



Annual Report 2016

From April 1, 2015 to March 31, 2016

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.

Our Pledge

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

We shall strive always to be right-thinking, grateful, diligent, modest, honest, refined, straight and fair independent people.

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

We shall not hesitate to do good nor prevent harm.

Mission Statement

We shall work to build a better society through good medical practice.

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.

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Corporate Logo

The logo is designed around a human being motif.

- The upper circle is the head (intelligence)
- The lower circle is the heart (passion)
- The arc in the center is the body (conduct)



This combination of intelligence, passion and conduct forms the basis for action at our company with our emphasis on management consulting.

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 are working to build a better society through good medical practice.



Long-Term Vision "Tackling the Challenges of Achieving a Unique Japanese Healthcare Business Model"

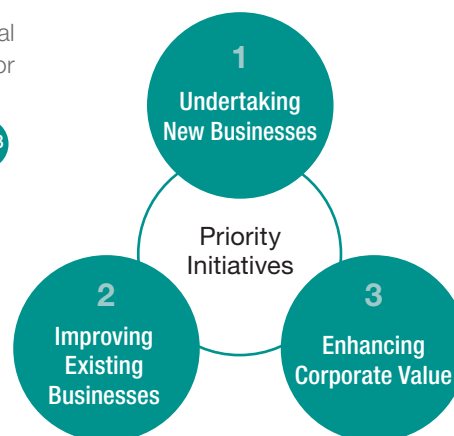
It is through achieving a unique Japanese healthcare business model that we will help create a medical system that provides citizens with efficient, high-quality medical care.

Medium-Term Management Plan "Further Challenge—Toward a better society in which people can live with a sense of security"

(For the three-year period from April 2014 to March 2017)

Contributing to building a platform for regional healthcare networks through our Doctor to Doctor (DtoD) system and high-value pharmacies.

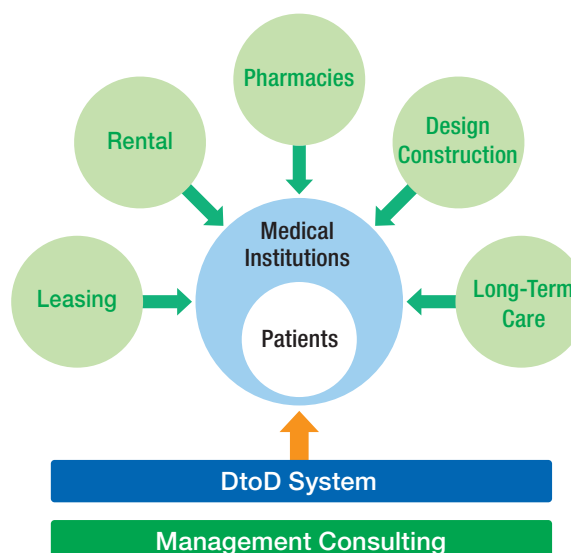
For more details, see [p. 18](#)



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 practices through doctor introductions, support for the succession of medical practices, and the coordination of medical care. We have also established 576 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 conduct consulting to formulate basic plans and to support medical practice management improvement. We also put into practice our DtoD system, which supports doctors who are wishing to start up or transfer practices, or coordinate healthcare networks. We are furthermore involved in other ways of supporting medical practices, such as renting out TVs for patients in hospitals, leasing medical equipment, and planning the design and construction of medical and long-term care facilities.

Please refer to page 48 for our achievements in Medical Practice Support.

Pharmacies



We operate 576 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 practices. 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 page 50 for our achievements in Pharmacies.

Other Activities

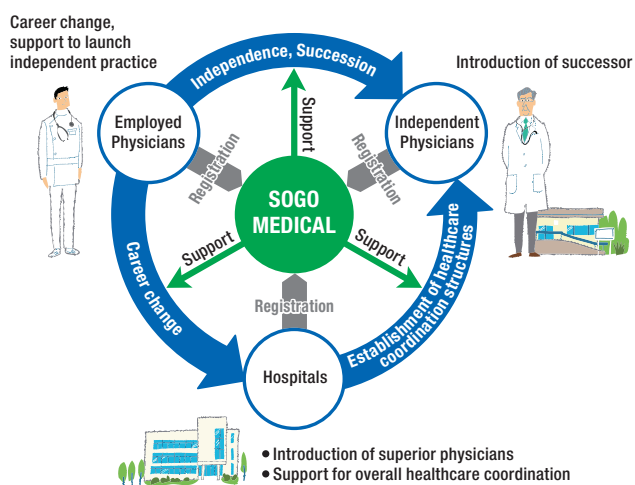


We are expanding our elderly care business through Sogo Care Network Co., Ltd., which manages fee-based residential homes for the elderly, and Sun Villa Co., Ltd., which manages fee-based homes with long-term care for the elderly.

Contributing to the Revitalization of Local Medical Care through the DtoD System

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.



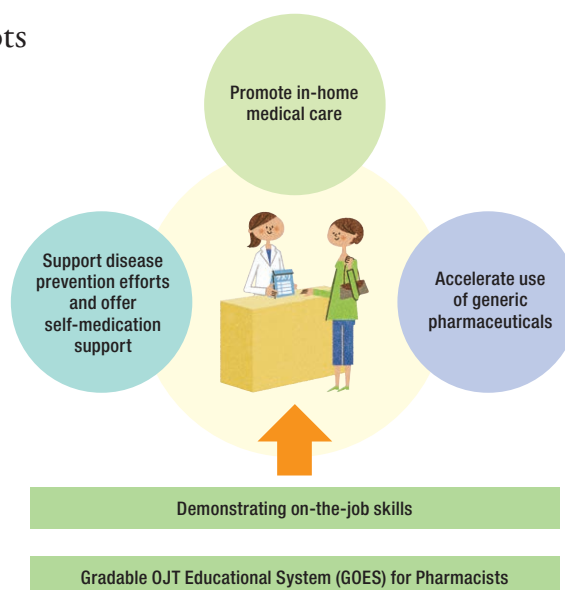
High-Value Pharmacies with Local Roots

By putting our pharmacists' abilities to work, we have promoted in-home medical care, supported disease prevention efforts, offered self-medication*1 support, and accelerated the use of generic pharmaceuticals, all to promote the establishment of high-value pharmacies.

Also, through our GOES*2 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



Sogo Medical's Development

Net Sales
(¥ billion)

140

We will continue to support good medical practice to build a better society.

120

100

80

60

40

20

0

Net Sales Ordinary Income

1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996

June 1978
Sogo Medical Leasing Co., Ltd. established with a capitalization of ¥20 million

November 1987
TV rental business for patients launched

June 1988
Pharmacy business launched

November 1989
"Green Members" (now "Succeed Members") system for medical personnel launched

October 1994
Design and construction of medical facilities begun

Major Events 1978-1987

• 1978

June
Sogo Medical Leasing Co., Ltd. established with a capitalization of ¥20 million

• 1987

November
TV rental business for patients launched



Area around the Fukuoka Tenjin Center Bldg. at the time of the company's establishment

1988-1996

• 1988

June
Pharmacy business launched

• 1989

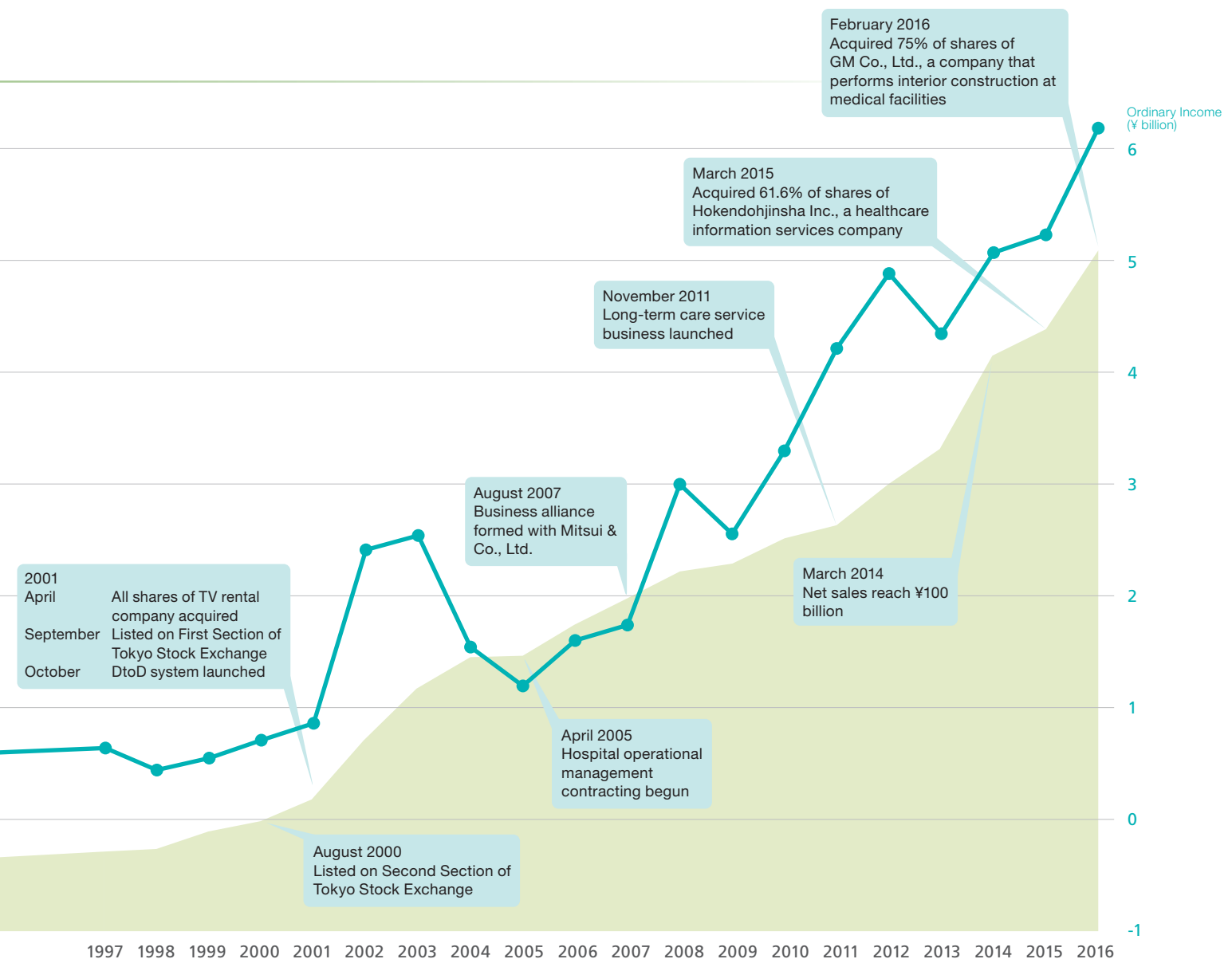
November
"Green Members" (now "Succeed Members") system for medical personnel launched

• 1994

October
Design and construction of medical facilities begun



First Sogo Pharmacy, in Sakuradai



- January 2002: 100th Sogo Pharmacy opened
- November 2004: 200th Sogo Pharmacy opened
- June 2010: 300th Sogo Pharmacy opened
- December 2012: 400th Sogo Pharmacy opened
- April 2014: 500th Sogo Pharmacy opened

1997-2006

- 2000 August: Listed on Second Section of Tokyo Stock Exchange
- 2001 April: All shares of TV rental company acquired
- 2001 September: Listed on First Section of Tokyo Stock Exchange
- 2001 October: DtoD system launched
- 2005 April: Hospital operational management contracting begun



At our listing on the Second Section of the Tokyo Stock Exchange

2007-2016

- 2007 August: Business alliance formed with Mitsui & Co., Ltd.
- 2011 November: Long-term care service business launched
- 2014 March: Net sales reach ¥100 billion
- 2015 March: Acquired 61.6% of shares of Hokendohjinsha Inc., a healthcare information services company
- 2016 February: Acquired 75% of shares of GM Co., Ltd., a company that performs interior construction at medical facilities



Villanova Otani, a fee-based home with long-term care for the elderly

2016 Highlights

Each humble activity adds up and leads to steady growth.

464 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.

We have 34 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.



A total of 367 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.

62,429 doctors are registered with our DtoD 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.



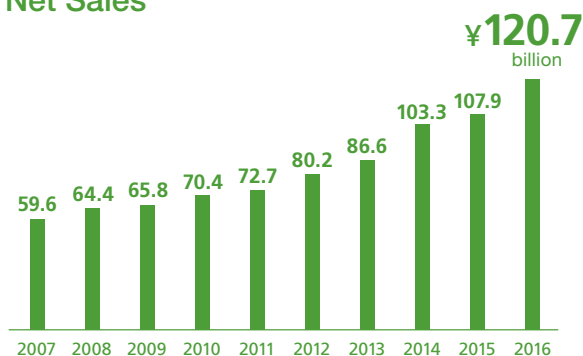
Succeed Members now total 1,639.



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.

Net Sales



Operating Income / Operating Income to Net Sales Ratio



We ran economic comparison simulations for 117 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.

1,913 Pharmacists

Pharmacists

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



(As of March 1, 2016)

We provided feedback to doctors from 73,784 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.



HealthCare Note (Electronic Medicine Scheduler) registered users now total 28,358.

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.



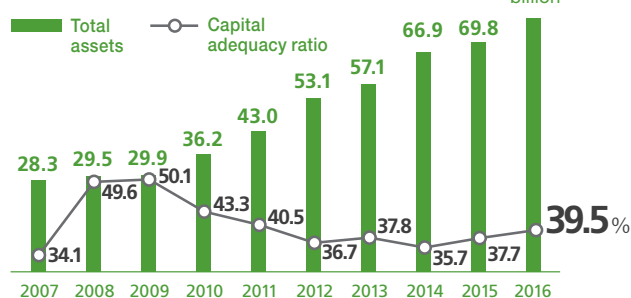
There are now 576 Sogo Pharmacies.



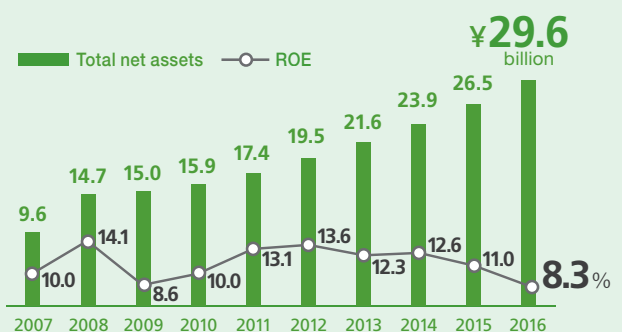
Sogo Pharmacies

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 Net Assets / ROE



Fiscal year ended March 31



 SOGO MEDICAL

We solve social issues in medical treatment through our DtoD system and establishing high-value pharmacies.

Kenji Sakamoto
Representative Director,
President and
Chief Executive Officer



President's Message

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Foreword

Since joining Sogo Medical in 1983 I have worked to fulfill one of the company's principal goals of supporting local medical practices. Improving medical treatment gives people the chance to lead healthier lives and provides a strong foundation for stimulating local economies. Following a set of management principles that include Our Pledge, Mission Statement, and Corporate Credo, we want each and every employee to see reality with an unaffected heart and maintain a caring attitude toward others, carrying out their duties with a spirit of altruism. By so doing we will maintain the trust that we have built, while working to build a better society through good medical practice. Such efforts, I believe, will promote our employees' personal growth and further enhance the quality of our services.

The coming year is the final year of our medium-term management plan "Further Challenge—Toward a better society in which people can live with a sense of security." Focusing on our DtoD system and high-value pharmacies, we will endeavor to provide new services that contribute to society while extending our existing businesses.

Kenji Sakamoto

Representative Director,
President and
Chief Executive Officer

Profile

Born October 9, 1958

1983	Joined Sogo Medical
2002	Managing Officer
2004	Manager of Chugoku & Shikoku Office
2006	Senior Managing Officer Manager of Nishinohon Office
2007	Executive Managing Officer
2008	Manager of Higashinohon Office Director
2010	Executive Director
2011	Senior Executive Director
2012	Representative Director, Executive Vice President
2015	Representative Director, Executive Vice President, Managing Officer
2016	Representative Director, President and Chief Executive Officer (–present)

General Outline of the Year Ended March 2016

— This fiscal year what kind of actions were taken to fulfill the objectives of the medium-term management plan "Further Challenge—Toward a better society in which people can live with a sense of security"?

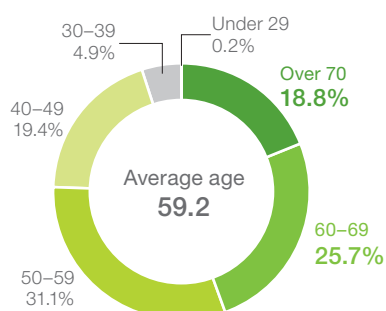
"We actively promoted our two primary businesses—medical practice support and pharmacies."

At present, one in five private medical practices is run by a doctor who is 70 years of age or older, and it is not easy to find a younger doctor to take over such practices. Over 4,000 clinics are closed every year. We introduce doctors who want to open a practice to doctors who are looking for a successor so that their clinic may continue to serve the local community. In this way we help to sustain and invigorate healthcare activities in regional communities. The younger doctor taking over the practice inherits the clinic's patients and its facilities and equipment, so start-up costs are low. This model for third-party succession not only helps to keep medical costs down, it offers a valuable service to society.

We also worked hard to develop healthcare malls. Such malls offer the advantage of various specialized medical care practices concentrated in one location. With the ongoing aging of Japanese society, they bring convenience to patients suffering from multiple illnesses, eliminating the need to travel from one clinic to another in separate locations. The quality of medical care also improves due to greater interaction among doctors as a natural result of their close proximity.

In the pharmacy business, we consider it our role to be closely involved in local healthcare as partners to medical institutions. This fiscal year we aim to continue opening dispensary pharmacies to serve as "general healthcare stations" that take root in each community and come to be considered by people as their primary care pharmacy. Such an approach also winds up attracting patients from farther distances away.

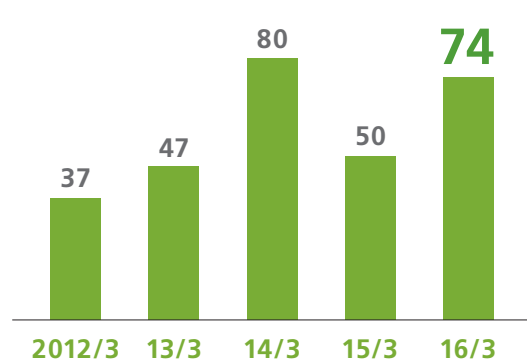
Clinic Doctors by Age



Note: Doctors may have their own private clinic or be a corporate representative or employee.

Source: 2014 Survey of Physicians, Dentists and Pharmacists (Ministry of Health, Labour and Welfare)

Cases of Support Provided for Clinic Succession



Medium-Term Management Plan Priority Initiative 1

Undertaking New Businesses

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

"We are taking a variety of initiatives to provide steady support for hospital management."

Public fiscal reforms are a top priority in Japan today, and a wide range of reforms are taking place in the field of healthcare to ensure the base financial stability of the social security system. The functions and role that medical institutions should fulfill for healthcare in regional communities have been called into question.

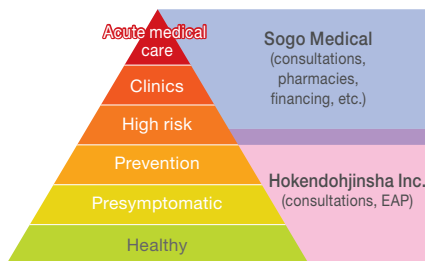
For this reason we have seen an increase in consultation requests from medical institutions regarding their management and have already begun consulting on multiple projects. As we proceed, we are also studying how best to develop new businesses.

— Please tell us about the efforts and results this year of Hokendohjinsha Inc., which became a Group company in March 2015.

"We have begun strengthening sales and developing systems for our services. This is having synergistic effects within the Group."

Synergistic effects with Hokendohjinsha Inc.

Areas covered by each company

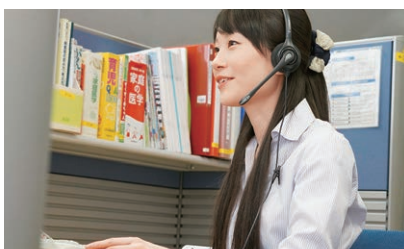


Up to this point, Sogo Medical has supported good medical practice by working to assist both medical institutions and patients. In conjunction with Hokendohjinsha we are able to help build a platform for regional healthcare networks by providing comprehensive support to insured individuals, corporations, and other parties. These efforts also help to establish a unique Japanese healthcare business model by contributing to lowering medical costs through the operation of businesses such as those relating to Data Health Plans.

Hokendohjinsha has been running an employee assistance program (EAP) business since 2007 to support companies looking to improve their health management and also the people working for those companies.

Since December 2015, businesses with workplaces that regularly employ 50 or more workers are being required by law to conduct checkups for mental stress once a year. We have worked to strengthen sales of the Hokendohjinsha packaged service for conducting stress checkups as legally required. Hokendohjinsha also reworked its telephone consultation system, relaunched on April 1, 2016, for individual consultations following stress checkups.

We are looking at how these activities can spur further synergy with Sogo Medical through the pursuit of pharmacy-based health guidance, consultation services, and education for people in regional communities.



Consultation/counseling service

Medium-Term Management Plan Priority Initiative 2

Improving Existing Businesses

— Please talk about the results of medical practice support efforts this year based on the DtoD system.

"We are working hard on projects such as healthcare malls with a view toward the future, aiming to support good medical practice, together with our new Group companies."

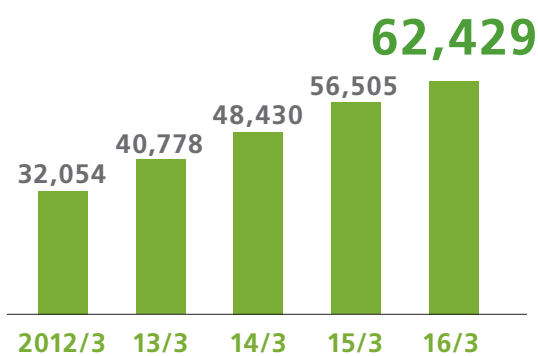
At present we have 62,429 employed physicians registered in our DtoD system (an increase of 5,924 from the previous year)—those who either wish to change practices or open a private practice. This year, Sogo Medical conducted 22 seminars around the country on how to open a practice. We also facilitated 74 clinic successions as part of the support we provide to doctors seeking to start their own practices, which also leads to lease contracts, the opening of new pharmacies, and other developments.

Additionally, we have opened healthcare malls around the country, including Medical Mall Fujimi (Fujimi, Saitama Prefecture) and P Mall Fujita Clinic Zone (Okayama, Okayama Prefecture). Medical Mall Fujimi is located within a large-scale commercial facility and has an ophthalmology clinic, a multi-specialty clinic (internal medicine, pediatrics, dermatology, gastroenterology, rheumatology), as well as a Sogo Pharmacy. This healthcare mall offers great convenience and is also open on weekends and holidays. (For more details, see pp. 24–25.)

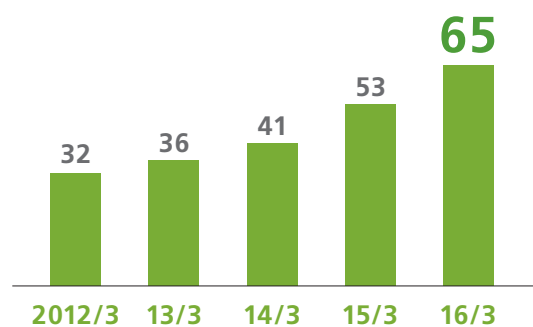
As society advances in age, the role of healthcare malls will only continue to grow in importance. We feel it is necessary to be flexible in providing medical care, and to bring care to people and locations where they reside as needed by regional communities, including the development of in-home medical care services.

Also, in February 2016, GM Co., Ltd. became a new Group company. GM performs interior construction at medical facilities and installs and maintains medical equipment. By having GM work in conjunction with another Group company, Somtech Co., Ltd., which plans, designs, and builds medical and nursing care facilities, our services have expanded in the areas of new start-ups and maintenance support after opening.

Number of registered doctors wishing to change practices or open a practice



Total healthcare malls opened at fiscal year end



Medium-Term Management Plan Priority Initiative 2

Improving Existing Businesses

— Please talk about the company's efforts to establish high-value pharmacies during this fiscal year.

"We bring out the full capabilities of pharmacists to maintain and improve the health of patients."

This year 47 pharmacies were opened (including 25 through M&A activities), bringing our total to 576 at the end of fiscal year.

The pharmacies of the Sogo Medical Group have introduced the use of the HealthCare Note (electronic medicine scheduler) to over 28,000 patients. Since December 2015, the HealthCare Note has been linked to the OS-integrated "Health" iPhone app, allowing the collection of pedometer data. There are plans to expand the system in the future to include body weight, blood pressure, and other health indicators. By so doing, pharmacists will be able to help patients beyond offering guidance on taking medications, extending to giving advice on improving lifestyle patterns and other aspects of wellbeing, to more actively help people to be healthy. In addition, Hokendohjinsha's healthcare and health information browsing service, "Health Library for All," supplied through the HealthCare Note, allows free-of-charge browsing of information to help maintain and improve patients' health.

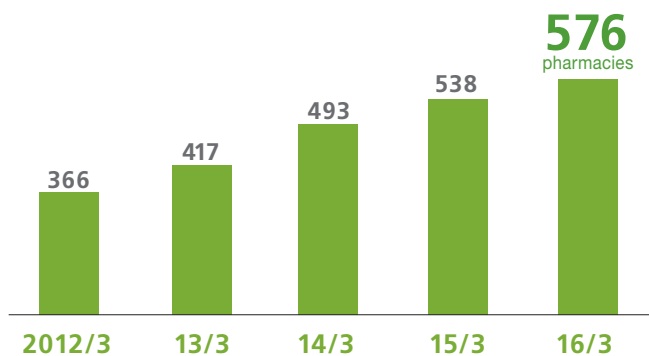


HealthCare Note (electronic medicine scheduler), Hokendohjinsha's "Health Library for All" and successful integration between the two

In February 2016, Sogo Pharmacies around the country began using the Medication Calendar to help people take their medications properly. The calendar helps keep people from forgetting to take their dose or from taking the wrong dose. (For more details, see p. 32.)

Also, at the Sogo Pharmacy Tenjin Chuo Location in Fukuoka City, "Cancer Conversation Café" sessions have been held since March 2013 to help alleviate the concerns of cancer patients and their families. Refreshments are served in a relaxing atmosphere and pharmacists use their expertise to address people's many concerns about cancer, helping to reduce their anxiety in whatever way they can. (For more details, see pp. 30–31.)

Number of Pharmacies



Medium-Term Management Plan Priority Initiative 3

Enhancing Corporate Value

— 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 are making progress with our human resources systems to enable our employees to grow personally and lead fuller lives."

This year we offered new optional training programs for employees that include "cafeteria-style training" and management development training for female employees. We also trained people through various other means. Practice Process Innovation (PPI) is an internal certification system aimed at developing human resources in the areas of start-up support, personnel placement, and pharmacy management. Our Gradable OJT Educational System (GOES) is an independent system for training pharmacists at different levels that helps them to fully utilize their skills in the course of their work.

In January 2015 we launched a Diversity Promotion Project and also set up a committee for promoting leadership opportunities for female employees and a committee for promoting participation of foreign citizens, senior persons, and workers from other industries. This year we made steady progress with these diversity efforts. Our goal is to have 30% or more positions of leadership filled by female employees by March 2017. We are also concentrating on hiring people with disabilities and have set up a department within the company that provides a supportive environment in which people with disabilities can work. Among those we have hired are athletes who compete in international disabled sports competitions.

Based on the principle that as our company grows, our employees grow with it, we promote work-life balance. Specifically, we have introduced such systems as child-rearing assistance, nursing care leave, and long-term income protection insurance. In particular, as more than half of our pharmacists are female, it is essential to create workplaces that have a comfortable working environment and that offer opportunities for growth. We have therefore worked to establish internal systems that are suited to the life plans of our female employees. (For more details, see p. 34.)

Promoting the Hiring of People with Disabilities

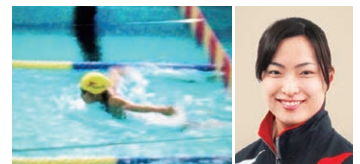
Disabled athletes who compete in international sports competitions are amongst those hired



Rie Urata
Goalball (Japan women's team captain)



Yuki Yoshida
Swimming

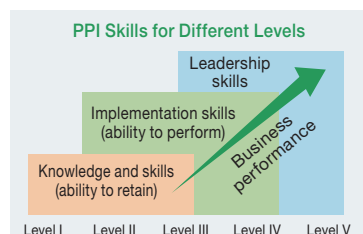
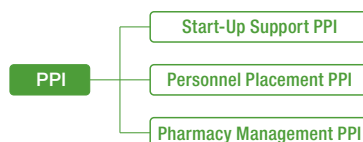


Honoka Niiyama
Swimming

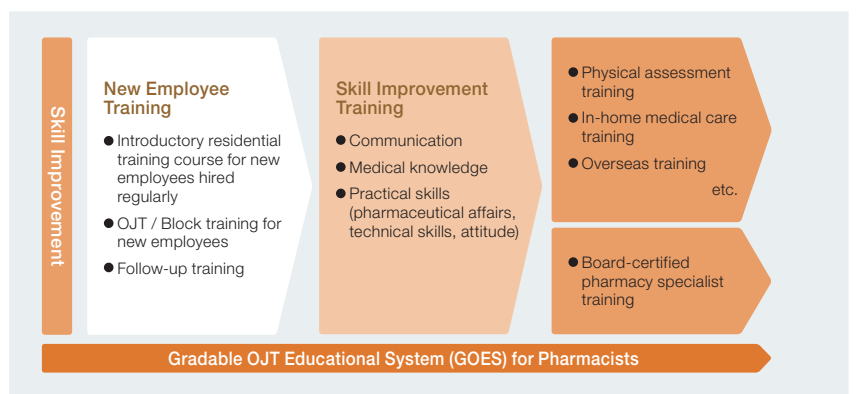


Takashi Hori
Wheelchair rugby

Practice Process Innovation (PPI) Internal Certification



Gradable OJT Educational System (GOES) for Pharmacists



Achieving Our Long-Term Vision

— Please tell us about the company's goals for the coming year based on this year's performance with regard to achieving the long-term vision.

"We have set out to achieve the objectives of the medium-term management plan by enhancing our initiatives taken and creating new services."

This year, an increase in sales at our existing pharmacies, combined with new pharmacy openings, caused net sales to rise 11.9% over the previous year to ¥120,776 million. Operating income similarly rose 21.3% to ¥6,087 million. Ordinary income increased 18.5% to ¥6,196 million, while net income decreased 16.5% to ¥2,318 million due to extraordinary losses.

In the coming fiscal year we plan to further expand our DtoD system and create more high-value pharmacies, so we are aiming for net sales of ¥126,507 million, ordinary income of ¥6,020 million, and net income of ¥3,730 million.

Long-Term Vision and Medium-Term Management Plan

Long-Term Vision "Tackling the Challenges of Achieving a Unique Japanese Healthcare Business Model"

Our main objective is to achieve a unique Japanese-style healthcare business model that helps create medical systems through which patients can receive efficient and high-quality medical treatment.

Medium-Term Management Plan (April 2014–March 2017, three-year period)

Further Challenge

—Toward a better society in which people can live with a sense of security—

Main Priority Initiatives

1 Undertaking New Businesses

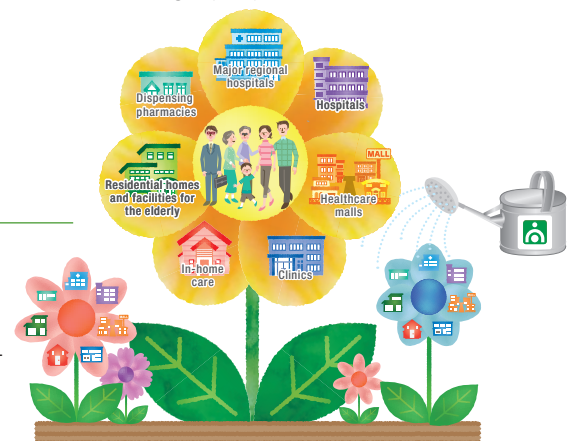
We will provide support for managing and coordinating medical services ranging from acute medical care to in-home care in order to help build a platform for regional healthcare networks.

2 Improving Existing Businesses

- We will provide medical support based around the DtoD system by constructing exemplary healthcare malls, enhancing support for starting up practices, improving user services, and expanding recurring businesses.
- We will create high-value pharmacies by helping pharmacists fully utilize their skills to enhance coordination between pharmacies and medical institutions, make medical costs more affordable, and improve in-home medical care services and self-medication support.

3 Enhancing Corporate Value

Acting in accordance with our management principles, we strive to always be an organization that grows with its employees and at which employees can take pride in their work and feel a sense of purpose.



- Please talk about steps being taken to achieve the objectives of the company's long-term vision.

"We are working to achieve a unique Japanese healthcare business model."

The coming fiscal year is the final year in our medium-term management plan. We will be putting energy into the following three areas as we work to achieve the objectives of our long-term vision of achieving a unique Japanese healthcare business model by focusing on our DtoD system and high-value pharmacies.

The first area is development and expansion of healthcare malls.

We are promoting two types of healthcare malls—an evolutionary type and a new-model type. The evolutionary healthcare mall serves as a community healthcare station that primarily functions to strengthen urban development and the integrated community care system. The new-model healthcare mall promotes the specialization and coordination of healthcare functions to eliminate inefficiencies in the current medical system—concentration of patients with minor illnesses receiving care at sophisticated acute care hospitals.

To promote healthcare malls in the Tokyo metropolitan area where demand is high, we established a new Healthcare Mall Development Division at the Higashinohon Office. This division aims to improve our 65 existing healthcare malls and expand that number to 300 over the five years until March 31, 2021.

In assisting with medical practice successions, which help to sustain and revitalize healthcare in local communities, we also offer healthcare malls as an alternative location for a practice.

The second area is hospital management support as a means of assistance for building an integrated community care system.

Based on community medical care plans, we support hospitals through consulting on the specialization and aggregation of clinical functions to suit each locality's medical care situation.

In providing hospital management support we discovered the need to improve amenities for patients, particularly the need for TV rentals. In the three years ahead, we will focus on renewals of contracts following the switchover to digital terrestrial TV in July 2011, so in the coming year the rental business is positioned as a key endeavor.

The third area is creating high-value pharmacies. The Japanese government's 2016 revision of regulations pertaining to drug dispensing specifically addresses the role and evaluation of "primary care pharmacists and pharmacies." We are working to help pharmacists fully utilize their skills, aiming to create "primary care pharmacies" chosen by the community that act as "general healthcare stations."

Our strength lies in the relationships of trust that we have established to date. We aim to further solidify this trust from doctors, business partners and ordinary people in local communities to propel our growth. I request your continued support as we move forward.



Achieving Our Long-Term Vision

Realization of a Japanese Healthcare Business Model

Creating solutions with our DtoD system and high-value pharmacies to deal with social issues in the medical and healthcare field.

1 Development and Expansion of Healthcare Malls

- (1) Evolutionary healthcare malls
 “Community healthcare stations” that play a central role in community development and the integrated community care system
 → Create 100 malls by March 31, 2018 and 300 by March 31, 2021
- (2) New-model healthcare malls (rebuilding the healthcare delivery system)
 Healthcare malls that promote the specialization and coordination of healthcare functions to eliminate inefficiencies in the current medical system—concentration of patients with minor illnesses receiving care at sophisticated acute care hospitals
- (3) Promote support of medical practices carried on by successors
 (sustain and revitalize local healthcare)
 Of the 600 clinics that are having difficulty finding a successor, Sogo Medical aims for a 30% share by March 31, 2019 and 90 practices in the fiscal year ending March 31, 2017

2 Hospital Management Support (assist in the building of the integrated community care system)

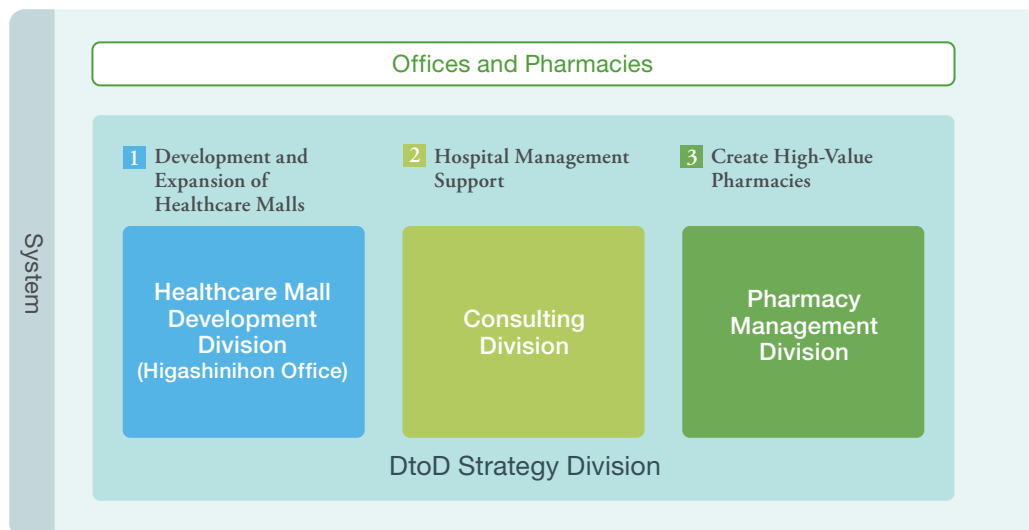
- (1) Consulting services for the reorganization of hospital beds (consulting for the specialization and integration of hospital beds to conform to the medical situation)
 → Targeting 2,000 hospitals, each with 200 or fewer beds, that are having difficulty finding a successor
- (2) Support of establishing a corporate organization to promote coordination of local healthcare

3 Create High-Value Pharmacies

- Fully leverage functions and capabilities as a primary care pharmacist
 → Become a primary care pharmacy that is chosen by local community members



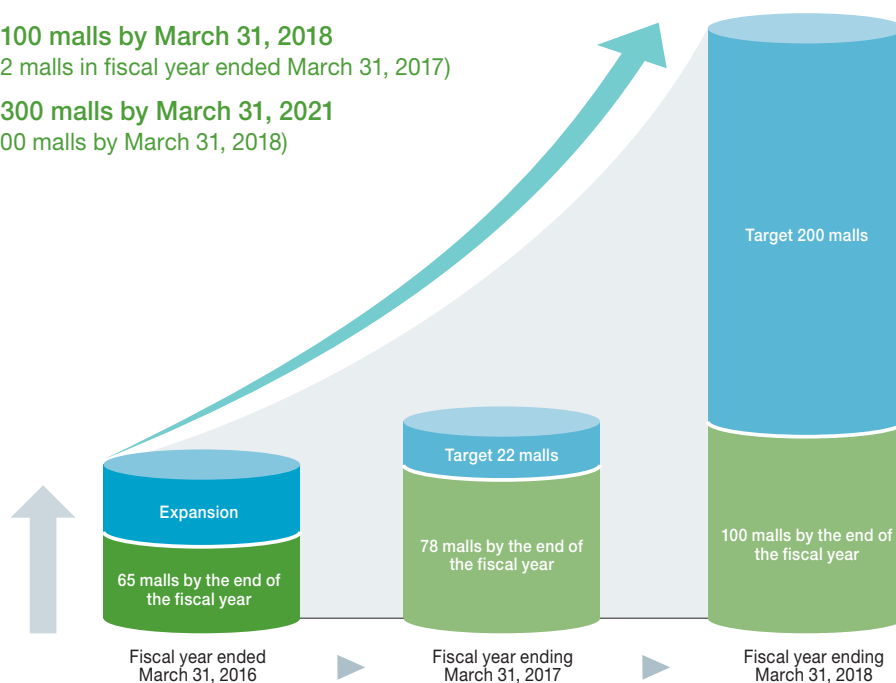
Promote through a structured system along strategic lines



Healthcare mall goals

Create 100 malls by March 31, 2018
(target 22 malls in fiscal year ended March 31, 2017)

Create 300 malls by March 31, 2021
(target 200 malls by March 31, 2018)



Examples

Medical Mall Fujimi

(Opened May 2015 in Fujimi City, Saitama Prefecture)



Types of Support

Start-up consulting; leasing; design; pharmacy opening; facility leasing; introduction of doctors; operations outsourcing

Key Points

- Opened at Mitsui Shopping Park LaLaport Fujimi, a large-scale shopping complex
- Multi-specialty clinic (internal medicine; pediatrics; dermatology; gastroenterology; rheumatology) plus ophthalmology clinic and dispensing pharmacy
- Multi-specialty clinic centralizes patient data to provide quality medical care efficiently
- Also open on weekends and holidays, which will attract customers, including patients from far away

Medical Hills Korigaoka

(Opened September 2014 in Hirakata City, Osaka Prefecture)



Types of Support

Start-up consulting; leasing; design and construction; facility leasing; risk management; pharmacy opening

Key Points

- An orthopedic clinic was opened in April 2015 in addition to an internal medicine clinic, ophthalmology clinic, and residential home for the elderly with services
- Patients are referred between the internal medicine and ophthalmology clinics, along with other forms of cooperation

Tsukiguma Medical Mall

(Opened May 2012 in Fukuoka City, Fukuoka Prefecture)



Types of Support

Start-up consulting; leasing; design; facility leasing; pharmacy opening; etc.

Key Points

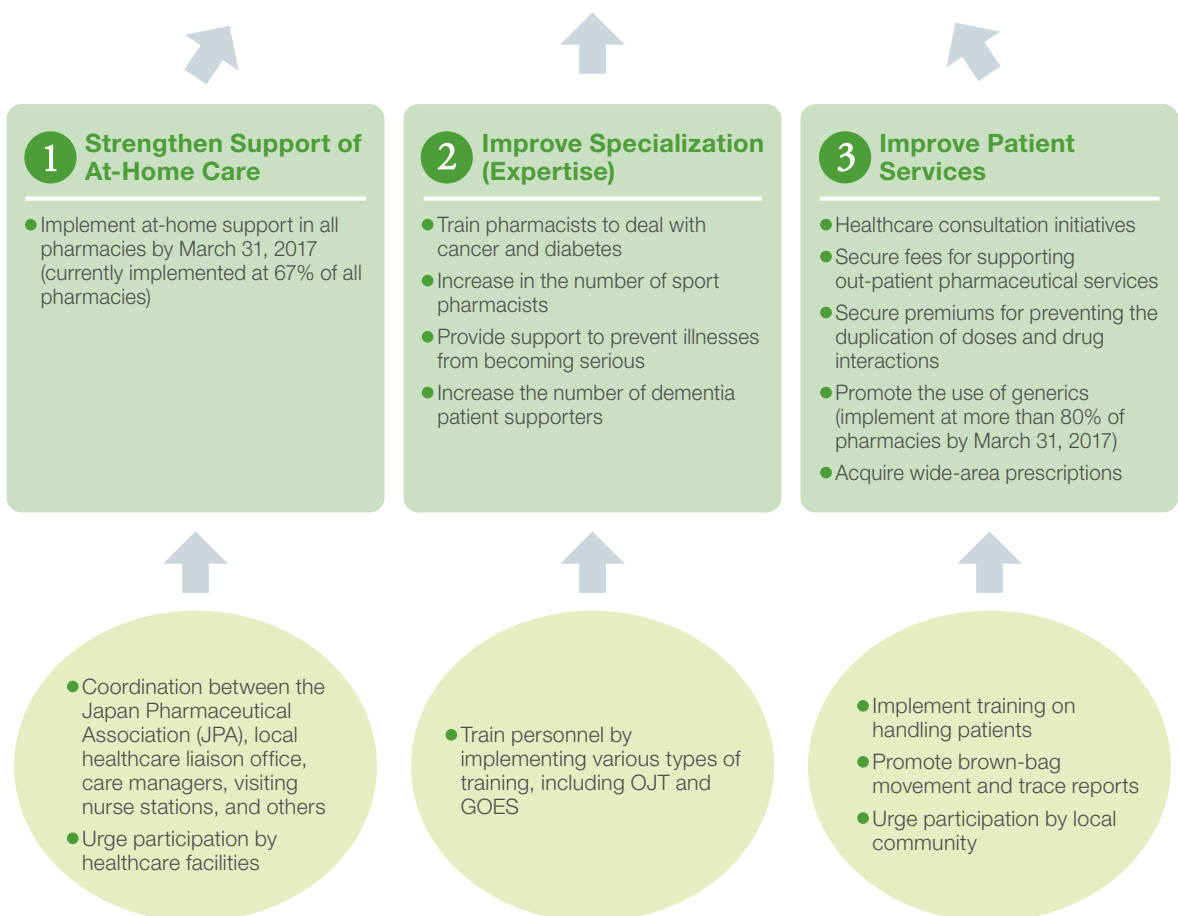
- Site received from Fukuoka City and facility opened to promote urban development in line with administrative intent
- Healthcare mall for the local community is established on the site along with a supermarket and community center to serve as a key local gathering place, including emergency use as an evacuation site

Achieving Our Long-Term Vision

Creating High-Value Pharmacies

We aim to bring out the full capabilities of "primary care pharmacists" and supplement additional value by serving as "general healthcare stations."

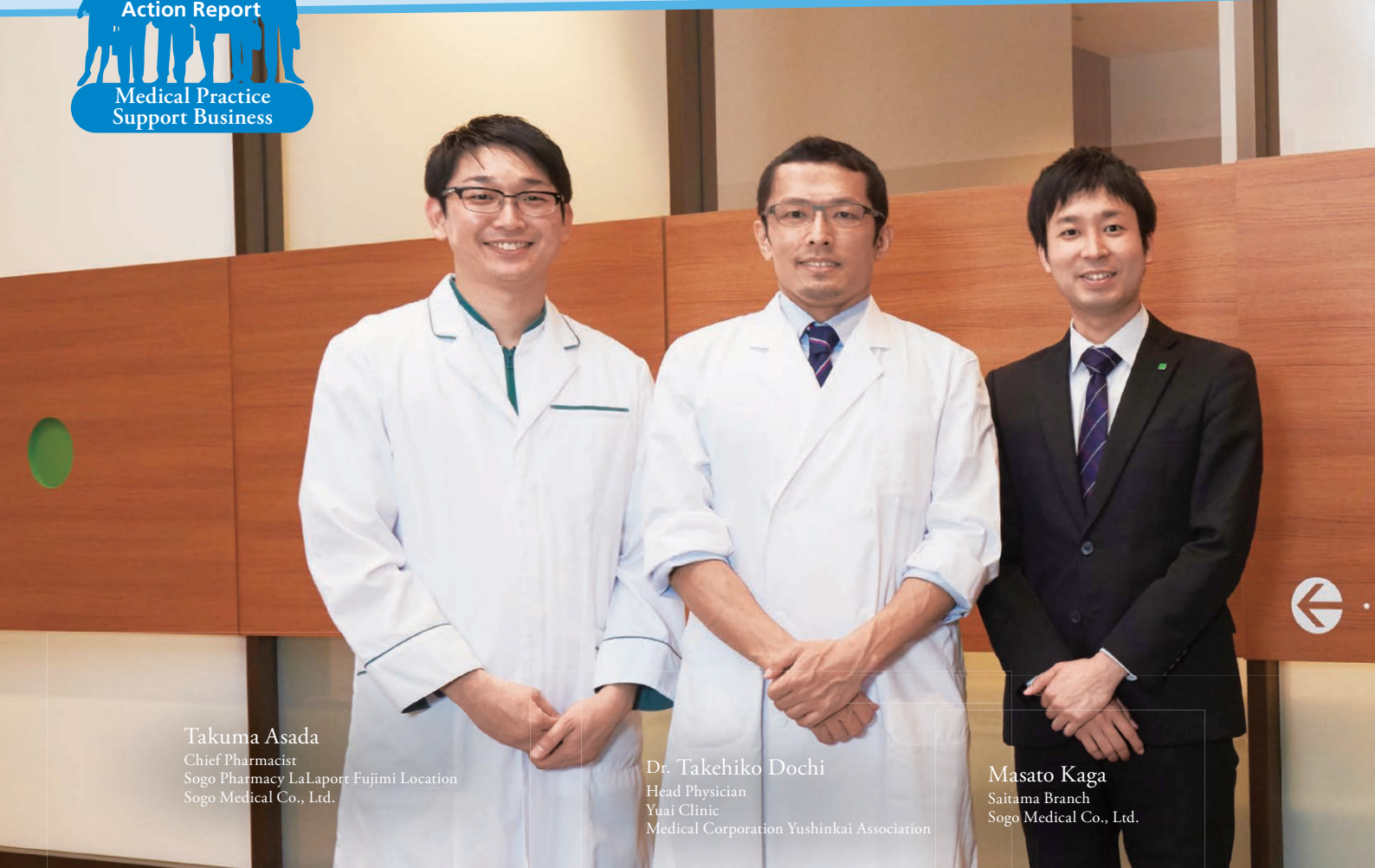
Full skill utilization of "primary care pharmacists"



Action Reports

Here we introduce examples of company efforts in three areas
—medical practice support, pharmacies and CSR

- Medical Practice Support Business
24 Yuai Clinic, Medical Mall Fujimi
-
- Medical Practice Support Business
26 Harada Internal Medicine Clinic
-
- Pharmacy Business
28 Sogo Pharmacy Takata Location
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- Pharmacy Business
30 Sogo Pharmacy Tenjin Chuo Location
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- Pharmacy Business
32 Distribution of Medication Calendars /
Development and Sales of Private Brand Products
-
- CSR
34 Promoting the Hiring of People with Disabilities /
Women's Advancement
-



Takuma Asada
Chief Pharmacist
Sogo Pharmacy LaLaport Fujimi Location
Sogo Medical Co., Ltd.

Dr. Takehiko Dochi
Head Physician
Yuai Clinic
Medical Corporation Yushinkai Association

Masato Kaga
Saitama Branch
Sogo Medical Co., Ltd.

Action Report 1

The Healthcare Mall—A Hub of the Regional Healthcare Network

Medical Mall Fujimi Yuai Clinic

Support for the opening and running of a multi-specialty clinic

Medical Mall Fujimi opened in May 2015 in the city of Fujimi, Saitama Prefecture, at a large-scale shopping complex, Mitsui Shopping Park LaLaport Fujimi. We talked with Dr. Takehiko Dochi, director of Yuai Clinic (Medical Corporation Yushinkai Association), which he established as a multi-specialty clinic active in community medicine, in conjunction with an ophthalmology clinic and a Sogo Pharmacy. Dr. Dochi discussed the process leading up to the opening of the clinic, what services the clinic performs today, and what direction he sees the clinic moving toward.

Turning the ideal clinic envisioned by Dr. Dochi into a reality through the combined capabilities of Sogo Medical.

Masato Kaga of the start-up support project team explains, "We already had materials prepared, such as an area survey of clinics, to explain the healthcare mall concept to doctors who wanted to open a medical practice. So when Dr. Dochi gave us the 'go sign' we were soon ready with a business plan and proposed a schedule leading up to the



opening of the clinic." With over 10 people on the team, the project got its real kickoff in July 2014 with the input of Dr. Dochi. Saitama Prefecture has the fewest doctors per capita in the country. The area has a chronic shortage of doctors, particularly dermatologists.

Aware of these circumstances, Kaga consulted with Dr. Dochi, and based on the location and potential clientele selected the medical disciplines of internal medicine,

富士見井上眼科


 ゆうあいクリニック
 内科・小児科・皮膚科・美容皮膚科
 消化器内科・リウマチ科


そうごう薬局

pediatrics, and dermatology. The concept for the clinic was "to see patients at any time with any kind of illness." Comprehensive support was provided to bring out the full strength of the team, including inviting doctors who supported the concept of the clinic, as well as for the clinic's design and choice of medical equipment. Yuai Clinic opened at Medical Mall Fujimi in May 2015. The ideal clinic that Dr. Dochi had envisioned had become a reality.

Striving to become "primary care doctors."

Dr. Dochi explains: "I want to provide medical care that makes everyone whose life is touched by the clinic happy. For the staff it is necessary to create a workplace that is not only fulfilling but that allows them to develop compassion in their approach toward patients. Moreover, I wanted to

offer medical services on weekends and holidays for people who work on weekdays. I feel that we were able to achieve both of these things as planned, thanks to the support of Mr. Kaga and his team." After the clinic opened, as part of being "primary care doctors," checkups were offered to the tenant companies at LaLaport Fujimi, and health seminars were held at the facility, thus reaching beyond the scope of the clinic location with



such activities. Mr. Kaga, who helped set up and run the health seminars had this to say, "Now we are in a phase of spreading awareness of the clinic. To enable the clinic to see many more patients 'at any time with any kind of illness' we are working with the project team, the Sogo Pharmacy, and people both inside and outside the company to provide ongoing support." Action to take the next step into the future has already begun.





Medical Practice
Support Business



Dr. Naoki Harada
Head Physician
Harada Internal Medicine Clinic

Action Report 2

Connecting with a Local Doctor's
Approach—Third-Party
Medical Practice Succession

Harada Internal Medicine Clinic

Support for medical practice succession
helps doctors provide the ideal form of
medical care to patients and the local community

Sogo Medical received a request from the director of an internal medicine clinic who had been treating local patients for many years in Neyagawa City, Osaka Prefecture. The director wanted to find a doctor to take over the practice, so we introduced him to Dr. Harada who had joined one of our seminars on starting a medical practice. That was the summer of 2014.

The succession went smoothly with our support and the clinic reopened in April 2015. Here, we introduce this example of a third-party medical practice succession that continues to provide local medical care.

**Dispelling anxieties over
starting a practice and
delivering third-party succession
that lives up to the doctor's
hopes and expectations.**



Dr. Harada speaks of his concerns when first attending the seminar: "Opening a new practice has high costs, and once it opens people will not necessarily start coming in large numbers. That is what I was most worried about."

Sogo Medical's Masahiko Kawae says he decided to introduce Dr. Harada to the internal medicine clinic in Neyagawa City "after listening to his ideas about the ideal way to

provide medical care, which suggested that taking over an established clinic would be the best option." "Dr. Harada also wished to offer endoscopic examinations, which the previous head physician had not offered. So, I was happy to see that the succession would expand the range of treatment and contribute to better local medical care," states Mr. Kawae, expressing his high expectations for the new practice.

At that point everything started moving. We lent our full support to the process of succession and helped prepare for the reopening. In charge of selecting the medical equipment, Kyoichi Masuda explains, "I had many discussions with Dr. Harada about what kind of equipment





Minori Nagasaki
Osaka Branch
Sogo Medical Co., Ltd.

Kyoichi Masuda
Nishinohon Sales Management Division
Sogo Medical Co., Ltd.

Masahiko Kawae
Nishinohon Sales Management Division
Sogo Medical Co., Ltd.

he would need to provide the care he was aiming for. After demonstrations and other steps, we were able to bring in the most suitable equipment."

After all of the other preparations had been completed, the interior was redesigned and the equipment was installed in just one week, in time for the clinic's opening in April 2015.

Carrying forward a practice to be a clinic that is an ever more essential part of the community.

"I had no experience opening a medical practice and I did not know a single thing about what it entailed, but because I had someone to consult with at any time, I was free from anxiety. Also, having so many patients coming to the clinic I believe is thanks to the smooth succession and remodeling," says Dr. Harada, who was able to offer new types of treatment from the start. "Thanks to Mr. Kawae's introduction, we have begun making house calls to provide at-home medical care, and we



also provide rehabilitation. I am looking forward to improving the quality of medical care and doing everything I can for the local community," he adds with passion.

Mr. Kawae's successor in taking over the project is Minori Nagasaki, who says with enthusiasm, "I want to provide support to the clinic to make patients happier than ever, while living up to the expectations of Dr. Harada who has placed his trust in Mr. Kawae and Mr. Masuda."

Commitment to local medical care and relationships of trust are being carried into the next generation. This medical practice is taking a new form through the succession.

Topics

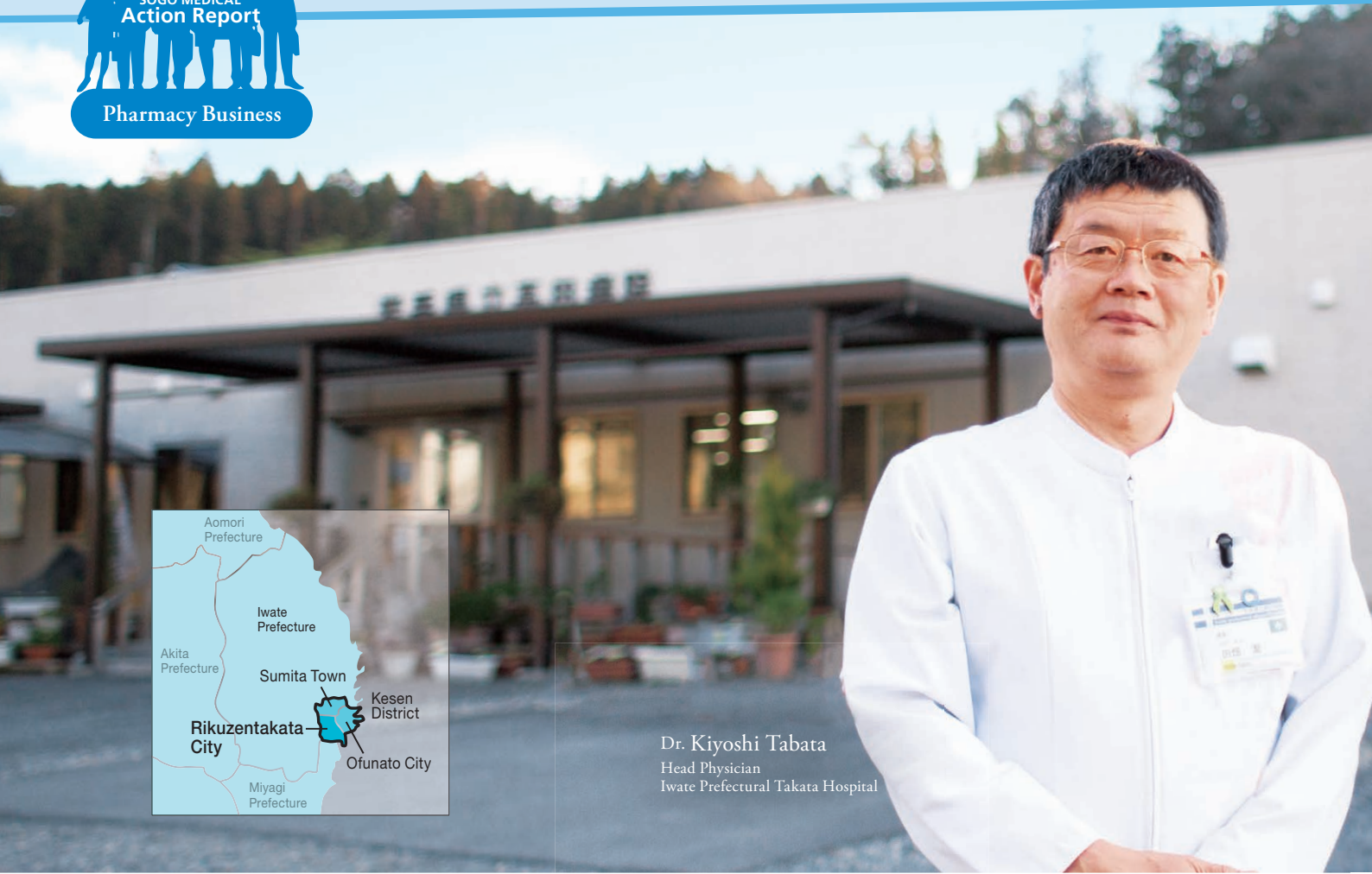
Corporate branding video (animation)

"Jobs to Support Lives of Local Communities"

We produced a three-minute animated video on the topic of third-party medical practice succession to help more people understand what we do. It is available for viewing on the Sogo Medical website or on YouTube.



Video screenshot



Dr. Kiyoshi Tabata
Head Physician
Iwate Prefectural Takata Hospital

Action Report 3

Rikuzentakata City, Beyond the Disaster Local Medical Care in the Afflicted Zone

Sogo Pharmacy Takata Location

Linking multiple professions for in-home medical care through the use of ICT*1

Rikuzentakata City in Iwate Prefecture faces a serious problem with a decreasing birthrate, aging population, and increasing numbers of seniors living alone. After the earthquake and tsunami, the importance of in-home medical care there became more acute, and people in different professions began to work together—physicians, nurses, and social welfare workers. The Takata pharmacy joined this communal effort. Five years have passed since the disaster. This is a report on the current state of in-home medical care in the city and the outlook for the future.

Improving the efficacy and efficiency of in-home medical care by pooling with other professions.



The Takata pharmacy has worked closely since its inception with the Iwate Prefectural Takata Hospital, its main client, and the relationship has developed with the submission of prescription questions and tracing reports (reports tracking drugs being taken). Takata's pharmacists began making house calls in 2011 to provide guidance on how to take medicine, and to submit reports to doctors on unused medications. Dr. Tabata, Head Physician of the Takata Hospital, gave high praise to the

efforts of the Takata pharmacy, saying, "In some cases patients will tell their doctor they are taking their medicine properly, but in fact there is much leftover. The Takata Pharmacy's efforts are a big help to our physicians."

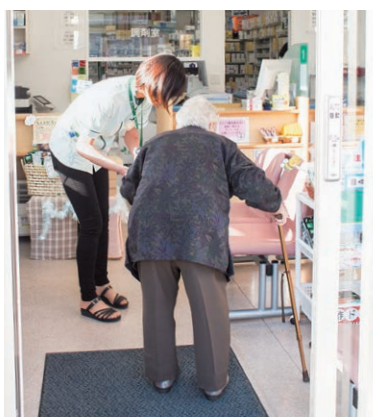
In-home medical care in Rikuzentakata City have taken on ever greater importance since the 2011 tragedy. The loss of hospitals and damage to the public transportation system have placed a great burden on patients to reach a hospital for treatment.



*1 ICT: Information and Communication Technology



Hidenori Shirai
Chief Pharmacist
Sogo Pharmacy Takata Location
Sogo Medical Co., Ltd.



In 2015, the Kesen*² District began receiving prefectural support and coordinated efforts were begun using ICT, bringing different professions together to provide more efficient in-home medical care. Doctors, nurses, and social welfare workers use tablet computers to share data and communicate quickly with one another. "Patients' questions also reach us through people in other professions, and we are able to

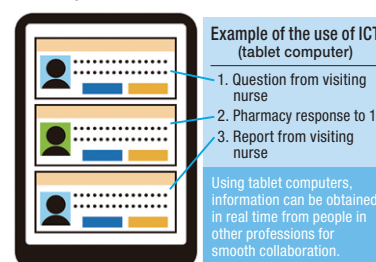
respond right away, which helps put patients at ease," explains chief pharmacist Hidenori Shirai, endorsing the use of ICT to improve the quality and efficiency of in-home medical care.

Rikuzentakata and its declining population—the circle of communication must extend to the entire Kesen District going forward.

Five years since the disaster, the town is undergoing a transformation. People who were victims of the disaster but who had been trying to survive in Rikuzentakata are moving inland and depopulation is worsening. "We have reached the point where we need to rethink how to provide medical care suited to the current situation," says Dr. Tabata. "In Rikuzentakata, we have had face-to-face relationships among people of different professions for some time, but that system needs to be expanded to all of the Kesen District,

including Ofunato and Sumita." The hospital director leads an organization to build a future for the area, Mirai Kanae Kiko, aiming to expand inter-profession collaboration through ICT. The Takata pharmacy has joined this effort, about which Mr. Shirai enthuses, "The Takata pharmacy, which survived the disaster, plays a larger role than other pharmacies. We are going to continue working hard to maintain close contact with patients and exceed all expectations."

People will be taking more notice of initiatives that employ ICT to resolve medical care issues in an aging society.



*² Kesen: Indicates Rikuzentakata City, Ofunato City and Sumita Town



Masashi Honda
Pharmacy Specialist
Sogo Pharmacy Tenjin Chuo Location
Sogo Medical Co., Ltd.

Shiho Yoshida
Pharmacy Specialist
Sogo Pharmacy Tenjin Chuo Location
Sogo Medical Co., Ltd.

Action Report 4

Pharmacy Specialists Provide Closer Support for Cancer Patients

Sogo Pharmacy Tenjin Chuo Location

Introducing a system of specialists for individual conditions to strengthen functions as a "primary care pharmacy"

About 200 patients per day visit the Sogo Pharmacy Tenjin Chuo Location as their "primary care pharmacy." The pharmacy has introduced progressive measures such as a Cancer Conversation Café and a system of pharmacy specialists for individual conditions. These measures are aimed at supplying higher quality care while strengthening the expertise of its pharmacists.

A patient's comment sparked a search for ways to improve the attending pharmacist system and specializations.

"I realized the potential of a pharmacy specialist system when a certain patient whom I had been looking after for about a year asked especially that I be the one to prepare her medication, saying, 'I am grateful that she is always taking care of me,'" says Yukari Shimokawa, senior pharmacy specialist at the Tenjin Chuo pharmacy. Ms. Shimokawa put together two three-person teams to take care of patients with cancer and diabetes, respectively. After half a year of preparation that followed investigations into new ways the location could do business and raising awareness among the staff, in 2012 the pharmacy introduced a system of pharmacy specialists for individual conditions. Ms. Shimokawa started dealing directly with cancer patients,

providing them with individualized care.

While she had greater contact with patients suffering from cancer, along with more opportunities to receive feedback, she still wanted to do more for her patients. Ms. Shimokawa searched for some way to empathize more closely with them. One day she came across an organization named Cancer Philosophy Visitors* whose aim was to reduce psychological suffering. She traveled to Nagano Prefecture to attend a seminar with her cancer team at the time. That is when Ms. Shimokawa renewed her vow to do something for the psychological care of patients.





Yukari Shimokawa
Senior Pharmacy Specialist
Sogo Pharmacy Tenjin Chuo Location
Sogo Medical Co., Ltd.

Ai Tanimoto
Pharmacist
Sogo Pharmacy Tenjin Chuo Location
Sogo Medical Co., Ltd.

A better understanding of the emotions of cancer patients allows for extra care.



After returning from the seminar, Ms. Shimokawa's team immediately started making preparations. She decided to host an event on Saturdays to make it easy for all people to attend, and she called it the Cancer Conversation Café to create an informal, friendly atmosphere. The first event was held in the spring of 2013. Three years later, including new members today, the four-person



team has attended to about 430 cancer patients.

One patient undergoing changes in treatment said, "They always explain things to me carefully so I feel reassured." Such comments show how the cancer team's efforts have been engaging in care on an emotional level. The next most experienced on the team is Shiho Yoshida, in her third year. Ms. Yoshida used her experience to gain qualification as an Accredited Pharmacist of Ambulatory Cancer Chemotherapy, which is rare for someone working at a health insurance pharmacy. Masashi Honda

and Ai Tanimoto, who joined the team last year, are enthusiastic about improving their specializations. The cancer team will continue to deal directly with cancer patients, aiming to provide emotional support to each and every one.



*Cancer Philosophy Visitors is a non-profit organization chaired by Professor Okio Hino of the Faculty of Medicine at Juntendo University. The organization provides a public forum for dialogue between medical professionals and other patients, aiming to relieve the psychological suffering of cancer patients and their families.



Action Report 5

Helping Patient Adherence with the Medication Calendar



Visual representation of medication schedules helps prevent forgetting or taking the wrong dose. We plan to distribute calendars to all Group pharmacies.

Leftover medicine has become an issue in medical treatment today, as medicines pile up at patients' homes due to the large variety of prescribed medications and people deciding to discontinue their medicine, for example.

The Medication Calendar is one way for our "primary care pharmacies" to help people adhere to their prescription. The calendar has see-through pockets for each day of the week and a pocket for each dose on that day. The proper dosage is placed into each of these pockets so that patients and family members will immediately be able to understand when a dose has been taken or not.

This system started being used in September 2015. As a trial, the Medication Calendar was introduced at 92 Sogo Pharmacies. Based on the results of a questionnaire after use, more than half of the people who used the calendars felt that it helped them to take their medicine. It was also reconfirmed that the assistance of the pharmacist in taking medicine helped patients to take the proper dosage for their drug therapy and eliminate leftover medicine. In February 2016 the system was implemented at all 435 Sogo Pharmacies throughout Japan. It is also being implemented as appropriate at other Sogo Medical Group pharmacies.

Action Report 6

Developing Safe and Reliable Private Brand Products



We are developing and marketing private brand goods under the SOGO SMILE label. A unified brand offers a more familiar face to people in local communities.



We have been working to develop a unified pharmacy brand for Sogo Pharmacies and all Group pharmacies around Japan based on the PR concept of pharmacies as "general healthcare stations." In 2014 we began to develop and market the SOGO SMILE private brand as part of this strategy. Today we supply 31 items under the brand, including health foods and sanitary goods, with the slogan of "Greater peace of mind, more smiles."

Nationally certified senior nutritionists and pharmacists from Sogo Medical help to develop products. We focus on quality, safety, and great flavor, producing such items as throat

lozenges made from the highest grade ingredients in the world, and supplements for which we manage every process from raw materials to packaging to assure quality and safety. As professionals in medicine and health, we take pride in making products this way to help people lead healthy, energetic lives.

At our Sogo Pharmacies we will continue making efforts both inside and outside the pharmacies themselves to be appreciated by everyone in the community.



Action Report 7

Actions to Become
"Primary Care Pharmacies"

We are adding value at each location to produce high-value pharmacies chosen by patients that are rooted in the local community.

Collaboration

- In medical treatment
- With other pharmacies
- With multiple professions



Meeting at a medical institution—the pharmacy's main client
(Sogo Pharmacy Tenjin Center Bldg. 5F Location, Fukuoka Prefecture)

Risk Management

- Disaster planning and drills
- Dispensing error system
- Joint BCP training, etc., at head office, offices, branches and pharmacies



Evacuation drill with person in wheelchair
(Sogo Pharmacy Omura Saiwaimachi Location, Nagasaki Prefecture)

New Pharmacy Functions

- System of pharmacy specialists for individual conditions (cancer, diabetes)
- Sports pharmacists (to support athletes in tandem with sports doctors)
- Conducting academic research and presenting at academic society meetings, etc.



Internal academic meeting, "Pharmacy Forum"
(Held annually; 391 participants in 2015 from inside and outside the company)

Health Support

- Self-medication support (medicine and health consultations, etc.)
- School health support
- Supporters of dementia patients
- Pharmacies that support quitting smoking
- Sharing of recipes that use private brand products; food tasting events



Talk by senior nutritionist, nutrition consultation
(Yataya Pharmacy Kinomoto Location, Wakayama Prefecture)



Hand-washing class at nursery school
(Sogo Pharmacy Tone Chuo Location, Gunma Prefecture)

Improving Satisfaction

- Concierge services
- Seminars for better understanding of seniors
- Service care-fitter and service sector reception qualifications



Concierge providing information
(Sogo Pharmacy Tenjin Chuo Location, Fukuoka Prefecture)



Health seminar for seniors
(Sogo Pharmacy Fusa Location, Chiba Prefecture)

Other Community-Based Activities

- Ongoing support for disaster-afflicted regions (Miyagi Prefecture)
- Pharmacy student intern program
- Sign language support
- Workplace experience for children
- Foreign customer support (English-language drug information sheets, etc.)
- Community cleanups



In-hospital pharmacy located at temporary clinic
(Sogo Pharmacy Takata Location, Miyagi Prefecture)



Sterile medication preparation by pharmacy student using a clean bench
(Sogo Pharmacy Takarazuka Mefu Location, Hyogo Prefecture)



Action Report 8



Our Support for Integrating People with Disabilities into the Workplace is Highly Evaluated



Aiming to create a workplace environment in which every employee can use his or her strengths and abilities—hiring people with disabilities.

In August 2015 we received an award to recognize enterprises with distinguished performance in employing people with disabilities.* Sogo Medical was chosen from 80 or so companies around Japan for our new hirings and integration into the workplace of people with mental or developmental disabilities.

Sogo Medical employs 52 people with disabilities, who comprise 2.24% of the company's workforce. Of these individuals, 28 belong to the Operational Support Group (as of March 2016). This group also employs a full-time job coach who provides assistance in adapting to the workplace and helps each person work to the best of their ability given their individual strengths.

*Organized by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers

Operational Support Group's Main Clerical Tasks

- Printing documents, etc., filling envelopes and sending them inside and outside the company
- Sorting head office mail and sending mail to branches and pharmacies
- Creating business cards, personal seals, and other items for all company employees
- Data entry for contracts, patient satisfaction questionnaires, etc.
- Cleaning of the head office, nearby pharmacies and the training center, etc.
- Lamination of rental TV channel guides, etc.
- Creation of medication record books (stamping, attaching cover)

etc.

Action Report 9



Our Engagement in Female Employees' Advancement is Well Recognized



We are promoting the growth and advancement of female employees, thereby improving personnel value.

In September 2015 Sogo Medical received an award of excellence from the Fukuoka Prefectural Labour Bureau Chief in the "equality-promoting enterprise" category as part of the 2015 Equality and Family-Friendly Corporation Commendations issued by the Ministry of Health, Labour and Welfare. This system publicly commends companies that take positive action to enable female employees to make full use of their abilities in the workplace.

The award was given for measures that Sogo Medical has taken that include setting numerical targets and announcing them both inside and outside the company, creating a system for enabling a shift from clerical positions to professional tracks, and setting up fixed-location positions that do not require relocation. Beginning this fiscal year, we are offering training to female employees to move into management positions and to develop future candidates. We will also continue to set up and operate internal systems as well as create a conducive workplace environment for female employees' advancement.

Target (to be achieved by March 31, 2017)

30% of management positions filled by women

Measures Taken

Switch to Professional Track/ Professional Training System

A system to promote female employees working in clerical positions to professional positions as part of human resource development in light of business expansion.

Creation of Fixed-Location Positions

A system of promotion to "block chief," a managerial position that does not entail relocation within the country.

Improving the Workplace Environment

Placing female employees on various committees, etc., to raise gender equality awareness in the workplace.

Training Courses to Develop Female Managers

Business Performance by Segment

Business performance this fiscal year and outlook explained from the perspectives of the Higashinohon, Nishinohon, and Kyushu Offices

36 Higashinohon Office

37 Nishinohon Office

38 Kyushu Office

Higashinihon Office

We are working together to achieve performance commensurate with our market size.

Shigeyuki Nakano
Senior Managing Officer
Manager of Higashinihon Office



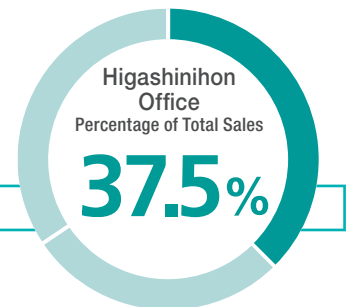
The Higashinihon area in which we operate accounts for nearly 60% of the potential market in Japan, and we aim to improve our percentage of total sales to the same level as our market size.

This fiscal year in the medical practice support business, we worked on new projects developing healthcare malls and supporting hospital management. In the pharmacy business we promoted the creation of a community-based framework for supporting the health of all citizens.

In the coming year we will accelerate development of healthcare malls through the newly established Healthcare

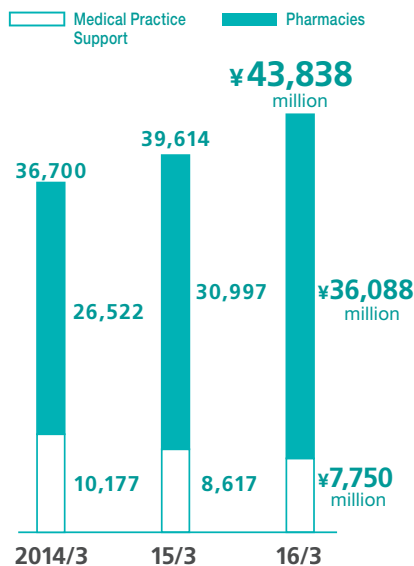
Mall Development Division of the Higashinihon Office; we will also focus on creating high-value pharmacies.

The work of our company is in itself a way of contributing to society. We are helping all of our employees to study and seek personal improvement, while working to create a society in which everyone can receive efficient, high-quality medical care.

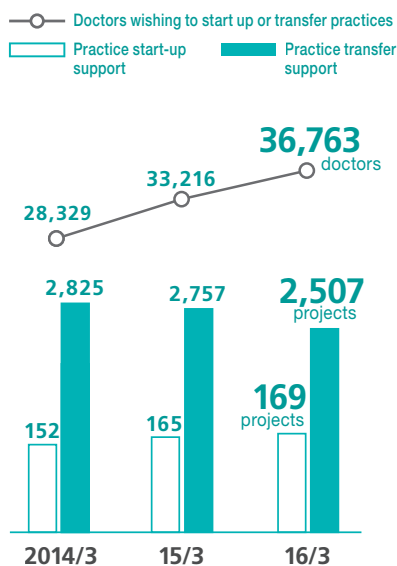


Performance for the Year Ended March 2016

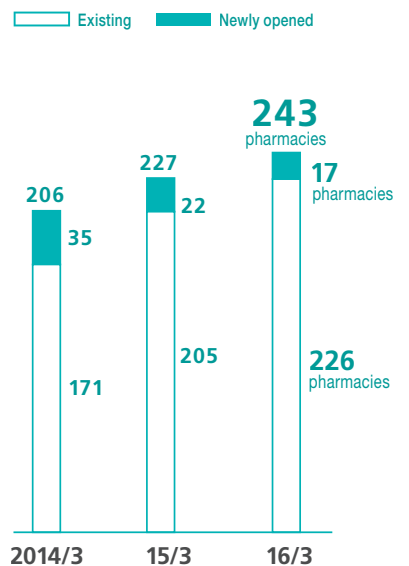
Net Sales



Practice Start-Up/Transfer Support and Number of Doctors Registered



Number of Pharmacies



Nishinohon Office

We engage the trust of our customers with a sense of mission to contribute to local communities.

Osamu Yamasaki
 Managing Officer
 Manager of Nishinohon Office



This fiscal year we strengthened our relationships with customers and expanded our circle of working partners through healthcare mall development, start-up support, consulting, and creating high-value pharmacies. We will continue working next year to achieve the targets set in the medium-term management plan and make new advancements.

Specifically, in the medical practice support business we provide management support to core hospitals facing difficult issues through our DtoD system and by creating model healthcare malls. In the pharmacy business we have

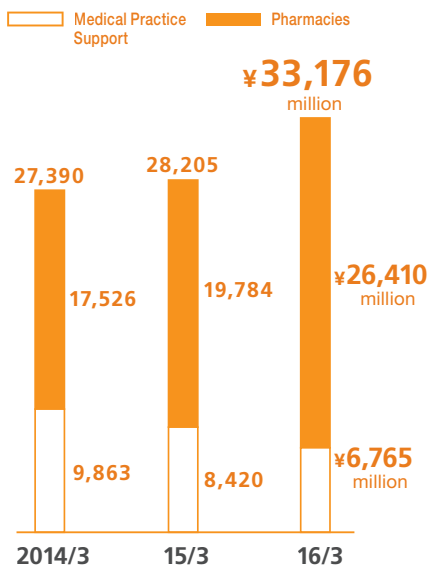
accelerated the creation of high-value pharmacies by helping pharmacists to fully utilize their skills, enhancing coordination between pharmacies and medical institutions, improving in-home medical care, and providing support for self-medication.

Following our management principles each of us will work together with passion and a sense of mission to be of assistance to our customers and provide valuable services that make people happy.

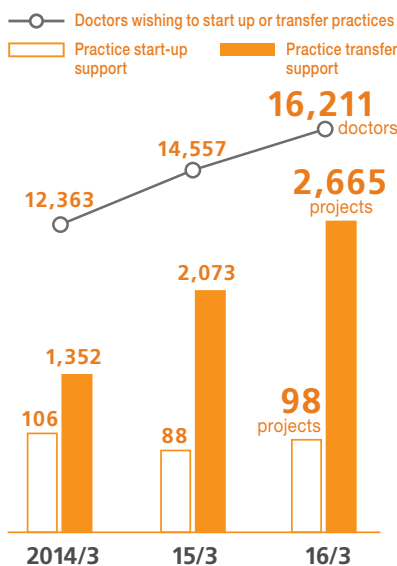


Performance for the Year Ended March 2016

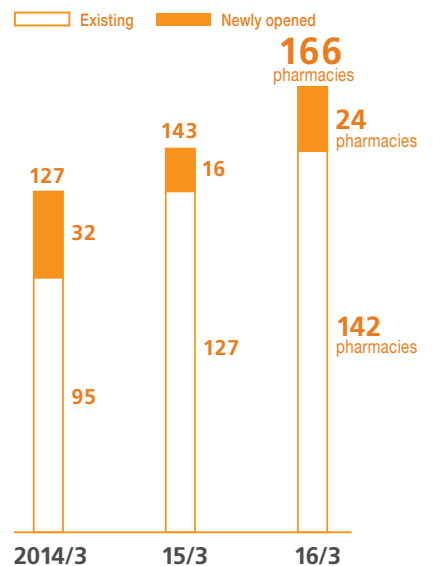
Net Sales



Practice Start-Up/Transfer Support and Number of Doctors Registered



Number of Pharmacies



Kyushu Office

Each of our employees seeks to be helpful to customers in every way.



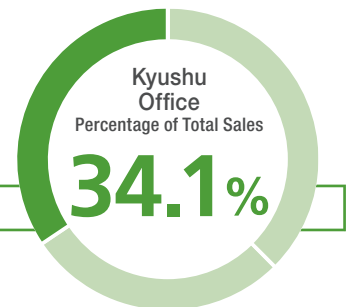
Kazuya Watabe
Senior Managing Officer
Manager of Kyushu Office

With the beginning of a shift in focus from simply curative medical care to medical care that also provides support, the management environment surrounding medical professionals has come to demand the provision of effective, high-quality medical care and comprehensive regional medical and nursing services that transcend the boundaries of individual medical institutions or facilities.

This fiscal year we implemented various measures to develop trustworthy pharmacies that customers come to rely upon. In the next term we will follow a basic policy—"being helpful in every way." In the medical practice support business we provide management

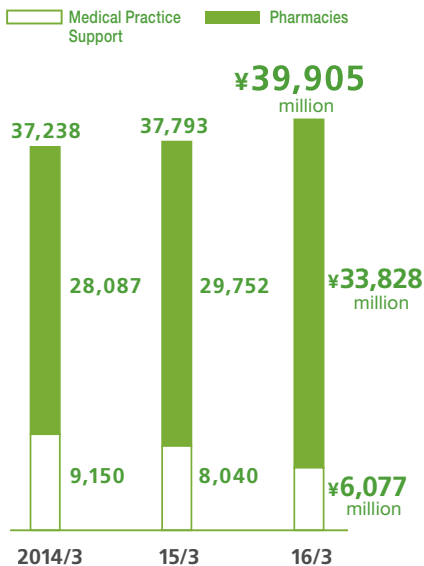
support to resolve problems at hospitals and are developing healthcare malls that will be closely integrated into the local community and play a significant role in society. In the pharmacy business we are working to bring out the best as "primary pharmacies and pharmacists" and carry out efficient, high-quality pharmacy operations that advance comprehensive regional care.

Every one of our employees takes responsibility for their role in helping to achieve our medium-term management plan goals.

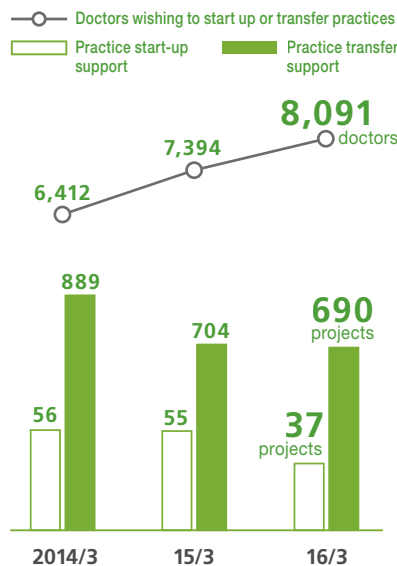


Performance for the Year Ended March 2016

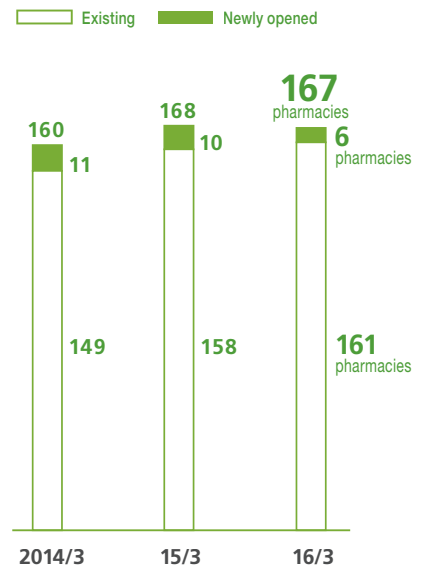
Net Sales



Practice Start-Up/Transfer Support and Number of Doctors Registered



Number of Pharmacies



Corporate Governance

Here we introduce our approach to company management and developing human resources.

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Directors, Audit & Supervisory Board Members and Corporate Executive Officers (As of June 22, 2016)

Board of Directors



Kenji Sakamoto

Representative Director,
President and Chief Executive Officer
In charge of Corporate Auditing Division



Shinya Mikita

Representative Director,
Executive Vice President
In charge of Higashinohon Office



Makoto Kuroda

Director & Senior Executive
Managing Officer
In charge of Administration Division,
Management Strategy Division



Masatoshi Sadahisa

Director & Senior Executive
Managing Officer
In charge of Personnel Division



Moritaka Nakashima

Director & Executive Managing Officer
In charge of Consulting Division,
Medical Practice Support Business Division,
Pharmacy Management Division



Takao Nakashima

Director & Executive Managing Officer
In charge of Nishinohon Office,
Kyushu Office, DtoD Strategy Division



Hirosada Oyamada

Director & Senior Corporate Adviser



Itsuo Tashiro

Director & Vice Chairman



Makoto Nogami

Director (External Director)



Kiyotaka Watanabe

Director (External Director)



Eiichi Seki

Director (External Director)

Audit & Supervisory Board Members



Minoru Ohno

Standing Auditor (External Auditor)



Shoji Hirao

Standing Auditor



Naomasa Mitsukado

Auditor (External Auditor)



Setsuko Gondou

Auditor (External Auditor)

Corporate Executive Officers

Kenji Sakamoto*

President and Chief Executive Officer

Shinya Mikita*

Executive Vice President

Makoto Kuroda*

Senior Executive Managing Officer

Masatoshi Sadahisa*Senior Executive Managing Officer
Manager of Personnel Division**Moritaka Nakashima***Executive Managing Officer
Manager of Pharmacy Management
Division
Representative Director and
Chairman of SME Co., Ltd.**Takao Nakashima***Executive Managing Officer
Manager of DtoD Strategy Division**Kohichi Hashimoto**Executive Managing Officer
Manager of Management Strategy
Division
Manager of Management Strategy
Department**Joji Haraguchi**Executive Managing Officer
Representative Director and
President of Somtech Co., Ltd.**Takahide Terada**Senior Managing Officer
Deputy Manager of DtoD Strategy
Division**Genichi Shimmura**Senior Managing Officer
Deputy Manager of DtoD Strategy
Division**Kazuya Watabe**Senior Managing Officer
Manager of Kyushu Office**Yuriko Tanigawa**Senior Managing Officer
Manager of Administration Division**Shigeyuki Nakano**Senior Managing Officer
Manager of Higashinohon Office**Akihiro Shitozawa**Senior Managing Officer
Manager of Medical Practice Support
Business Division**Takamichi Okuno**Managing Officer
Assistant Manager of Administration
Division
Manager of General Affairs Department**Nobuo Fujii**Managing Officer
Assistant to Manager of Higashinohon
Office**Toshikazu Matsuo**Managing Officer
Assistant Manager of Pharmacy
Management Division
Manager of Pharmacy Business
Promotion Department**Osamu Yamasaki**Managing Officer
Manager of Nishinohon Office**Masatomo Hara**Managing Officer
Higashinohon Office
Manager of Higashinohon Pharmacy
Management Division**Katsuyuki Honda**Managing Officer
Assistant Manager of Personnel Division
Manager of Hiring Department**Tetsuro Irie**Managing Officer
Manager of Consulting Division
Manager of Consulting Promotion
Department

* 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, 2016)

The board of directors is made up of 11 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, 2016)

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.

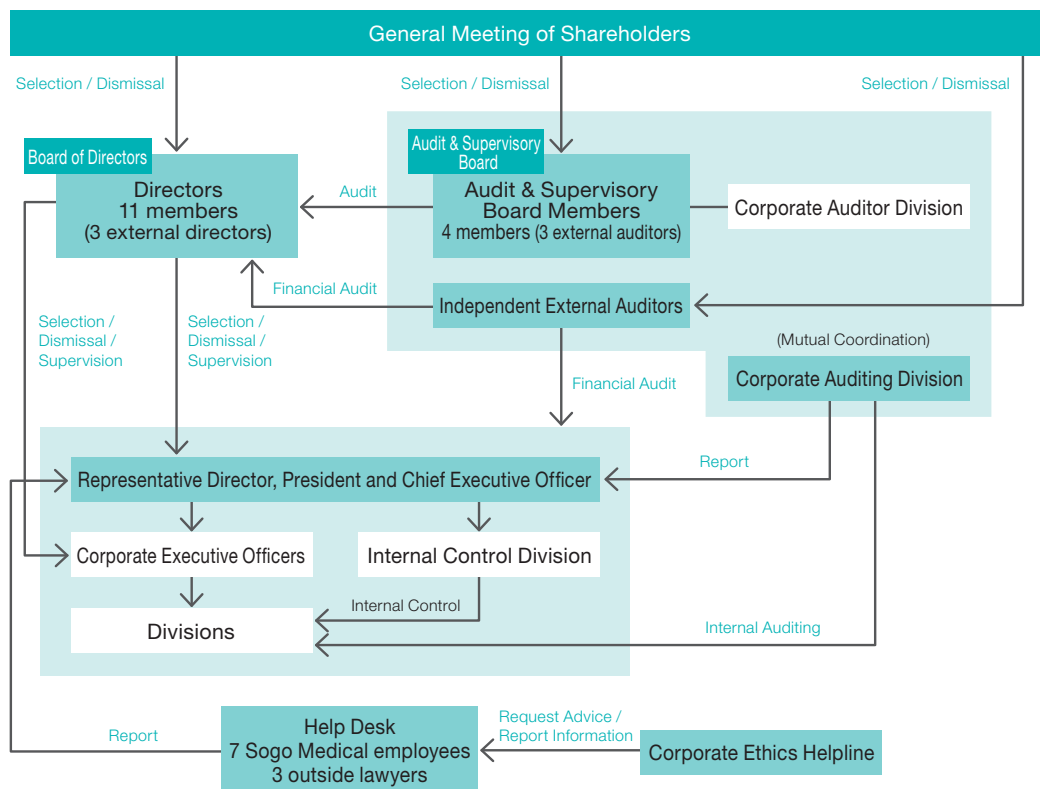
Auditors monitor the legality of operations based on financial standards, audit planning, and task divisions, as outlined by the audit and supervisory board.

Internal audits are held systematically by the corporate

auditing division, consisting of 9 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, 2016)



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 Fiscal 2016

Officer category	Number of recipients	Total by form of remuneration (¥ million)			
		Basic compensation	Stock options	Bonuses	Retirement compensation
Directors (not including external directors)	11	170	170	—	—
Audit & supervisory board members (not including external auditors)	1	11	—	—	—
Outside officers	6	24	—	—	—
Total	18	206	206	—	—

- 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.

Internal Control System and Compliance System

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 (corporate ethics helpline), 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 and information system management 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.

Comments from an External Audit & Supervisory Board Member



Setsuko Gondou
Auditor (External Auditor)

I have been serving in the post of external auditor for Sogo Medical a full year now. This company provides total management support in the medical industry based on the concept of "good medical practice through good management." Its stated mission is to build a better society through good medical practice.

Stronger and more thorough compliance is necessary at the company in order for it to sustainably carry out its activities moving forward. A four-person audit and supervisory board was established for this purpose, composed of two standing auditors and two part-time auditors.

The external auditors, myself included, are able, as independent third parties, to speak frankly to company directors from an objective position, and our perspective is particularly valued in regard to the company's management approach and state of fiscal health.

My principle objective at the regular meetings of the board of directors and the audit and supervisory board is to give my honest opinion from the viewpoint of an auditor, drawing upon my experience and general knowledge from outside the company. I check to see if compliance is being given serious consideration and whether or not management policy is adhering to Our Pledge, Mission Statement, and Corporate Credo. I aim to be even more active in sharing proposals and recommendations as an external auditor to help the company develop in a sound and sustainable way.

CSR Management

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.

Four Principal Elements of CSR

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

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.



Financial Section

Detailed information on business performance in the current fiscal year

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54 Risk Information

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Five-Year Summary of Consolidated Financial Statements

Years Ended March 31		2012	2013	2014	2015	2016
Net sales	(¥ million)	80,222	86,658	103,318	107,945	120,776
Operating income	(¥ million)	4,848	4,324	5,014	5,017	6,087
Ordinary income	(¥ million)	4,881	4,343	5,068	5,227	6,196
Net income attributable to owners of the parent	(¥ million)	2,504	2,532	2,856	2,774	2,318
Total net assets	(¥ million)	19,511	21,636	23,934	26,521	29,646
Total assets	(¥ million)	53,160	57,138	66,982	69,811	74,621
Net assets per share	(yen)	1,351.39	1,496.64	1,655.73	1,824.14	1,967.14
Net income per share	(yen)	173.46	175.41	197.82	192.20	154.65
Cash dividends per share	(yen)	35.00	40.00	40.00	40.00	45.00
(Includes interim dividend)	(yen)	(17.50)	(20.00)	(20.00)	(20.00)	(22.50)
Dividend payout ratio	(%)	20.2	22.8	20.2	20.8	29.1
Capital adequacy ratio	(%)	36.7	37.8	35.7	37.7	39.5
Net income to shareholders' equity ratio (ROE)	(%)	13.6	12.3	12.6	11.0	8.3
Price-earnings ratio	(times)	8.6	9.5	10.5	17.6	24.7
Price-to-book-ratio	(times)	1.1	1.1	1.2	1.8	1.9
Number of shares outstanding	(thousands of shares)	15,340	15,340	15,340	15,340	15,340
Cash flows from operating activities	(¥ million)	4,484	7,269	7,461	6,051	7,004
Cash flows from investing activities	(¥ million)	(4,086)	(3,380)	(5,335)	(5,296)	(4,981)
Cash flows from financing activities	(¥ million)	(170)	(2,777)	(1,370)	(1,637)	(635)
Cash and cash equivalents at end of period	(¥ million)	3,984	5,095	5,851	4,968	6,356
Number of regular employees	(people)	2,195	2,508	2,650	2,951	3,233
Number of part-time employees	(people)	623	735	1,064	1,190	1,208

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)

Years Ended March 31		2012	2013	2014	2015	2016
Operating income to net sales ratio	(%)	6.0	5.0	4.9	4.6	5.0
Ordinary income to net sales ratio	(%)	6.1	5.0	4.9	4.8	5.1
Net income to net sales ratio	(%)	3.1	2.9	2.8	2.6	1.9
Total assets turnover	(times)	1.5	1.5	1.5	1.5	1.6
Return on assets	(%)	10.2	7.9	8.2	7.6	8.6
Current ratio	(%)	131.7	128.8	122.0	121.5	125.5
Fixed assets to capitalization	(%)	78.1	80.0	81.7	83.7	81.7
Interest-bearing debt ratio	(%)	27.4	25.1	23.2	23.7	24.7
Net debt-to-equity ratio	(times)	0.54	0.43	0.40	0.44	0.41

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

2. Method of calculating the net debt-to-equity ratio: (Interest-bearing debt – cash and deposits – certificates of deposit)/shareholders' equity.

(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 ended in March 2015.)

Management's Discussion and Analysis

1. Operation Results

Overview of Performance During the Year

In the fiscal year under review, Sogo Medical posted net sales of ¥120,776 million, an increase of 11.9% year-on-year, primarily attributable to an increase in sales at existing pharmacies and benefits from sales growth owing to the opening of new pharmacies. On the profit front, the company booked operating income of ¥6,087 million, a growth of 21.3%, and ordinary income of ¥6,196 million, an expansion of 18.5%. However, net income attributable to owners of the parent came to ¥2,318 million, a decline of 16.5%, due to the negative impact from impairment losses.

In April 2014, Sogo Medical launched a three-year medium-term management plan, dubbed “Further Challenge—toward a better society in which people can live with a sense of security.” The plan outlines medium-term goals and specific priority initiatives. This fiscal year, which is the second year of our current medium-term management plan, coming together as one single group, we are working to solve problems faced by society by further expanding and advancing the initiatives carried out thus far and by developing new services that are widely needed today.

This fiscal year Sogo Medical supported the start-up of 304 private practices, including succession start-ups and healthcare malls. At the end of the current fiscal year, the number of employed physicians wishing to transfer or start up a practice via the DtoD System stood at 62,429 doctors, an increase of 5,924 doctors compared with one year previous.

In the pharmacies business, there were 47 new openings in the fiscal year, including 25 pharmacies acquired via M&A transactions. The total number of pharmacies at the end of the fiscal year is 576. In a breakdown of pharmacy openings by region, 17 pharmacies were opened in east Japan, 24 in west Japan, and six in Kyushu. Of the 22 pharmacies opened in the fiscal year, excluding acquisitions, 12 were opened by doctors using the Sogo Medical practice start-up support system.

Segment Financial Results by Business and Region

From the fiscal year ended March 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 ¥23,302 million, a reduction of 9.7% from the previous year. This decline is attributable to lower sales in rental services and leasing/installment sales of medical equipment despite increased sales in consulting. Operating income decreased by 86.3% to ¥137 million. The following describes the situation in each division.

(1) Consulting

Net sales from the consulting division posted a 11.9% increase year on year, to ¥1,894 million. Of this amount, medical institution management consulting sales rose 16.1% to ¥1,232 million. Sales related to support for doctors who wish to transfer or start up a practice rose 4.8% to ¥662 million. In addition to supporting 5,863 transfer projects, we also supported 304 practice start-up support projects, which extended into lease contracts and the opening of new pharmacies.

(2) Rental

Net sales in the rental division were ¥5,465 million, a 7.7% decrease from the previous year. Within these results, rental sales increased by 11.2% to ¥4,665 million, and net sales of products decreased by 53.7% to ¥800 million.

(3) Leasing and Installment

Net sales in the leasing/installment division fell 27.6% year on year, to ¥11,035 million. This is due to an 82.1% decrease, to ¥923 million, in medical equipment sales.

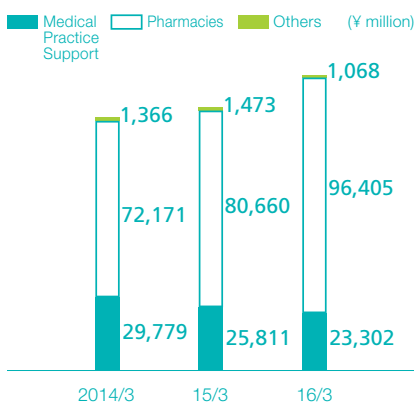
Despite accounts receivable–installment sales rising 3.7% to ¥1,874 million, lease receivables and investment assets fell 17.5% to ¥1,403 million, and operating assets fell 6.6% to ¥3,277 million. Although the number of lease contracts recovered somewhat from the downturn after the increase in consumption tax, there was an increase of only 0.1% year on year to ¥9,937 million.

(4) Others (Design and Construction of Medical Facilities, Healthcare Information Services, etc.)

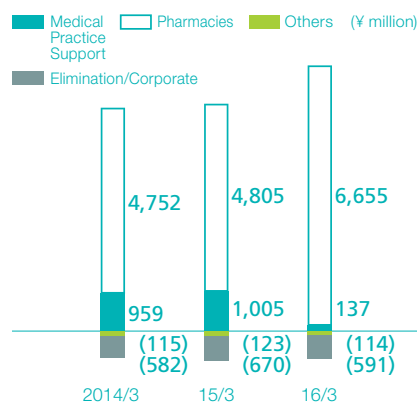
Sales in the others division increased 66.2% to ¥4,905 million year on year, thanks to sales from Hokendohjinsha Inc., a company that became part of the Group in March 2015, working in the field of healthcare information services.

Years Ended March 31	2014	2015	2016
Net sales (¥ million)	103,318	107,945	120,776
Medical Practice Support	29,779	25,811	23,302
Consulting	1,672	1,693	1,894
Rental	5,914	5,922	5,465
Leasing and Installment Sales	19,113	15,243	11,035
Others	3,079	2,952	4,905
Pharmacies	72,171	80,660	96,405
Others	1,366	1,473	1,068
Operating income (¥ million)	5,014	5,017	6,087
Medical Practice Support	959	1,005	137
Pharmacies	4,752	4,805	6,655
Others	(115)	(123)	(114)
Elimination/Corporate	(582)	(670)	(591)

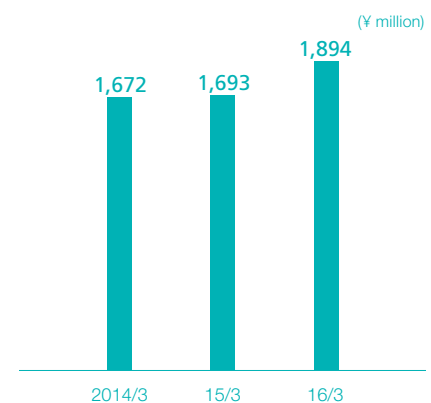
Sales by Business



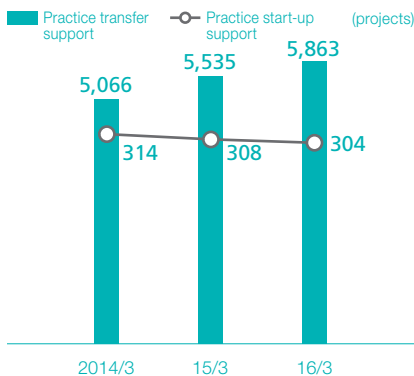
Operating Income by Business



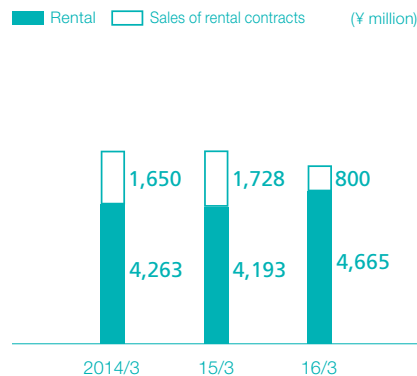
Consulting Sales



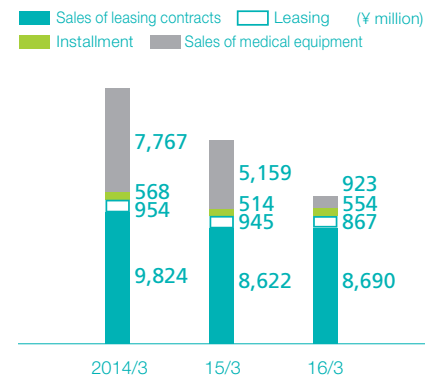
Practice Transfer/Start-up Support



Rental Sales



Leasing and Installment Sales



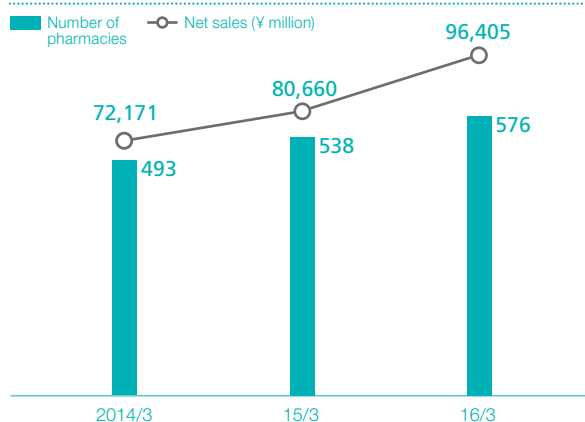
Management's Discussion and Analysis

Pharmacies

In the pharmacy division we are moving ahead with the creation of high-value pharmacies throughout Japan.

We opened 47 new pharmacies (including 25 pharmacies from M&A activities), and as a result the number of pharmacies at year-end was 576, up 38 from last year, contributing ¥6,009 million toward net sales. Net sales from existing pharmacies rose 9.9%, to ¥83,083 million. Sales from the 48 pharmacies opened in the previous fiscal year rose 103.6%, to ¥5,845 million. As a result, net sales from the pharmacy division rose 19.5%, to ¥96,405 million. Also, operating income rose 38.5%, to ¥6,655 million.

Number of Pharmacies / Pharmacy Sales



By Region

Higashinihon

Although sales declined in the leasing and installment division, net sales increased in the consulting division and rental division, and in the pharmacies division there was increased revenue due to the opening of new pharmacies, leading to an overall net sales increase of 10.7% year on year to ¥43,838 million.

Operating income rose to ¥1,228 million, a 45.9% increase, due to increased profits from a rise in sales in the consulting, rental, and pharmacy divisions.

Nishinihon

Despite a decline in sales in the rental division and leasing and installment division, there was a 17.6% year-on-year increase in net sales to ¥33,176 million. This was due to an increase in sales in the consulting division, as well as, in the pharmacy division, such factors as increased revenue reflecting the opening of new pharmacies, including the contribution of sales from dispensing pharmacy subsidiaries whose stock was acquired.

Operating income showed a 37.8% increase over the previous year to ¥2,082 million reflecting increased profits driven by higher sales in the consulting and pharmacy divisions.

Kyushu

Despite a decline in sales in the rental division and leasing and installment division, net sales rose by 5.6% from the previous year to ¥39,905 million. This was due to higher sales in the consulting division, along with such factors as increased sales at existing pharmacies and a rise in sales from the opening of new pharmacies in the pharmacy division.

Operating income was ¥2,854 million, a year-on-year increase of 8.0% due to increased profits driven by higher sales in the consulting and pharmacy divisions.

Years Ended March 31	2014	2015	2016
Net sales (¥ million)	103,318	107,945	120,776
Higashinohon	36,700	39,614	43,838
Medical Practice Support	10,177	8,617	7,750
Pharmacies	26,522	30,997	36,088
Nishinohon	27,390	28,205	33,176
Medical Practice Support	9,863	8,420	6,765
Pharmacies	17,526	19,784	26,410
Kyushu	37,238	37,793	39,905
Medical Practice Support	9,150	8,040	6,077
Pharmacies	28,087	29,752	33,828
Others	1,989	2,331	3,855
Operating income (¥ million)	5,014	5,017	6,087
Higashinohon	1,289	842	1,228
Nishinohon	1,324	1,510	2,082
Kyushu	2,611	2,643	2,854
Others	346	620	490
Adjustments	(558)	(599)	(568)

Forecast for the Fiscal Year Ending March 31, 2017

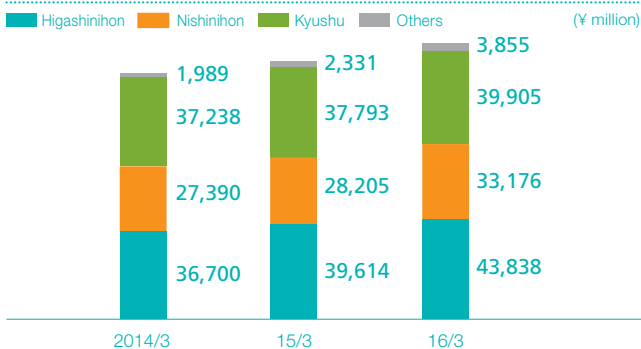
The year ending in March 2017 is the final year of the current medium-term management plan. The company plans to continue to move ahead with its priority initiatives of undertaking new businesses, improving existing businesses, and enhancing corporate value, based on the theme of "Further Challenge."

In order to achieve business results commensurate with the scale of the market in which we operate—a key management topic, we will continue to strengthen our regional network, train consultants, and develop human resources through the PPI internal certification system, thereby building assets that do not appear on the balance sheet but that will create a solid foundation for the company in the future.

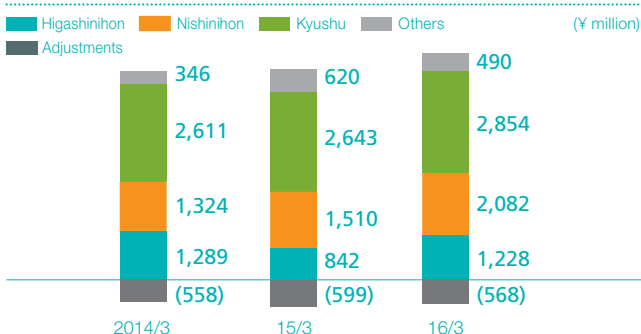
Specific initiatives include creating healthcare malls and promoting other projects, supporting medical practice succession for revitalizing and sustaining healthcare in local communities, and supporting hospital management and creating high-value pharmacies as support for building an integrated community care system. We estimate 13 openings of healthcare malls, 90 cases of medical practice succession, and 30 new pharmacy openings.

As a result of these initiatives, the company forecasts net sales of ¥126,507 million, a rise of 4.7% year on year. Sales growth in the medical practice support business is expected to offset the negative impact from a revision to dispensing fees in the pharmacy business. Meanwhile, the company estimates operating income of ¥6,005 million, a decline of 1.3% year on year, and ordinary income of ¥6,020 million, a fall of 2.8%, as it does not expect to absorb an increase in sales management costs. Note that in the year ending March 2017, the company forecasts net income attributable to owners of the parent at ¥3,730 million, an increase of 60.9%, as we do not plan on registering impairment losses as in the previous fiscal year.

Net Sales by Region



Operating Income by Region



Management's Discussion and Analysis

2. Financial Position

Assets

Total assets at the end of the year increased by ¥4,810 million over the previous year to ¥74,621 million. Current assets increased by ¥2,605 million to ¥39,189 million. The main factor underlying this was a ¥2,131 million jump in notes and accounts receivable-trade.

Noncurrent assets rose by ¥2,205 million to ¥35,431 million. This was the combination of an increase of ¥2,953 million in buildings and structures, and a fall of ¥752 million in property for lease.

Liabilities

Liabilities for the year were ¥44,975 million, a ¥1,685 million increase over the previous year. Current liabilities rose by ¥1,128 million to ¥31,237 million. This was the result of a ¥1,143 million increase in the current portion of long-term loans payable. Noncurrent liabilities rose by ¥557 million year on year to ¥13,737 million. This was mainly due to a ¥2,368 million increase in long-term loans payable, and a ¥1,117 million decrease in long-term accounts payable (installment purchase). In addition, interest-bearing debt (including lease obligations and accounts payable-installment purchases) increased by ¥1,874 million to ¥18,447 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—fell by 0.03 points, to 0.41.

Net Assets

As of March 31, 2016, net assets were ¥29,646 million, a year-on-year increase of ¥3,124 million. Declines from the purchase of treasury stock (¥708 million) and the payment of dividends (¥629 million) were offset by the disposition of treasury stock through a stock swap (¥2,262 million) and comprehensive income attributable to owners of the parent (¥2,318 million). As a result, the capital adequacy ratio was 39.5%, an increase of 1.7 percentage points compared to 37.7% on March 31, 2015.

Cash Flows

As of March 31, 2016, cash and cash equivalents totaled ¥6,356 million, a year-on-year increase of ¥1,387 million (27.9%). The primary factors are described below.

Cash Flows from Operating Activities

Cash provided by operating activities increased by ¥7,004 million. The major cash increases were ¥4,824 million from income before income taxes, ¥3,836 million from adjustment for depreciation and amortization, and ¥1,253 million from a decrease in inventories. The major cash decreases were ¥2,559 million from income taxes paid and ¥1,436 million from an increase in notes and accounts payable-trade.

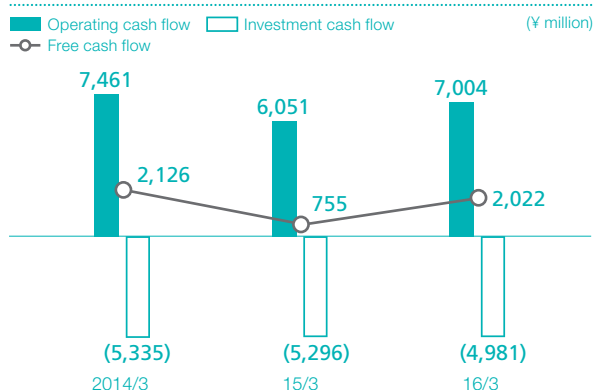
Cash Flows from Investing Activities

Cash decreased by ¥4,981 million as a result of investing activities. This was mainly due to acquisition of own-used assets (¥4,233 million) and purchase of property for lease (¥876 million).

Cash Flows from Financing Activities

Cash decreased by ¥635 million as a result of financing activities. This was due to the fact that, despite an increase in cash due to long-term loans payable (¥6,485 million), there was a decrease in cash from repayment of long-term loans payable (¥3,001 million), repayment of installment payables (¥2,092 million), repayment of lease obligations (¥751 million), purchase of treasury stock (¥708 million) and payment of dividends (¥629 million).

Trends in Cash Flows



Note: Free cash flow = cash flows from operating activities + cash flows from investing

3. Financial Strategies

Issues on the Financial Front

Under our medium-term management plan, with the DtoD system and high-value pharmacies as a starting point, we are actively striving to expand business. We are developing healthcare malls and supporting hospital management as part of efforts in new fields. 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 47 new pharmacies (including 25 pharmacies from M&A transactions) in the fiscal year ended March 2016 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.

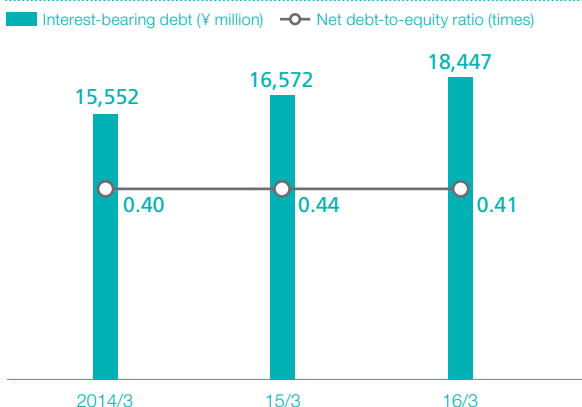
Shareholder Returns

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 aim to pay back shareholders through increases in the value of their shares.

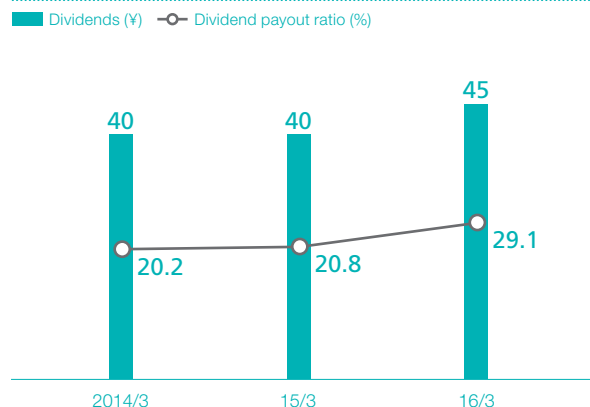
Also, on April 1, 2015, we carried out a 2-for-1 split of common stock. This was done in order to lower the price-per-unit investment in our stock. This will provide an environment in which all of our investors can make investments more easily, while also improving liquidity of our shares and expanding the pool of investors.

We expect the number of Sogo Medical shareholders to increase in the future as our trading volume grows. In order to attract the attention of numerous investors, we are hoping to expand our market capitalization to ¥100 billion in the medium to long term.

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, 2016.

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

	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)
Assets			
Current assets			
Cash and deposits	5,873	4,988	6,376
Notes and accounts receivable-trade	18,326	17,485	19,617
Accounts receivable-installment sales	1,687	1,806	1,874
Lease receivables and investment assets	2,014	1,701	1,403
Inventories	6,475	7,543	6,583
Deferred tax assets	762	628	789
Other	1,933	2,450	2,566
Allowance for doubtful accounts	(26)	(19)	(20)
Total current assets	37,047	36,584	39,189
Noncurrent assets			
Property, plant and equipment			
Property for lease	6,871	5,929	5,177
Buildings and structures, net	7,418	8,763	11,716
Land	3,078	3,992	4,109
Other, net	2,065	3,116	2,539
Total property, plant and equipment	19,433	21,801	23,542
Intangible assets			
Goodwill	5,294	5,252	5,833
Other	953	1,031	1,201
Total intangible assets	6,248	6,283	7,034
Investments and other assets			
Investment securities	1,008	1,566	1,134
Deferred tax assets	568	468	507
Other	2,681	3,107	3,231
Allowance for doubtful accounts	(5)	(0)	(19)
Total investments and other assets	4,252	5,141	4,853
Total noncurrent assets	29,934	33,226	35,431
Total assets	66,982	69,811	74,621

(¥ million)

	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)
Liabilities			
Current liabilities			
Notes and accounts payable-trade	20,372	18,841	18,590
Short-term loans payable	350	360	610
Current portion of long-term loans payable	2,155	2,903	4,046
Lease obligations	503	363	267
Accrued expenses	1,725	2,072	2,972
Income taxes payable	1,333	1,452	1,572
Deferred profit on installment sales	175	190	182
Other	3,743	3,925	2,994
Total current liabilities	30,358	30,109	31,237
Noncurrent liabilities			
Long-term loans payable	5,191	6,835	9,204
Lease obligations	944	1,028	714
Long-term accounts payable-installment purchase	4,450	3,055	1,938
Other	2,103	2,260	1,880
Total noncurrent liabilities	12,689	13,180	13,737
Total liabilities	43,048	43,290	44,975
Net assets			
Shareholders' equity			
Capital stock	3,513	3,513	3,513
Capital surplus	4,136	4,136	5,566
Retained earnings	17,058	19,255	20,944
Treasury stock	(1,043)	(1,044)	(920)
Total shareholders' equity	23,665	25,861	29,104
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	240	475	338
Total accumulated other comprehensive income	240	475	338
Non-controlling shareholders	28	184	203
Total net assets	23,934	26,521	29,646
Total liabilities and net assets	66,982	69,811	74,621

Consolidated Financial Statements

Consolidated Statements of Income

(¥ million)

	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)
Net sales	103,318	107,945	120,776
Cost of sales	88,889	93,139	103,178
Gross profit	14,428	14,805	17,598
Selling, general and administrative expenses	9,414	9,787	11,511
Operating income	5,014	5,017	6,087
Non-operating income	183	368	287
Dividends income	16	20	22
Rent income	35	38	31
Insurance cancellation refunds	—	106	36
Other	130	202	196
Non-operating expenses	128	159	178
Interest expenses	57	75	75
Loss on valuation of investments securities	—	17	—
Other	71	65	103
Ordinary income	5,068	5,227	6,196
Extraordinary income	48	—	—
Gain on sales of investment securities	41	—	—
Contributed income	7	—	—
Extraordinary loss	70	51	1,371
Impairment loss	34	51	1,014
Loss on sales of stocks of subsidiaries and affiliates	—	—	87
Loss on sales of investment securities	26	—	—
Loss on valuation of investment securities	—	—	270
Office transfer expenses	9	—	—
Income before income taxes	5,046	5,175	4,824
Income taxes-current	2,082	2,236	2,569
Income taxes-deferred	105	163	(68)
Total income taxes	2,187	2,400	2,501
Net income	2,858	2,774	2,323
Net income attributable to non-controlling shareholders	2	0	4
Net income attributable to owners of the parent	2,856	2,774	2,318

Consolidated Statements of Comprehensive Income

(¥ million)

	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)
Net income	2,858	2,774	2,323
Other comprehensive income			
Valuation difference on available-for-sale securities	18	234	(136)
Total other comprehensive income	18	234	(136)
Comprehensive income	2,876	3,009	2,186
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	2,874	3,009	2,181
Comprehensive income attributable to non-controlling shareholders	2	0	4

Consolidated Statements of Change in Net Assets

(¥ million)

	Shareholders' equity					Accumulated other comprehensive income		Net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Non-controlling shareholders	
Balance at the end of FY2013	3,513	4,136	14,779	(1,043)	21,386	222	26	21,636
Dividends from surplus	—	—	(577)	—	(577)	—	—	(577)
Net income attributable to owners of the parent	—	—	2,856	—	2,856	—	—	2,856
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	(0)
Disposition of treasury stock	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	18	2	18
Balance at the end of FY2014	3,513	4,136	17,058	(1,043)	23,665	240	28	23,934
Dividends from surplus	—	—	(577)	—	(577)	—	—	(577)
Net income attributable to owners of the parent	—	—	2,774	—	2,774	—	—	2,774
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	(1)
Disposition of treasury stock	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	234	156	390
Balance at the end of FY2015	3,513	4,136	19,255	(1,044)	25,861	475	184	26,521
Dividends from surplus	—	—	(629)	—	(629)	—	—	(629)
Net income attributable to owners of the parent	—	—	2,318	—	2,318	—	—	2,318
Purchase of treasury stock	—	—	—	(708)	(708)	—	—	(708)
Disposition of treasury stock	—	1,429	—	832	2,262	—	—	2,262
Net changes of items other than shareholders' equity	—	—	—	—	—	(136)	18	(117)
Balance at the end of FY2016	3,513	5,566	20,944	(920)	29,104	338	203	29,646

Consolidated Financial Statements

Consolidated Statements of Cash Flows

(¥ million)

	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)
Net cash provided by (used in) operating activities			
Income before income taxes	5,046	5,175	4,824
Depreciation and amortization	3,522	3,746	3,836
Goodwill amortization	587	805	1,021
Impairment loss	34	51	1,014
Loss (gain) on sales of subsidiaries and affiliated companies stocks	—	—	87
Loss (gain) on valuation of investment securities	—	—	270
Interest and dividends income	(18)	(22)	(23)
Capital cost and interest expenses	126	131	112
Decrease (increase) in notes and accounts receivable-trade	(3,468)	1,050	(993)
Decrease (increase) in accounts receivable-installment sales	(264)	(104)	(75)
Net decrease (increase) in lease receivables and investment assets	106	313	298
Decrease (increase) in inventories	(1,222)	(953)	1,253
Increase (decrease) in notes and accounts payable-trade	4,932	(1,735)	(1,436)
Increase (decrease) in other assets/liabilities	181	(223)	(798)
Other, net	(148)	33	262
Subtotal	9,416	8,269	9,652
Interest and dividends income received	18	22	23
Interest expenses paid	(130)	(131)	(111)
Income taxes paid	(1,842)	(2,108)	(2,559)
Net cash provided by (used in) operating activities	7,461	6,051	7,004
Net cash provided by (used in) investing activities			
Purchase of own-used assets	(3,308)	(3,767)	(4,233)
Proceeds from sales of own-used assets	88	—	172
Purchase of property for lease	(69)	(359)	(876)
Purchase of investment securities	(97)	(270)	(11)
Proceeds from sales of investment securities	444	—	—
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(2,277)	(579)	(147)
Other, net	(115)	(318)	115
Net cash provided by (used in) investing activities	(5,335)	(5,296)	(4,981)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	6	9	64
Proceeds from long-term loans payable	3,650	4,749	6,485
Repayment of long-term loans payable	(1,910)	(3,211)	(3,001)
Repayments of lease obligations	(573)	(512)	(751)
Repayments of installment payables	(1,963)	(2,094)	(2,092)
Cash dividends paid	(577)	(577)	(629)
Purchase of treasury stock	(0)	(1)	(708)
Other, net	(1)	—	—
Net cash provided by (used in) financing activities	(1,370)	(1,637)	(635)
Net increase (decrease) in cash and cash equivalents	755	(882)	1,387
Cash and cash equivalents at beginning of period	5,095	5,851	4,968
Cash and cash equivalents at end of period	5,851	4,968	6,356

Segment Information

(¥ million)

2014 Apr. 1, 2013–Mar. 31, 2014	Reportable Segments				Others* ¹	Total	Reconciliations* ²	Consolidated amounts* ³
	Higashinohon	Nishinohon	Kyushu	Total				
Sales								
Unaffiliated sales	36,700	27,390	37,238	101,329	1,989	103,318	—	103,318
Intersegment sales	19	346	3	369	2,457	2,826	(2,826)	—
Total	36,719	27,737	37,241	101,698	4,446	106,145	(2,826)	103,318
Segment profit	1,289	1,324	2,611	5,225	346	5,572	(558)	5,014
Segment assets	22,936	15,651	16,524	55,112	3,285	58,398	8,584	66,982

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 (–¥558 million) included elimination of intersegment sales (¥5 million) and overall corporate expense (–¥563 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 (¥8,584 million) included elimination investment against equity (–¥7,529 million) and overall corporate assets (¥17,040 million). The overall corporate assets were mainly classified as parent company deposits and were not allocated to reportable segments.

*3. Reportable segment profits were re consolidated with the operating income of the consolidated income statement.

2015 Apr. 1, 2014–Mar. 31, 2015	Reportable Segments				Others* ¹	Total	Reconciliations* ²	Consolidated amounts* ³
	Higashinohon	Nishinohon	Kyushu	Total				
Sales								
Unaffiliated sales	39,614	28,205	37,793	105,613	2,331	107,945	—	107,945
Intersegment sales	55	738	2	796	4,823	5,620	(5,620)	—
Total	39,670	28,943	37,796	106,410	7,155	113,565	(5,620)	107,945
Segment profit	842	1,510	2,643	4,996	620	5,617	(599)	5,017
Segment assets	25,029	15,854	15,272	56,156	5,698	61,855	7,955	69,811

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 (¥17,150 million). The corporate overall assets were mainly classified as parent company deposits and were not allocated to reportable segments.

*3. Reportable segment profits were re consolidated with the operating income of the consolidated income statement.

2016 Apr. 1, 2015–Mar. 31, 2016	Reportable Segments				Others* ¹	Total	Reconciliations* ²	Consolidated amounts* ³
	Higashinohon	Nishinohon	Kyushu	Total				
Sales								
Unaffiliated sales	43,838	33,176	39,905	116,920	3,855	120,776	—	120,776
Intersegment sales	40	560	0	601	6,020	6,622	(6,622)	—
Total	43,879	33,737	39,906	117,522	9,875	127,398	(6,622)	120,776
Segment profit	1,228	2,082	2,854	6,165	490	6,655	(568)	6,087
Segment assets	25,823	18,720	16,635	61,180	4,745	65,926	8,695	74,621

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 (–¥9,562 million) and overall corporate assets (¥18,902 million). The corporate overall assets were mainly classified as parent company deposits and were not allocated to reportable segments.

*3. Reportable segment profits were re consolidated with the operating income of the consolidated income statement.

Corporate Information (As of June 1, 2016)

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	The Bank of Fukuoka, Ltd., Mizuho Bank, Ltd., The 77 Bank, Ltd., The Kita-Nippon Bank, Ltd., The Bank of Yokohama, Ltd., The Gunma Bank, Ltd., The Joyo Bank, Ltd., The Chiba Bank, Ltd., The Musashino Bank, Ltd., The Shizuoka Bank, Ltd., The Hachijuni Bank, Ltd., The Bank of Kyoto, Ltd., The Senshu Ikeda Bank, Ltd., The Kyo Bank, Ltd., The Chugoku Bank, Ltd., The Hiroshima Bank, Ltd., The San-in Godo Bank, Ltd., The Shikoku Bank, Ltd., The Kitakyushu Bank, Ltd., The Miyazaki Bank, Ltd., The Oita Bank, Ltd., The Bank of Saga, Ltd., The Eighteenth Bank, Ltd., The Higo Bank, Ltd., The Kagoshima Bank, Ltd., The Nishi-Nippon City Bank, Ltd., The Chikuhō Bank, Ltd., The Miyazaki Taiyo Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corporation, Sumitomo Mitsui Banking Corp., Sumitomo Mitsui Trust Bank, Development Bank of Japan Inc., The Norinchukin Bank, etc.
Group Companies	Somtech Co., Ltd. (planning, design and construction of hospitals, clinics and assisted living facilities) Sogo Medical Pharmacy Chubu Co., Ltd. (pharmacies) Aoba Pharmacy Co., Ltd. (pharmacies) Maeda & Co., Ltd. (pharmacies) Yataya Pharmacy Co., Ltd. (pharmacies) Taikodo Yakkyoku Honten Co., Ltd. (pharmacies) Beauty Drug Saito Co., Ltd. (pharmacies) Nakano Pharmacy Co., Ltd. (pharmacies) Pharma Systems Co., Ltd. (pharmacies) Shokando Co., Ltd. (pharmacies) Dradok Co., Ltd. (pharmacies) Sogo Medipro Co., Ltd. (paramedical staff introduction and dispatch) Sogo Real Estate Co., Ltd. (lease and management business for medical facilities) SME Co., Ltd. (wholesale of pharmaceuticals, etc.) Sogo Care Network Co., Ltd. (fee-based residential homes for the elderly) Sun Villa Co., Ltd. (fee-based assisted living facilities for the elderly) Hokendohjinsha Inc. (healthcare information service) GM Co., Ltd. (interior finishing of hospital and clinics)
Bases	611 (3 offices, 23 branches, 4 sales offices, 1 satellite office, 578 pharmacies, 2 in-hospital stores)
Employees	3,669 full-time workers, 1,135 part-time workers

Licensed personnel (including part-timers)

Pharmacists	1,913
Registered nurses	62
Public health nurses	16
Midwives	7
Registered dietitians	10
Social workers	3
Psychiatric social workers	15
Care workers	62
Care managers	14
Attorneys	1
CPAs	1
Tax accountants	1
Clinical psychologists	24
First-class architects	17
Interior coordinators	3
Real estate transaction specialists	58
Healthcare management consultants registered with the JAHMC	34
Personnel certified for start-up support; PPI Level III or above	93
Personnel certified for recruitment; PPI Level III or above	110
Personnel certified for pharmacy management; PPI Level III or above	89

Note: PPI is our internal certification with Level V as the highest. Figures are valid as of March 1, 2016.

Corporate Timeline

Jun. 1978	Established Sogo Medical Leasing Co., Ltd. with a capitalization of ¥20 million, for business purposes of leasing medical equipment and consulting for medical institutions.	Jun. 2010	Acquired all outstanding shares of Aoba Pharmacy Co., Ltd., a pharmacy.
Oct. 1987	Started real estate agency and practice inheritance businesses.	Jan. 2011	Started wholesale marketing of medical and pharmaceutical products.
Nov. 1987	Started the TV rental business for patients.	Oct. 2011	Acquired all outstanding shares of Maeda Pharmacy Co., Ltd., a pharmacy.
Jun. 1988	Established the first Sogo Pharmacy.	Nov. 2011	Started long-term care service businesses, such as residential homes for the elderly.
Oct. 1989	Name changed to Sogo Medical Co., Ltd.	Jun. 2012	Acquired all outstanding shares of Sun Villa Co., Ltd., a fee-based residential home for the elderly.
Nov. 1989	Started the "Green Members" (now "Succeed Members") member system targeted to medical personnel.	Nov. 2012	Acquired all outstanding shares of Yataya Pharmacy Co., Ltd., a pharmacy.
Oct. 1994	Started the planning, design, and construction of medical facilities.	Aug. 2013	Acquired all outstanding shares of pharmacies Taikodo Yakkyoku Honten Co., Ltd. and TM Yakkyoku Co., Ltd.
Aug. 2000	Listed on Second Section of Tokyo Stock Exchange.	Mar. 2014	Acquired all outstanding shares of pharmacies Beauty Drug Saito Co., Ltd. and Nakano Pharmacy Co., Ltd.
Apr. 2001	Acquired all outstanding shares of Orix Media Supply Co., Ltd., a company that carried out TV rentals for hospitals, etc. Began operation of stores within hospitals.	Oct. 2014	Absorption-type merger with pharmacies Taikodo Yakkyoku Honten Co., Ltd. and TM Yakkyoku Co., Ltd.
Sep. 2001	Listed on First Section of Tokyo Stock Exchange.	Mar. 2015	Acquired 61.6% of shares of Hokendohjinsha Inc., a healthcare information service company.
Oct. 2001	Started the DtoD system.	May 2015	Acquired all outstanding shares of Pharma Systems Co., Ltd., a pharmacy.
Jan. 2002	Acquired all outstanding shares of the pharmacies Hello Medical Co., Ltd., Hello Network Co., Ltd. and Hase Dispensing Pharmacy Co., Ltd.	Jun. 2015	Acquired all outstanding shares of Shokando Co., Ltd.
Dec. 2003	Started temporary introduction and placement service of other medical staff.	Jul. 2015	Acquired all outstanding shares of Dradok Co., Ltd.
Apr. 2005	Started hospital operational management contracting.	Aug. 2015	Transferred all shares of Sogo Media Supply Co., Ltd.
Aug. 2007	Formed business alliance with Mitsui and Co., Ltd.	Feb. 2016	Acquired 75% of shares of GM Co., Ltd., a company that performs interior construction at medical facilities.
Sep. 2007	Conducted allocation to third party to Mitsui & Co., Ltd.		

Stock Information (As of March 31, 2016)

Shareholder Composition

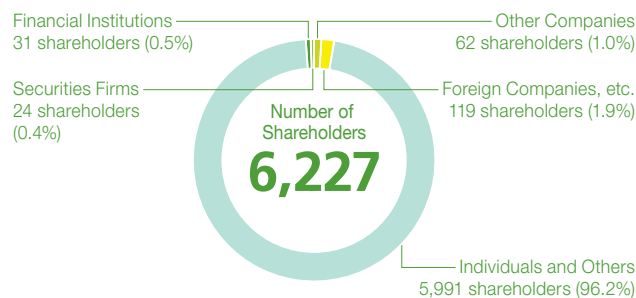
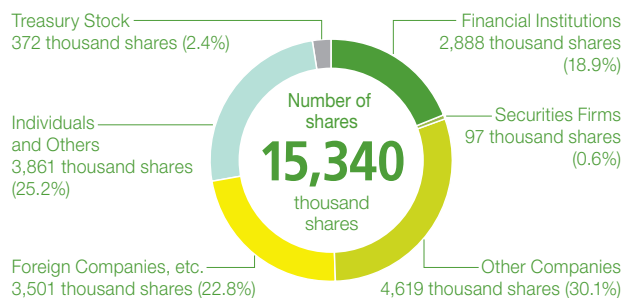
Total Number of Issued Shares	15,340,156 shares
Number of Shareholders	6,227 shareholders
Number of Unit Shareholders	5,599 shareholders

Major Shareholders (Top 10 Largest Shareholders)

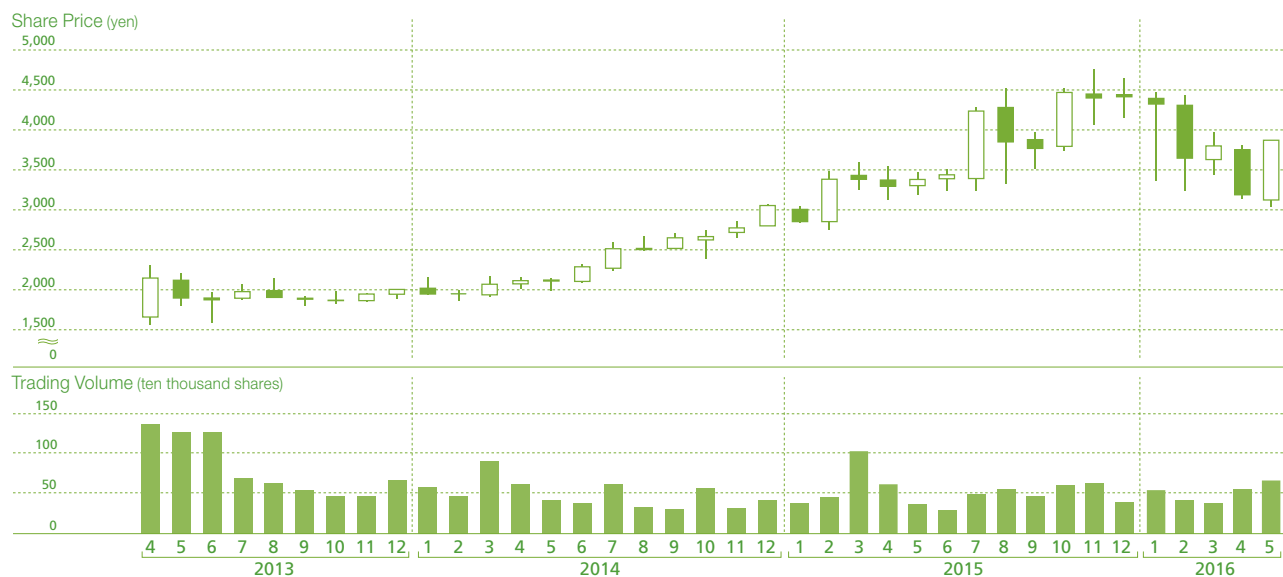
Name of Shareholder	Number of Shares Held (thousands of shares)	Shareholding Ratio
Mitsui & Co., Ltd.	3,819	25.5%
The SFP Value Realization Master Fund Limited (Standing proxy: Citibank Japan Ltd.)	938	6.3%
Century Tokyo Leasing Corporation	722	4.8%
The Bank of Fukuoka, Ltd.	615	4.1%
Hirosada Oyamada	453	3.0%
The Kitakyushu Bank, Ltd.	404	2.7%
State Street Bank and Trust Company 505001 (Standing proxy: Settlement Sales Department, Mizuho Bank, Ltd.)	315	2.1%
THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL OMNIBUS SECS LENDING ACCOUNT (Standing proxy: Settlement Sales Department, Mizuho Bank, Ltd.)	298	2.0%
Japan Trustee Services Bank, Ltd. (trust account)	290	1.9%
Employees Shareholders' Association of Sogo Medical	224	1.5%

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

Breakdown of Shares by Type of Shareholder



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 year ended March 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
 TEL: +81-92-713-9181 E-mail: ir@sogo-medical.co.jp <http://www.sogo-medical.co.jp/english/>

[Notes]

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Fukuoka Tenjin Center Bldg. 16F,
2-14-8 Tenjin, Chuo-ku, Fukuoka
www.sogo-medical.co.jp/english

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