td>
</tr>
<tr>
<td>Apr. 2001</td>
<td>Acquired all outstanding shares of Onin Media Supply Co., Ltd., a company that carried out TV rentals.</td>
</tr>
<tr>
<td></td>
<td>for hospitals, etc.</td>
</tr>
<tr>
<td></td>
<td>Begun operation of stores within hospitals.</td>
</tr>
<tr>
<td>Sep. 2001</td>
<td>Listed on First Section of Tokyo Stock Exchange.</td>
</tr>
<tr>
<td>Oct. 2001</td>
<td>Acquired all outstanding shares of the pharmacies Hello Medical Co., Ltd., Hello Network Co., Ltd.</td>
</tr>
<tr>
<td></td>
<td>and Hase Dispensing Pharmacy Co., Ltd.</td>
</tr>
<tr>
<td>Jan. 2002</td>
<td>Acquired all outstanding shares of the pharmacies Hello Medical Co., Ltd., Hello Network Co., Ltd.</td>
</tr>
<tr>
<td></td>
<td>and Hase Dispensing Pharmacy Co., Ltd.</td>
</tr>
<tr>
<td>Dec. 2003</td>
<td>Started temporary introduction and placement service of other medical staff.</td>
</tr>
<tr>
<td>Apr. 2005</td>
<td>Started hospital operational management contracting.</td>
</tr>
<tr>
<td>Aug. 2007</td>
<td>Formed business alliance with Mitsu and Co., Ltd.</td>
</tr>
</tbody>
</table>

**Licensed personnel (including part-timers):**

- **Pharmacists:** 2,520
- **Registered nurses:** 61
- **Public health nurses:** 16
- **Midwives:** 7
- **Registered dietitians:** 10
- **Social workers:** 4
- **Psychiatric social workers:** 15
- **Care workers:** 69
- **Care managers:** 19
- **Attorneys:** 1
- **CPNs:** 1
- **Tax accountants:** 1
- **Clinical psychologists:** 25
- **Industrial counselors (including senior counselors):** 12
- **First-class architects:** 17
- **Interior coordinators:** 4
- **Real estate transaction specialists:** 57
- **Healthcare management consultants registered with the JAHMC:** 39
- **Personnel certified for start-up support:** 98
- **Personnel certified for recruitment:** 113
- **Personnel certified for pharmacy management:** 90

**Note:** PPI is our internal certification with Level V as the highest. Figures are valid as of April 1, 2017.

**Corporate Information**

**Company Profile**

- President’s Message
- Action Reports
- Business Performance

**Financial Section**

- Stock Information

**Corporate Governance**

- Board of Directors
- Audit Committee
- Corporate Governance Committees

**For further inquiries, please contact:** Sogo Medical Co., Ltd., Public and Investor Relations Division

TEL: +81-92-713-9181  E-mail: ir@sogo-medical.co.jp  http://www.sogo-medical.co.jp/english/
**Shareholder Composition**

<table>
<thead>
<tr>
<th>Total Number of Issued Shares</th>
<th>15,340,156 shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Shareholders</td>
<td>6,497 shareholders</td>
</tr>
<tr>
<td>Number of Unit Shareholders</td>
<td>5,839 shareholders</td>
</tr>
</tbody>
</table>

**Major Shareholders (Top 10 Largest Shareholders)**

<table>
<thead>
<tr>
<th>Name of Shareholder</th>
<th>Number of Shares Held (thousands of shares)</th>
<th>Shareholding Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsui &amp; Co., Ltd.</td>
<td>3,819</td>
<td>25.51%</td>
</tr>
<tr>
<td>GOLDMAN SACHS INTERNATIONAL</td>
<td>1,191</td>
<td>7.96%</td>
</tr>
<tr>
<td>(Standing proxy: Goldman Sachs Japan Co., Ltd.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tokyo Century Corporation</td>
<td>722</td>
<td>4.82%</td>
</tr>
<tr>
<td>The Bank of Fukuoka, Ltd.</td>
<td>615</td>
<td>4.10%</td>
</tr>
<tr>
<td>Hirosada Oyamada</td>
<td>453</td>
<td>3.03%</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account)</td>
<td>451</td>
<td>3.01%</td>
</tr>
<tr>
<td>The Kitakyushu Bank, Ltd.</td>
<td>404</td>
<td>2.69%</td>
</tr>
<tr>
<td>THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL OMNIBUS SECS</td>
<td>323</td>
<td>2.15%</td>
</tr>
<tr>
<td>LENDING ACCOUNT (Standing proxy: Mizuho Bank, Ltd.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees Shareholders’ Association of Sogo Medical</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (trust account)</td>
<td>202</td>
<td>1.35%</td>
</tr>
</tbody>
</table>

Ratios of controlling shares are calculated excluding Sogo Medical treasury stock (372 thousand shares).

**Breakdown of Shares by Type of Shareholder**

- **Treasury Stock**: 372 thousand shares (2.4%)
- **Financial Institutions**: 3,169 thousand shares (20.7%)
- **Securities Firms**: 103 thousand shares (0.7%)
- **Other Companies**: 4,618 thousand shares (30.1%)
- **Individuals and Others**: 3,343 thousand shares (21.6%)
- **Foreign Companies, etc.**: 6,262 shareholders (96.4%)

**Share Price and Trading Volume**

(On April 1, 2015, we carried out a 2-for-1 split of common stock. Figures on share price and trading volume prior to and including the fiscal year ending March 31, 2015 were calculated assuming that the stock split had been performed.)

For further inquiries, please contact: Sogo Medical Co., Ltd., Public and Investor Relations Division
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