

# Annual Report 2015

From April 1, 2014 to March 31, 2015

# 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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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.



# Toward a Better Society in which People can Live with a Sense of Security

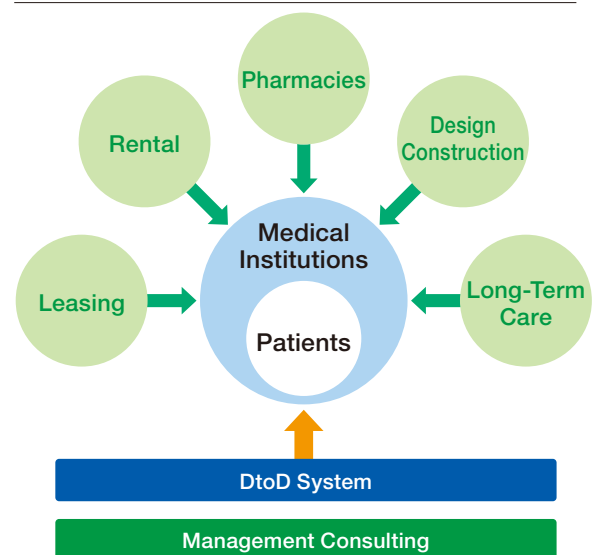
## Business Overview

### 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 538 dispensing pharmacies nationwide, and lease medical equipment and rent TVs to help improve the quality of amenities for patients.

Major Business Areas



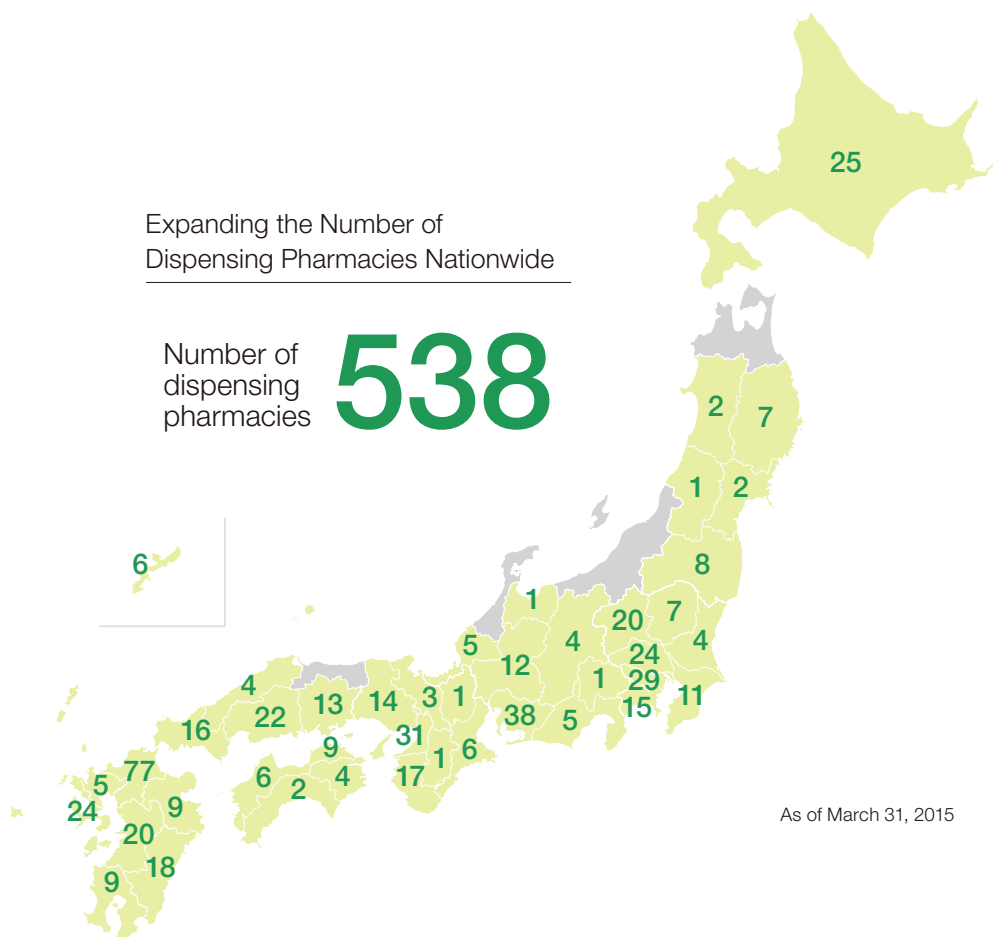
At Sogo Medical, the concept “good medical practice through good management” is the foundation for our mission to contribute to making a better society by supporting regional healthcare. With our long-term vision of realizing a unique Japanese healthcare business model, we are advancing our efforts to build a base of regional healthcare networks through our Doctor to Doctor (DtoD) system and high-value pharmacies as part of our medium-term management plan.

Through these business activities, we will contribute toward a better society in which people can live with a sense of security.



Expanding the Number of Dispensing Pharmacies Nationwide

Number of dispensing pharmacies **538**



As of March 31, 2015

## 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 health-care 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 44 for our achievements in Medical Practice Support.

### Pharmacies



We operate our patient-oriented Sogo Pharmacies, as well as dispensing pharmacies that pursue service of the highest quality. We actively open new pharmacies near clinics, hospitals, and healthcare malls for which we provide medical start-up support through our DtoD system. In addition, we provide our pharmacists with training programs to let them demonstrate their highest abilities, offer nutrition consultations with nationally certified senior nutritionists, and provide support for self-medication,\* thereby ensuring our pharmacies provide genuine added value.

Please refer to page 46 for our achievements in Pharmacies.

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

### Other Activities

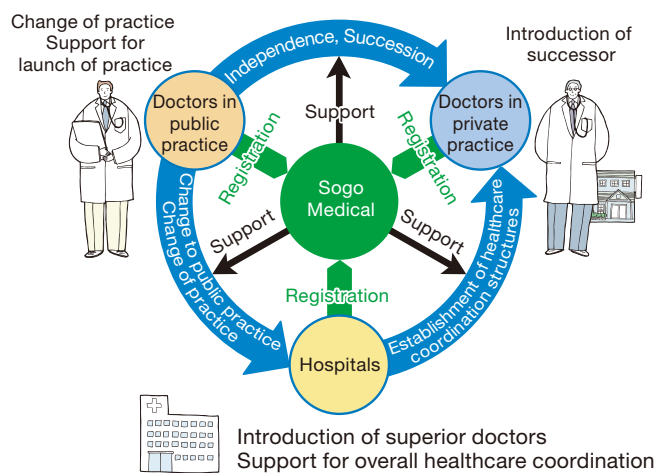


We are expanding business with Sogo Care Network Co., Ltd., which manages fee-based residential homes for the elderly, and with Sun Villa Co., Ltd., which manages fee-based homes with long-term care for the elderly.

## 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 to meet their needs and support overall healthcare coordination.

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

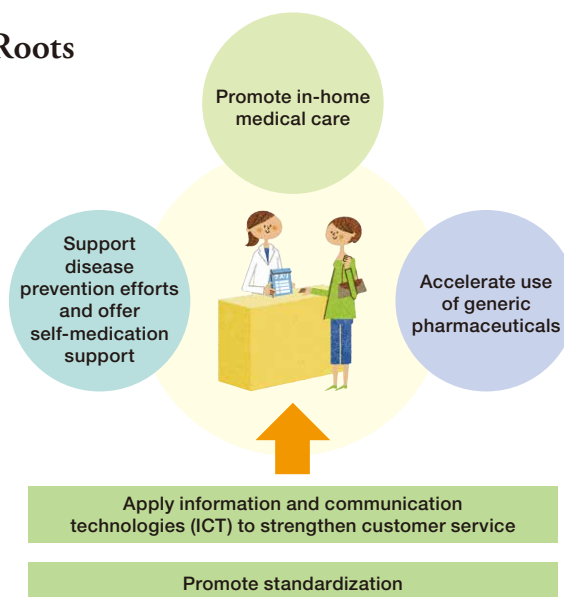


## High-Value Pharmacies with Local Roots

Focusing on our Sogo Pharmacies, we have expanded to 538 dispensary pharmacies nationwide to serve as “general healthcare stations.”

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

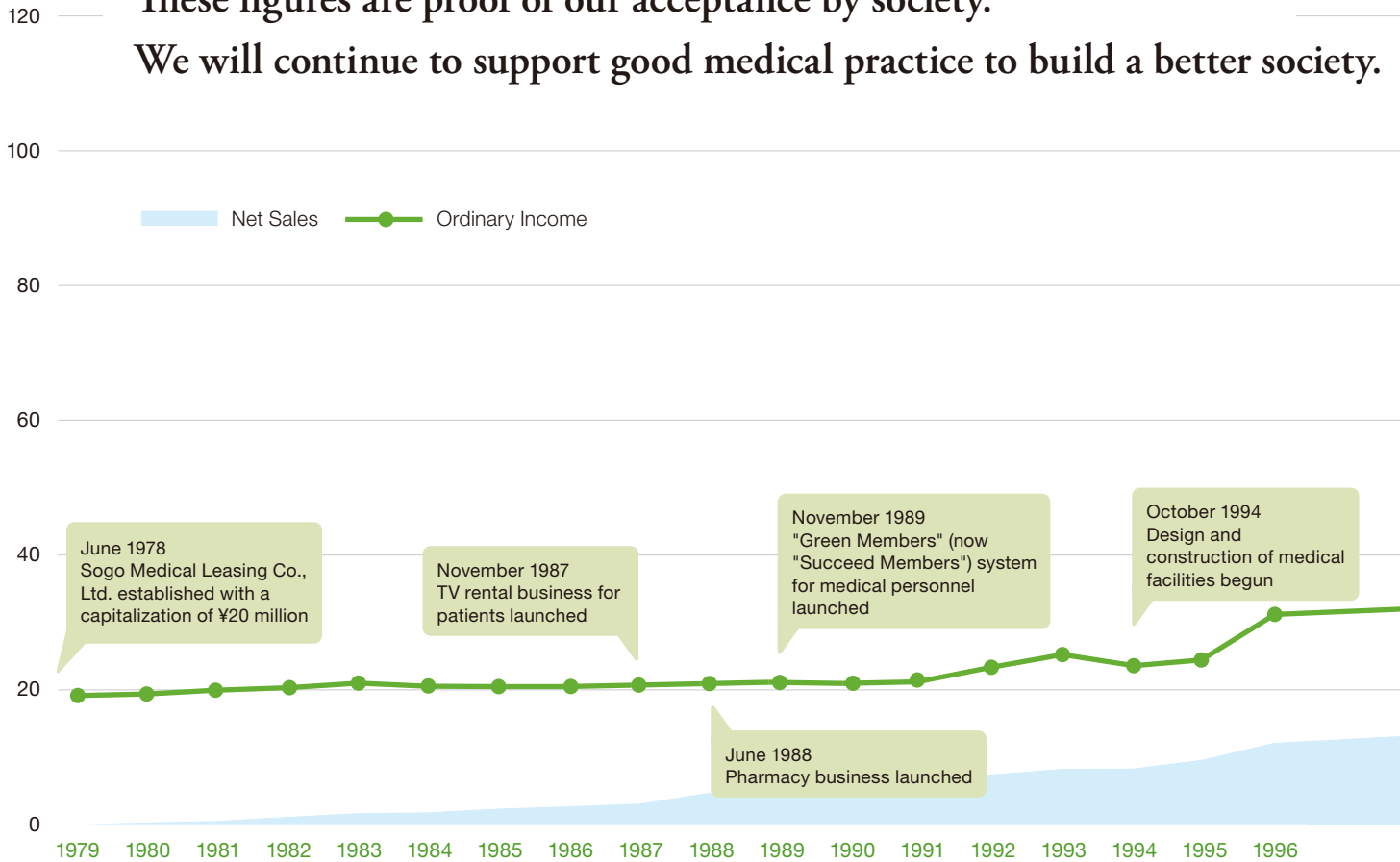
Also, through our independent training system, we are furthering efforts to improve the quality of medical service by providing our pharmacists with the necessary medical and pharmaceutical knowledge, communication ability, technical skills, and proper attitude.



## Sogo Medical's Development

Net Sales  
(¥ billion)

These figures are proof of our acceptance by society.  
We will continue to support good medical practice to build a better society.



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

November 1987  
TV rental business for  
patients launched

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

October 1994  
Design and  
construction of medical  
facilities begun

June 1988  
Pharmacy business launched

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

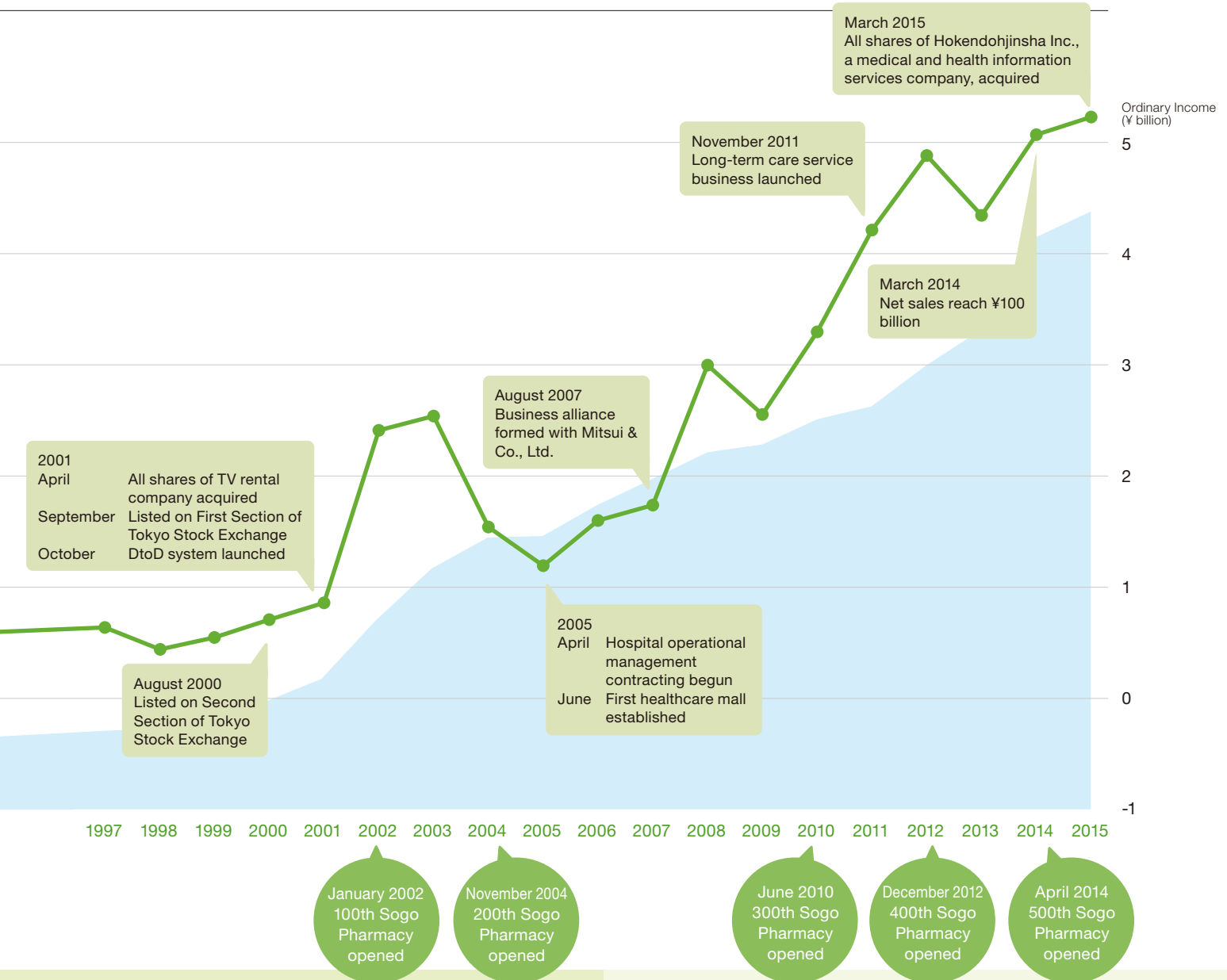
### 1988-1996

- 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





## 1997-2005

- 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
- 2005 June: First healthcare mall established



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

## 2006-2015

- 2007 August: Business alliance formed with Mitsui & Co., Ltd.
- 2011 November: Long-term care service business launched
- 2014 March: Net sales reach ¥100 billion
- 2014 April: 500th Sogo Pharmacy opened
- 2015 March: All shares of Hokendohjinsha Inc., a medical and health information services company, acquired



Fee-Based Residential Home for Elderly "Midori-no-Kaze: Shimoori"

## Financial and Non-Financial Highlights

Each humble activity adds up and leads to steady growth.

514 new practice questionnaires collected.



**New Practice Questionnaires**

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

(As of March 31, 2015)

94 individuals achieved Start-Up Support PPI Level III or above.

**Practice Process Innovation (PPI) Internal Certification**

This certification system promotes human resource development in the areas of start-up support, personnel placement, and pharmacy management, and improves the quality of support for medical practices.

Start-Up Support PPI	Level III or above: 94 persons
Personnel Placement PPI	Level III or above: 111 persons
Pharmacy Management PPI	Level III or above: 89 persons



A total of 434 doctors attended our seminars.

**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.

(As of March 31, 2015)

56,505 doctors are registered with our DtoD system.

**Support for Doctors Who Wish to Change Jobs or Open a Practice Now or in the Future**

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

1,567 hospitals, clinics, and other institutions are members.



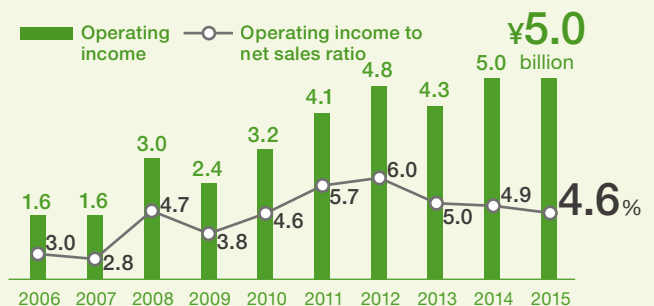
**Succeed Members**

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**



As of March 31, 2015

### We ran economic comparison simulations for 115 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.

(As of March 31, 2015)

## 1,768 Pharmacists

#### Pharmacists

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



(As of March 1, 2015)

### We provided feedback to doctors from 51,969 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.



(As of March 31, 2015)

### About 9 in 10 pharmacy staff members are trained in giving support to people with dementia.



#### Supporters of Dementia Patients



Aiming to improve the quality of care given to patients with dementia and reinforcing collaboration with other occupations.

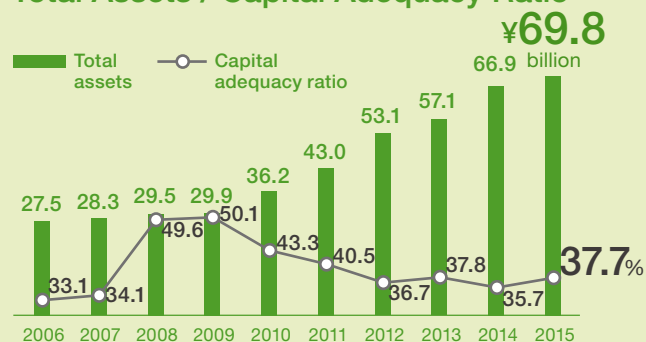
### There are now 538 Sogo Pharmacies.



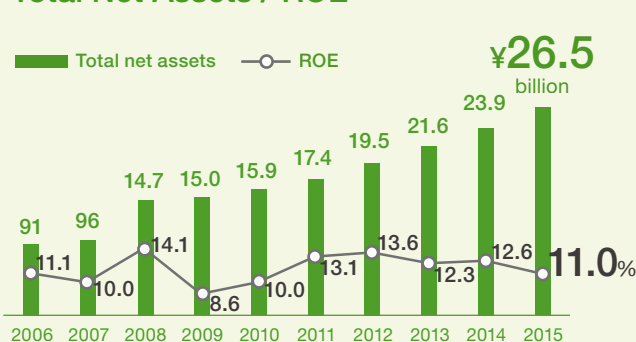
#### Sogo Pharmacies

We have expanded to 538 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

## President's Message

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**SOGO MEDICAL**



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## Contributing to Society through Valuable Service



**Itsuo Tashiro**  
Representative Director, President and Chief Executive Officer

## General Outline

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- **What kind of efforts has Sogo Medical made in its various businesses this fiscal year to realize the long-term vision of establishing a unique Japanese healthcare business model?**

**"We have experienced steady growth by actively pursuing the two pillars of our business—support for medical practices and pharmacy management."**

Sogo Medical has worked to establish a unique Japanese healthcare business model since its very first day. Working toward this goal, in the previous fiscal year we exceeded our performance target of ¥100 billion in net sales and reached ¥103.3 billion, growing at a steady pace. This growth shows that our business model is being accepted by society and meeting the demand that exists.

This fiscal year we continued to pursue the two pillars of our business—support for medical practices and pharmacy management. In the medical practice support business, we developed healthcare malls to meet the demands of regional communities, lent support to doctors seeking to start their own practices, and provided management consulting for medical institutions. Our prime motivation for putting energy into supporting private practices is to ensure the continuation of regional healthcare. Doctors in private practice are advancing in age and there is a dearth of successors to carry on their practices. At the same time, greater competition in recent years means that there is not enough land where practices can be set up, making it difficult to open new clinics. To solve these problems on both sides, we introduce doctors who are seeking to start a private practice to practices/clinics that have no successor, and are promoting "third-party succession" to ensure that clinics carry on and regional healthcare becomes revitalized.

In the pharmacy business we have been opening up new pharmacies and have had a large number of new pharmacies join the Sogo Medical Group as we work to transform these pharmacies into "general healthcare stations" with roots in their local communities. We now operate a total of 538 pharmacies as of the end of the last fiscal year, most of which work side-by-side with a medical institution. Our intention is not to merely keep opening more pharmacies, but to position pharmacies as partners to doctors with private practices with deep connections to local healthcare.

- **What kind of results have emerged from assets that do not appear on the balance sheet\*?**

**"We continue to register physicians in our DtoD system and collect responses from new practice questionnaires, putting emphasis on the process."**

We have expanded the number of doctors registered in our DtoD system who wish to change jobs or open a private practice. We have also collected results from our new practice questionnaire conducted to provide more support for opening medical practices. At present we have 56,505 working doctors registered in the system and have collected 514 questionnaires, numbers that indicate the great trust invested in Sogo Medical.

Efforts to accumulate assets that do not appear on the balance sheet, which represent a focus on the process over particular results, permeate the workplace.

\* Assets that do not appear on the balance sheet: Defined as personnel, corporate culture, brand strength, unique arrangements, or other assets that do not show up as accounting assets on the balance sheet such as cash equivalents or real estate.

— **The company is very active in human resource development. What kind of systems are you employing?**

**"We have a human resource development system to support the growth of each employee that is based on our belief that a company is its people."**

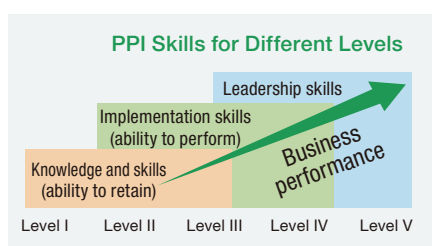
At Sogo Medical we believe that a company is its people. To enable every employee to set meaningful goals and targets, and to continue growing as individuals, in the fiscal year ended March 31, 2011 we began rebuilding our personnel system. New company-wide systems were put in place starting in April 2014 that include rankings, evaluations, remuneration, and talent development.

In our business to support medical practices, we have established an internal quality system in the area of Practice Process Innovation (PPI), and today 94 employees are certified at Level III or above in start-up support, 111 in personnel placement, and 89 in pharmacy management. To train pharmacists with the skills to be the best in their profession, we have developed a unique on-the-job program known as "GOES"—the Gradable OJT Educational System for Pharmacists—which has produced a large number of pharmacists trusted by patients and doctors alike.

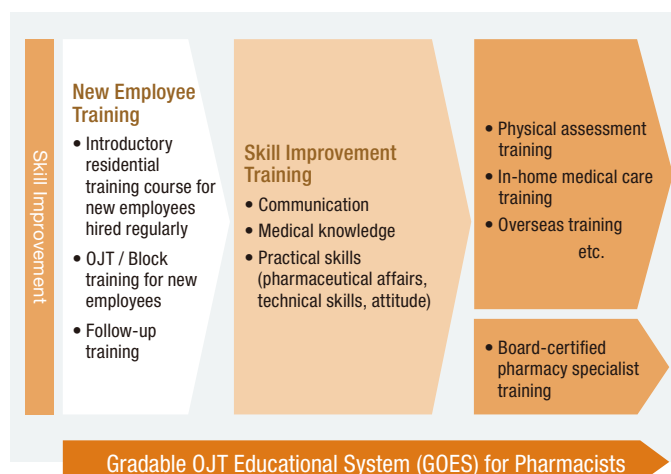
In the next fiscal year we will expand our current training systems, and create new offerings, including level-specific training to improve individual abilities. These training programs are also assets that do not appear on the balance sheet.



Practice Process Innovation (PPI) Internal Certification



Gradable OJT Educational System (GOES) for Pharmacists



## General Outline

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- Please tell us what kind of business performance was achieved this fiscal year from implementing the measures outlined above in relation to targets set. Also please talk about next year's goals based on that performance level and degree of achievement.

**"We have embarked upon the new medium-term management plan and are expanding our efforts. We have provided much start-up support and have been opening new pharmacies."**

Our new three-year medium-term management plan got underway in April 2014: "Further Challenge —Toward a better society in which people can live with a sense of security." The plan sets forth medium-term goals and specific priority measures. Following this plan, we expanded our undertakings beyond those pursued to date. We developed new services for evident societal needs, and have also been working to solve problems being faced by society. As a result of new pharmacy openings, net sales rose this fiscal year by 4.5% over the previous year to ¥107,945 million. Operating income rose 0.1% to ¥5,017 million, and ordinary income rose 3.1% to ¥5,227 million, but due to changes in the corporate tax rate and other tax rates, plus the effects of revisions to the amount of deferred tax assets, our net income for the year decreased 2.8% to ¥2,774 million.

We engaged in 308 projects involving support for medical practice start-ups (including clinic successions and healthcare malls), leading to new lease contracts and new pharmacy openings.

We opened 48 new pharmacies (including 9 opened through M&A activities). As a result, the total number of pharmacies reached 538 as of March 31, 2015, 45 more than the previous year.

With a further expansion of our DtoD system and our high-value pharmacy business, we will aim for net sales of ¥120,000 million and ordinary income of ¥5,500 million in the next fiscal year, and net income of ¥3,252 million in the current fiscal year.





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

- Please talk about the efforts that were made and results achieved during the year to develop new businesses that contributed to building a platform for regional healthcare networks.

**"Hokendohjinsha Inc. became a Group company and we began to offer health services to companies and insured individuals."**

We offer comprehensive support for medical management from multiple perspectives, based on the consulting services we provide to a large number of medical institutions. Currently we offer support for brand creation, which is a vital factor for major hospitals to become indispensable to their regions. We are also looking into new business areas such as medical standardization and the sharing of medical information to improve the efficiency of medical care.

As such developments were taking place, in March 2015 we brought Hokendohjinsha Inc. under the umbrella of the Sogo Medical Group. The purpose of the acquisition was to begin offering health services to different segments—insured individuals (insured by health insurance associations, the national health insurance system, mutual aid associations, etc.), corporate personnel divisions, and organizations of other types. We have always worked to support good medical practice for medical institutions and patients. With this new company under our umbrella, Sogo Medical can now provide comprehensive support that includes insured individuals. This will help us to build a platform for regional healthcare networks and go a long way toward establishing a unique Japanese healthcare business model by making medical costs more reasonable.

### Medical and Health Information Services through Hokendohjinsha

#### Consulting and counseling services



#### Publishing service



Katei no Igaku ("Household Medicine") published by Hokendohjinsha Inc.

## 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.

**"Both the number of practice start-up support projects and the number of doctors registered with the system have been on the rise. The broad trust in Sogo Medical is demonstrated by these figures."**

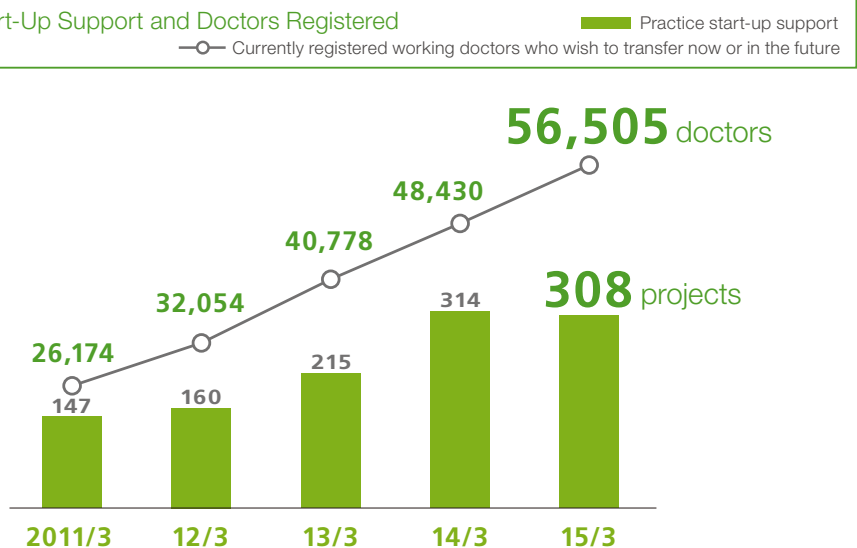
This fiscal year, our support allowed 308 doctors to open medical practices. Also, the number of working doctors wishing to transfer or start up a practice reached 56,505.

We also held 24 seminars nationwide, attended by 434 doctors seeking to start up a practice. Of these, about 40% brought their families along. Opening a practice is a big dream in life for a doctor, a dream that requires a lot of passion and effort to realize. The cooperation of one's family naturally plays an important part. For that reason we encourage the doctors to participate together with their spouses or family members to allow everyone to understand the circumstances involved.

While strengthening our collaboration with doctors in this way, we also focus on projects to build large-scale facilities, and have opened healthcare malls across the country. For example, the LaLaport Tokyo-Bay Clinic Mall (Funabashi, Chiba) houses 4 clinics—internal medicine, pediatrics, dermatology, and ophthalmology—plus a Sogo Pharmacy, offering great convenience as a healthcare mall. Medical Hills Korigaoka is a residential home for the elderly with services that cover internal medicine, ophthalmology, and orthopedic surgery, plus a Sogo Pharmacy. The facility brings convenience to area residents and links medical care to a facility for senior citizens. (For more details, see pp. 22–23.)

It is not easy to venture outside of conventional wisdom and create a healthcare mall always attuned to the medical care that people need in a particular local area. But we believe such efforts will hold great significance for society in the times to come. For medical care to be made available where it is needed and desired is not simply an ideal but something that should be possible to provide by working flexibly with people and locations.

Practice Start-Up Support and Doctors Registered



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

**"We have worked actively to alleviate patients' anxieties and dissatisfactions."**

Sogo Medical has established a total of 538 pharmacies nationwide. Of the 48 new pharmacies opened this fiscal year, 22 were in Higashinihon, 16 in Nishinihon, and 10 in Kyushu.

In October 2014 at Sogo Pharmacies in Tsushima, Nagasaki Prefecture, pharmacists began offering lifestyle advice to prevent the worsening of diabetes, covering such topics as diet, exercise, and taking medicine. This business of providing support at pharmacies for the self-management of diabetes was commissioned by the local government and is the first initiative of its kind in Japan. (For more details, see pp. 26–27.)

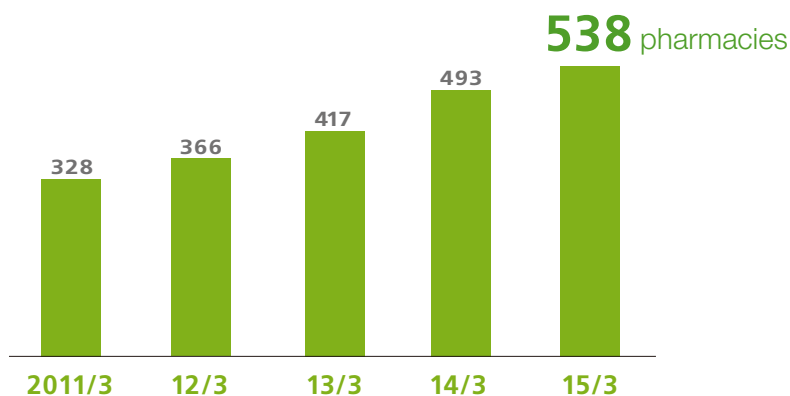
Sogo Medical is promoting qualification as Supporters of Dementia Patients—people trained to have good knowledge and understanding of dementia to be able to give support and warmly help to look out for people who suffer from cognitive impairment and their families. This initiative aims to improve the quality of care for people with dementia and to strengthen connections to other professions.

In addition, we have introduced an electronic medicine scheduler smartphone application, HealthCare Note, and developed and updated private brand products. (For more details, see p. 29.)

We have many other initiatives that aim to improve patients' quality of life, make medical costs more affordable, and improve in-home medical care services. For example, for patients who are frequently prescribed painkillers for headaches, with the consent of the physician, regular counseling on the use of the drugs has resulted in a reduction in both the number of medications and the frequency of headaches. Also, when dispensing medicine to residents of homes for the elderly that offer services, a pharmacist accompanies the doctor and nurse on a home visit, and information is exchanged with the facility staff, which enhances team-based medical care.

We will continue to actively take measures to alleviate patients' anxieties and dissatisfactions, and build a platform for regional healthcare networks.

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 have begun structural reforms in human resources to enable all of our employees to grow and enjoy enriched lives."**

Sogo Medical has launched a Diversity Promotion Project for carrying out structural reforms in human resources that will enable diverse personnel to take on more responsibility and that will promote the advancement of women, with the ultimate goal of enhancing corporate value and achieving sustainable growth. We have 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. One goal is to promote more women to leadership positions so that the overall percentage reaches over 30% by March 2017. We are also concentrating on creating hiring opportunities for 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 disabled athletes who compete in international sports competitions.

Based on the principle that as our company grows, our employees grow with it, we promote work-life balance among our employees so that they may enjoy enriched lives. We believe that creating a comfortable work environment in which they are motivated and can thrive shows good faith to our employees. We have adopted a number of support systems such as allowing shorter, flexible working hours and providing childcare support to help with raising children, plus a nursing care leave system and long-term income protection insurance. We are taking initiatives at our pharmacies especially, where about half of pharmacists are female, to establish internal systems that match female employees' life plans and create a work environment in which they can feel comfortable and have the opportunity to grow.

### Percentage of Female Employees in Leadership Positions

Goal: Over 30% by March 2017



### 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)



Takashi Hori  
Wheelchair rugby



Yuki Yoshida  
Swimming

## Long-Term Care Business Initiatives

— Please talk about the company's efforts in the long-term care business.

**"We are concentrating on long-term care in pursuit of the company's vision."**

It is impossible to fulfill our vision without working in the field of long-term care. Sogo Medical manages 4 facilities—a fee-based home with long-term care for the elderly run by Sun Villa Co., Ltd. (a Group company) and 3 fee-based residential homes for the elderly run by Sogo Care Network Co., Ltd. (also a Group company). We are additionally looking into how we can contribute to local communities through long-term care and are studying possibilities for expanding into other areas.

In providing long-term care, beyond creating the facilities themselves, offering the necessary services is the biggest challenge. We are putting great effort into hiring the personnel needed and are offering many kinds of training to raise employee skill levels.

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

At Villanova Otani, we carry out daily health management and provide optimum services around the clock, from meals to housekeeping and nursing care, in order to help residents lead healthy lives. Our daily health management and emergency response systems are sound, and if nursing care becomes necessary such services are provided in line with the physical condition of each resident to maintain their mental and physical health and enable robust living.



Villanova Otani (Kitakyushu, Fukuoka)

### Midori-no-Kaze, fee-based residential homes for the elderly

Various systems are in place at these fee-based housing facilities for emergency medical treatment, general medical services, living assistance services, and long-term care insurance services, providing urgent help rapidly when needed, thus ensuring residents' peace of mind 24 hours a day, 365 days a year. We provide sincere services that allow residents to live comfortably and peacefully.



Midori-no-Kaze, Shimoori  
(Onojo, Fukuoka Prefecture)



Midori-no-Kaze, Futsukaichi  
(Chikushino, Fukuoka Prefecture)



Midori-no-Kaze, Nagao  
(Fukuoka, Fukuoka Prefecture)

## Achieving Our Long-Term Vision

- **How close has Sogo Medical come to achieving its target balance of total sales—60% in Higashinohon, 30% in Nishinohon, and 10% in Kyushu? Please talk particularly about what measures have been taken to boost the proportion of sales in Higashinohon.**

**"We are emphasizing the hiring of able personnel in Higashinohon to reinforce sales in that part of the country."**

This year our total sales breaks down to: 37.5% in Higashinohon (eastern Japan), 26.7% in Nishinohon (western Japan), and 35.8% in Kyushu. Sogo Medical was established in Kyushu, so shoring up our foundation in this region plays a part in these figures, but now the ratio of sales between Kyushu and Higashinohon is about 1:1. To boost the ratio for Higashinohon, where the market scale is much larger, we need to carry out training of different kinds to raise the skill levels of our employees and also assign more personnel to Higashinohon. However, to relocate personnel hired in Nishinohon or Kyushu to the distant Higashinohon area may run up against household-related issues and other types of resistance. Local hiring to secure the proper personnel is one way to ensure a workplace in which every person is comfortable and motivated to work, and lead the way to expanding our activities in Higashinohon.

- **What has the company done to achieve the target ratio of 50:50 in sales between medical practice support and pharmacies?**

**"We are staying focused on achieving our long-term vision and will continue meeting the challenges we face."**

We continue to maintain the goal of a 50:50 split in sales between medical practice support and pharmacies. The medical profession is today facing a major turning point, particularly in pharmacies, with revisions to dispensing fees and medicine price standards taking place once every two years, not to mention an anticipated further rise in consumption tax and other difficult conditions. In the pharmacy business, there is a limit to what we can control in the external environment. For this reason, if we are going to achieve a 50:50 sales ratio split, we must focus on expanding our medical practice support business, which currently stands at about 24% of total sales. Specifically, we will be supporting the management of medical institutions and developing healthcare malls, centered around our DtoD system.

Our business strength comes from the relationships of trust we have built over the years—trust with doctors, with our business associates, with people in local communities, and mutually among our employees. The stronger we can make these ties, the more power we have to grow. I look forward to everyone's continued support in these endeavors.

Long-Term Vision and Medium-Term Management Plan

Long-Term Vision “Establish a unique Japanese healthcare business model”

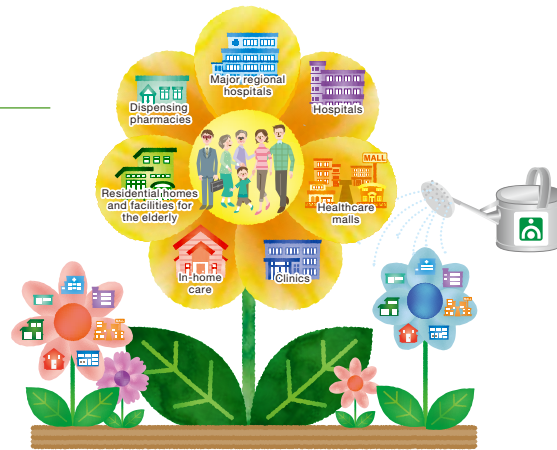
Our main objective is to create a unique Japanese-style healthcare business that helps create medical systems through which patients can receive efficient and high-quality medical treatment.

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—

We are striving to build a platform for regional healthcare networks by leading the industry with our DtoD system and high-value pharmacies.



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

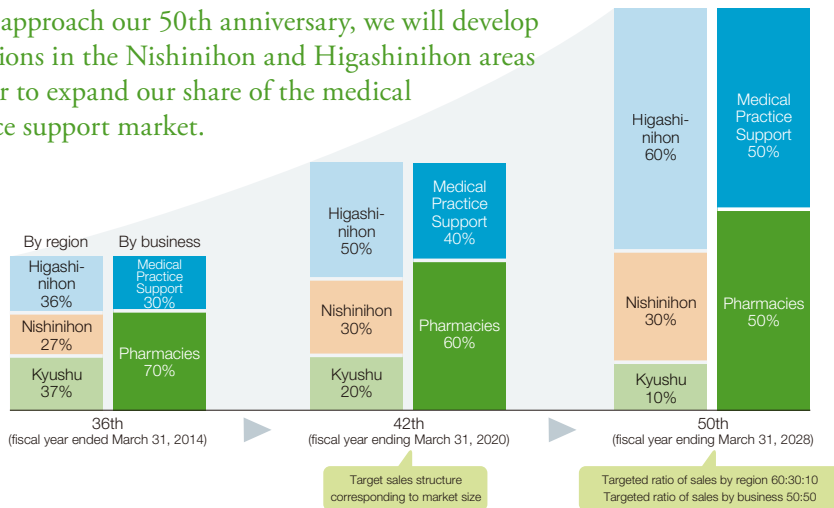
- We will provide medical support based around the DtoD system by constructing exemplary healthcare malls, enhancing support for starting up practices, improving user services, and expanding recurring businesses.
- We will create high-value pharmacies by helping pharmacists fully utilize their skills 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.

Toward Achieving Our Long-Term Vision for Our 50th Term (fiscal year ending March 31, 2028)

As we approach our 50th anniversary, we will develop operations in the Nishinihon and Higashinihon areas in order to expand our share of the medical practice support market.





# Enacting Change with a Strong Sense of Purpose

Sogo Medical offers various forms of support to provide higher quality medical services and medical care more closely tied to local communities around Japan. In this section we introduce six leading examples from our medical practice support and pharmacy businesses.

Dr. Hajime Otani  
Head Physician  
Korigaoka Otani Heart Clinic



## Medical Practice Support Business

### Case 1

A Healthcare Mall Attached to a Residential Home for the Elderly to Revitalize the Community

### Support for the Opening and Operation of Medical Hills Korigaoka

Medical Hills Korigaoka is a healthcare mall that opened in September 2014 in the Korigaoka neighborhood of Hirakata, Osaka Prefecture. The mall brings together a medical institution with supportive senior housing, offering internal medicine, ophthalmology, and a pharmacy all in one location for better community healthcare. An orthopedic surgery department was added in April 2015. We talked with the two doctors who made this healthcare mall into a reality and got their impressions of how business is running.

The concept behind the healthcare mall was to focus on chronic diseases.



Dr. Kohyama first met with Mr. Kawae for a consultation in 2012 in which the doctor said he felt ready to set up a branch hospital. Considering that patients would have to travel some distance for treatment, the first step was to find an appropriate location.

After some searching, Mr. Kawae found Korigaoka, a quiet residential neighborhood. Since a large number of senior citizens lived in the area, Mr. Kawae was excited that the location would make it possible to set up a

healthcare mall that focused on chronic diseases. Complications often accompany chronic illnesses such as diabetes, so he felt that the mall would need to provide medical care in the areas of internal medicine, ophthalmology, and orthopedics—the latter to cover rheumatism. Behind the site was an elementary school from which children's voices could be heard in the schoolyard, making it ideal for a housing facility for the elderly. With these ideas in mind, Mr. Kawae immediately met with Dr. Kohyama to set up a plan.



With Dr. Otani—who wanted to open his own clinic—on board, the healthcare mall plan began to pick





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

Dr. Masaki Kohyama  
Jimeikai Kohyama Ganka, Korigaoka  
(ophthalmology clinic)

up steam. Working with Dr. Kohyama in ophthalmology and Dr. Otani in internal medicine, the three formed a solid team to bring high-quality medical care to a local community.

**Doctors working together and within the community offer many chances to connect, bringing benefits down the line.**

"I think we were able to accomplish so much thanks to Mr. Kawae's efforts," reflected Dr. Kohyama. "I am a physician and a business owner. I wear many hats already and that makes it difficult to take on new tasks. The successful establishment of this healthcare mall is due entirely to Mr. Kawae, with his serious, hard-working approach, and broad-mindedness." Dr. Otani agreed: "It was a tremendous help to be able to leave the details to him

all the way up until we opened our doors. Also, I am very satisfied with the healthcare mall style, which offers the benefit of mutual cooperation."



Mr. Kawae himself considers the true benefits to lie ahead, as well as much of the work. "My job is to draw the lines between the points of connection. This time fate brought me together with Dr. Kohyama and Dr. Otani, and that led to finding this location. I plan to continue playing a role in ensuring that this place becomes a healthy community for people of all generations."

## Process

2012: Dr. Kohyama consults with Sogo Medical about opening a branch hospital

Mr. Kawae searches for a location and discovers Korigaoka\*

A survey on medical facilities in the area was conducted, and appropriate clinics designed

With Dr. Otani's endorsement, the healthcare mall plan picks up speed

April 2015:  
Orthopedic surgery is added;  
full-scale launch

\* The Urban Renaissance Agency, a semipublic Japanese housing agency, rebuilds apartment buildings, transforming them into community welfare centers. The Korigaoka site was part of the plan to revitalize the area with a senior housing facility.



## Enacting Change with a Strong Sense of Purpose

**Dr. Hiroyasu Taniguchi**  
Head Physician  
Taniguchi Eye Clinic



## Medical Practice Support Business

### Case 2

Support for Finding a Successor  
to a Medical Clinic  
Opened 23 Years Earlier

### Taniguchi Eye Clinic Third-Party Succession

A local doctor who founded and ran his own eye clinic for many years in the city of Sasebo, Nagasaki Prefecture began to consider retirement in 2012 and wanted to pass the clinic on to a younger doctor. He consulted with Sogo Medical and we searched for a successor for him, and encountered Dr. Taniguchi. This is a case of a doctor from the next generation taking over at a medical institution that is well-regarded locally.

**No successor could be  
found for two years,  
but persistence paid off.**



"We were the ones who helped this doctor open his practice 23 years ago," says Sogo Medical's Takuya Moriguchi. The doctor recently contacted the company, saying he had begun thinking of handing over the practice, and asked if the company could find someone right away, but this proved to be a difficult task. The search took nearly two full years.

Finally we were introduced to Dr. Taniguchi, who had been working in the city of Shimabara, Nagasaki Prefecture by a friendly associate. At the time, however, Dr. Taniguchi did not have a strong desire to open his own practice and it took some time before he could be convinced to visit the clinic in Sasebo.

Dr. Taniguchi: "I thought I might open my own practice someday, but at the time there was little sense of reality to that plan. I wasn't at all enthusiastic about pursuing it right away, but my mother, who lives in Sasebo, fell ill and I happened to be reading the material that Mr. Moriguchi had given me. That's when I started to give it some serious thought." Part of the materials prepared by Moriguchi included a financial plan and various contract details. This careful handling earned Dr. Taniguchi's solid trust.



**Takuya Moriguchi**

Nagasaki Branch  
Sogo Medical Co., Ltd.

**We handle all of the paperwork so that the doctor can focus on providing medical care.**

Once the hand-over procedure and preparation for the reopening kicked into gear, Mr. Moriguchi was busy throughout the day, every day. Our Group company Somtech Co., Ltd. was subcontracted to renovate the aging building. Medical equipment had to be discarded and new contracts drawn up. Every day was a whirlwind of activity. With just a month and a half to complete the construction, Mr. Moriguchi visited the site to give instructions on a daily basis. Having seen how many patients came to the clinic not knowing it was under construction to be reopened as the Taniguchi Eye Clinic, he said, "I then realized how important this clinic was to the people of the area, and felt sure it was the right thing to have it stay

open in new hands."

While the clinic was being renovated, Dr. Taniguchi was glad to be able to continue working in Shimabara and even attend a professional conference. "A doctor just wants to concentrate on providing medical care. I am really grateful to Mr. Moriguchi for allowing me to leave everything in his hands. I have been able to build trust with my new patients and I feel strongly that setting up my own practice here was the right thing to do." In the bright, naturally lit reception room, many patients are waiting to see Dr. Taniguchi again today.



### Process

2012: Sogo Medical receives a request from an eye doctor to help find a successor for his clinic

After nearly two years of searching, Dr. Taniguchi is introduced

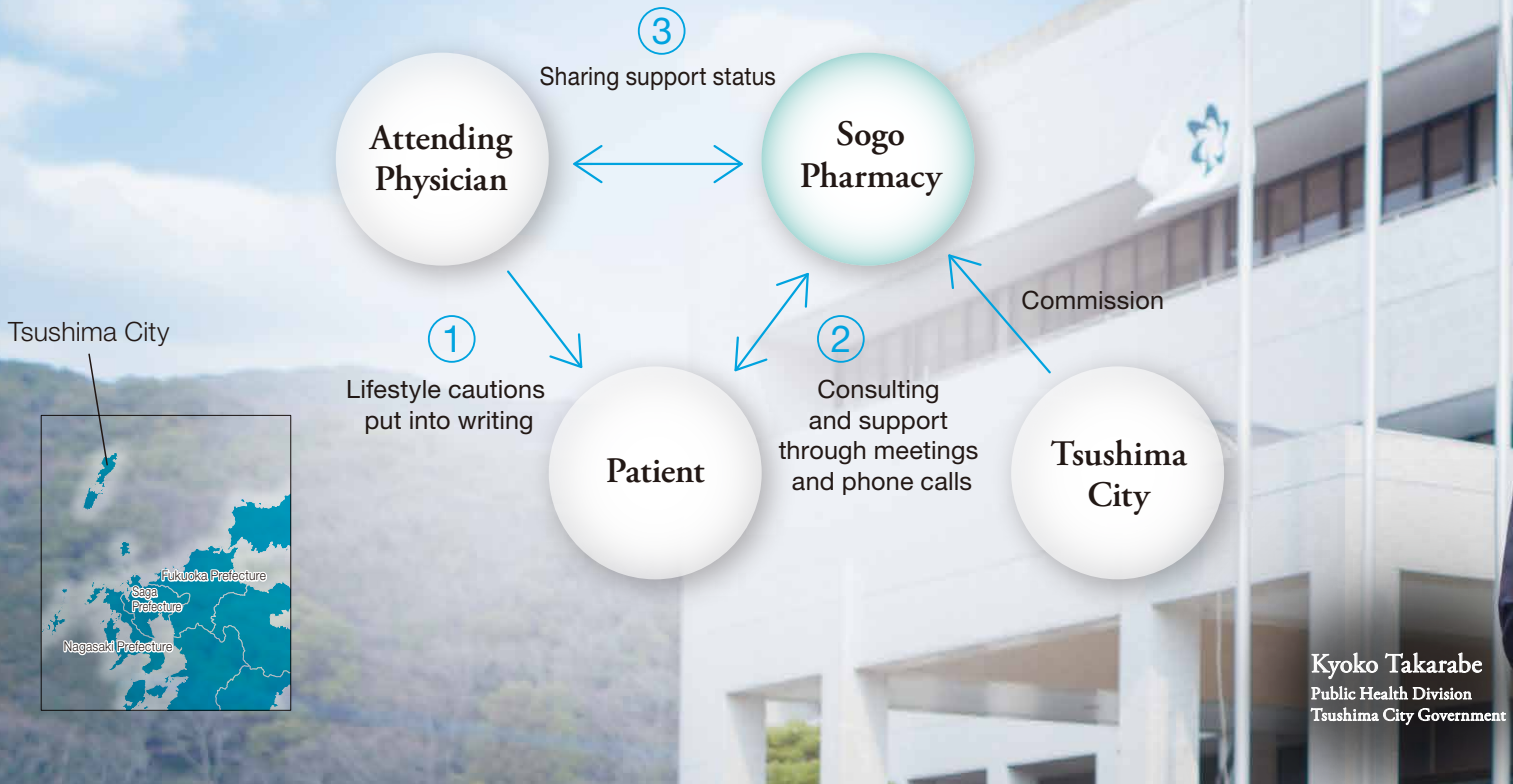
Proposal is made to Dr. Taniguchi

He decides to accept, and preparations begin for the reopening

April 2014: Taniguchi Eye Clinic opens its doors



## Enacting Change with a Strong Sense of Purpose



## Pharmacy Business

### Case 3

#### Sogo Pharmacy Efforts Support Health on a Distant Island

#### Tsushima, Nagasaki Prefecture Advisory for Diabetes Patients

According to the city of Tsushima, the incidence of diabetes among its residents is 1.3 times higher than the average for the prefecture, and double the average for diabetic kidney disease. To resolve this health issue, the Public Health Division of the city government joined hands with Sogo Medical to begin a program to support patients through medical collaboration. With this new initiative, pharmacists provide regular support in the form of advice on diet and exercise—the first such collaborative endeavor in the country, for which it is garnering wide attention.

Doctors and pharmacists working together help people make lifestyle adjustments that are difficult when trying to manage their condition on their own.

"To treat and improve a person's diabetic condition depends on how involved you become in the patient's life," reflected Mr. Taniguchi. Tsushima is not only located on a remote island, where getting around requires driving, but there is also a tradition of using a large amount of sugar. These factors contribute to the higher incidence of diabetes on the island compared to other towns and cities. With this reality in mind, Sogo Medical and city officials met many times to devise practical methods for preventing diabetes and improving the situation. The answer



Sogo Pharmacy Toyotama Location, Pharmacist Sayaka Fukuda (left)

we came up with was medical collaboration—a new initiative. The system would utilize the five Sogo Pharmacies in Tsushima as consultation centers for patients. Pharmacists would collaborate with attending physicians to check on patients' diet and exercise and give advice to help them improve their nutrition and make lifestyle adjustments.

Mr. Kuroiwa of the Tsushima Public Health Division commented: "I appreciated the assistance very much. It is reassuring to know that we can rely on pharmacists to talk with each person once a month. The main problem we face is how to lengthen the healthy lifespan of the people in Tsushima. We plan to further develop



**Katsushi Taniguchi**  
Iki-Tsushima Block  
Sogo Medical Co., Ltd.

**Motohiro Kuroiwa**  
Public Health Division  
Tsushima City Government

such model cases and also look into home healthcare." This program to support patients in managing their condition through medical collaboration got underway in October 2014.

**Enhancing collaborative efforts to control the worsening of conditions and reduce medical costs.**

After six months with the program, pharmacist Sayaka Fukuda feels that it is difficult for a person to stay vigilant about improving their lifestyle habits. "Naturally some people are better at it than others, but we are slowly starting to see some results with more people being proactive about their own health. Some people will gradually stop doing as they are instructed as their sense of urgency fades, however. For those people I try to set small, achievable goals that will allow them to build upon multiple accomplishments," Ms. Fukuda says.

At the pharmacy many different things are being tried. Patients' informa-

tion is entered into a computer system and shared, and staff meetings are held once a month to improve pharmacists' ability to provide guidance. Mr. Taniguchi, who oversees the pharmacies, says, "The pharmacists have become more motivated as they relate with patients on a more personal level, which has also created a sense of connectedness." He adds, "I would like to see more opportunities for the role of the pharmacist to expand, utilizing this kind of synergy."

Ms. Takarabe of Tsushima's Public Health Division commented, "Two hospitals were reorganized and consolidated in May 2015, reopening as Nagasaki Tsushima Hospital. I would like to have seminars held here for citizens, and use the combined expertise of registered nurses, public health nurses, and pharmacists in ways that further strengthen their ties to one another." We will surely be able to see further progress with this program designed to curb the worsening of illnesses and reduce medical costs.

### Process

2008: The city of Tsushima creates the "Kenko Tsushima 21 Plan"

The high number of individuals with diabetes and diabetic kidney disease is found to be a central issue

Sogo Medical proposes an advisory for diabetes patients

October 2014: Program to support patient self-management through medical collaboration starts

Program will continue for 3 years through 2017



## Enacting Change with a Strong Sense of Purpose



Filling prescriptions at the Takata Clinic



Team Kesen no Wa study meeting



Emergency response study through participation in the Kesen Pharmacists Association's Committee for Emergency Disaster Response



Discussion meeting with the Kesen Pharmacists Association and College of Pharmacy students about helping those affected by disasters

## Pharmacy Business

### Case 4

#### Iwate-Akita Block Sogo Pharmacy Takata Location Collaborative Efforts in the Area Struck by the Great East Japan Earthquake



Takata Clinic set up in a prefab housing unit after the tsunami

#### We actively participate in collaborative projects with other occupations.

In the city of Rikuzentakata, which was hit hard by the tsunami caused by the Great East Japan Earthquake, the participation of the Takata pharmacy in community affairs holds greater significance than perhaps for pharmacies in other areas. After the disaster, the Kesen Pharmacists Association commissioned Sogo Medical to quickly set up a pharmacy in a prefab housing unit, and we became involved in consultations on weekends when there was usually a shortage of workers.

Our local staff felt that this was the time when it was most necessary to collaborate with people in other professions. The pharmacy continues to participate in various activities and develop initiatives through community collaboration. One is the home care support group known as Team Kesen

no Wa. The team consists of doctors, dentists, pharmacists, nurses, care workers, nutritionists, and others. Coming together from many professions, they offer home care for Rikuzentakata's rapidly aging populace. The pharmacy also participates in ARTSOAP, a project that aims to revive a network for cancer treatment and palliative care, working to improve interdisciplinary collaboration, boost knowledge, and take advantage of the expertise of various professions.

The efforts to support mental and physical health, working in close collaboration with the community, are far from over. We will continue to explore how we can contribute as a pharmacy and strive to improve services further.

## Case 5

## HealthCare Note (Electronic Medicine Scheduler) Smartphone Application



### Shortening waiting time for patients and reducing stress. Enhancing functionality as a "personal pharmacy."

To get a prescription filled at a pharmacy, usually one must first hand over the prescription, show one's medication record, state a preference regarding generic drugs, and provide other information, then wait for the medicine to be prepared.

Because of the limited number of records that can be kept in a paper-bound medicine scheduler—even though such schedulers can be useful—they do raise issues of practicality.

To overcome such problems, our pharmacies began offering the free smartphone application HealthCare Note in fiscal year 2014. Patients do not have to physically go to the pharmacy until their prescription is filled, at

which point they are called to pick up the medicine through their smartphone. This system reduces stress and allows people to make better use of their time. Because it allows a patient's medication record to be checked in advance, the pharmacy is able to prepare the needed medicine with greater reliability.

These efforts follow the Ministry of Health, Labour and Welfare's policy of promoting pharmacies as health information repositories for the community. We plan to continue expanding services to provide that "personal pharmacy" experience.

## Case 6

## Bringing Smiles to Patients and Customers through Safe, Original Products



Products from the SOGO SMILE series

### Unifying the brand as healthcare stations for the public in order to become more engaged in local communities.



To further expand pharmacies nationwide, Sogo Pharmacies in particular, we have established the PR concept of pharmacies as "healthcare stations for the public." Based on this concept, we are building a unified brand that includes developing new private brand products, and introducing original uniforms. The brand name for the products is SOGO SMILE and the accompanying slogan is "Greater peace of mind, more smiles." Together with an original logo, we aim to increase the overall brand

appeal.

Among the private brand goods that were jointly developed by nutritionists and pharmacists are a black vinegar drink and organic tea, both developed with a commitment to high-quality ingredients. Such products are working to enhance the value of our pharmacies.

Through various initiatives both at the pharmacies themselves and outside in the community, we aim for our pharmacies to be a reliable source of support for local residents.

## Higashinihon Office



Shigeyuki Nakano  
Senior Managing Officer  
Manager of Higashinihon Office

**We take responsibility for our work, knowing it will improve people's lives and contribute to social advancement.**

This fiscal year we developed and opened healthcare malls, supported medical practices, provided consulting services, and opened high-value pharmacies. Through these and other activities we were able to bring joy to more customers and steadily expand our reach.

In the coming year we will aim to build an even stronger organization by matching the company's direction and vision to the source of our energy—the aspirations of our employees.

First, in medical practice support we will take advantage of our DtoD system to alleviate the anxieties and dissatisfactions of patients, doctors employed in public practice, and major regional hospitals. We will continue to develop healthcare malls to solve issues being faced by local communities. The challenge in this kind of work is how to actualize employees' personal growth, boost productivity, and keep customers satisfied.

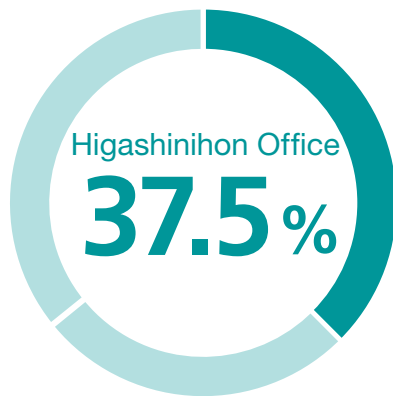
Also, what is needed in the pharmacy business is for pharmacies to function well and to make good use of a comprehensive community care system. Up to this point, pharmacies have focused on dispensing medicine, but by adding new services we can turn them into high-value pharmacies. We will not work alone as a single company, but will partner with others and share our wisdom, surely reaching greater new potential.

In the process of implementing our medium-term business plan, "Further Challenge—Toward a better society in which people can live with a sense of security," every employee will examine if their actions are for the benefit of everyone involved, share their wisdom, and boldly take action. We take responsibility for our work and believe that it will help improve the lives of many people and support the advancement of society.

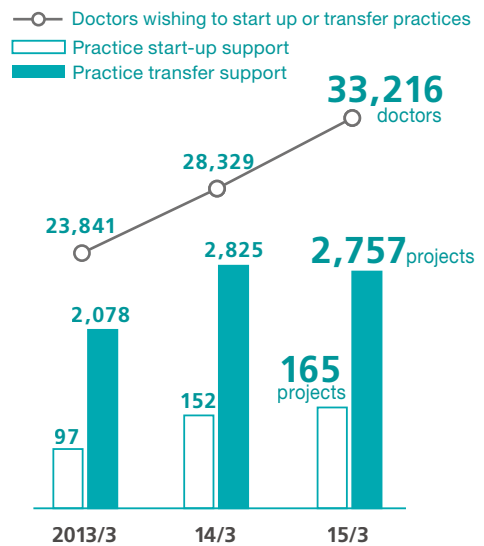


Performance for the Year Ended March 2015

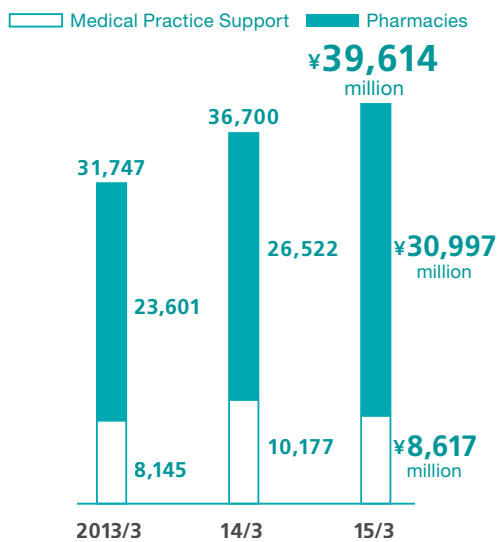
Percentage of Total Sales



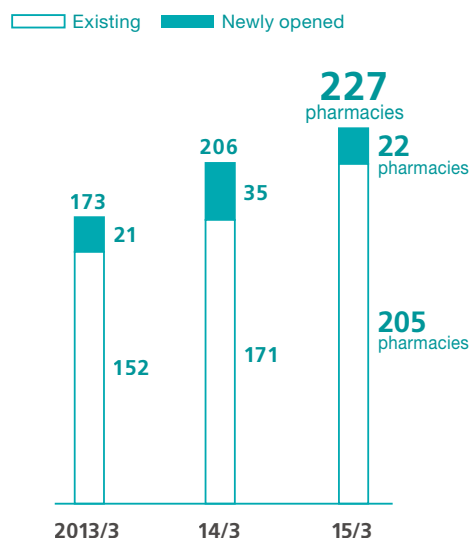
Practice Start-up/Transfer Support and Number of Doctors Registered



Net Sales



Number of Pharmacies



## Nishinohon Office



Takao Nakashima  
Executive Managing Officer  
Manager of Nishinohon Office

### Helping employees improve their skills and contributing to local communities by meeting diverse needs.

This fiscal year marked the start of our three-year medium-term business plan, "Further Challenge—Toward a better society in which people can live with a sense of security." We have been striving to build a platform for regional healthcare networks by leading the industry with our DtoD system and high-value pharmacies. We have furthermore made a good deal of progress, not only in the West Japan region, but also by expanding healthcare malls in a wide area within the western jurisdiction, with growing services.

In the coming fiscal year we aim to extend these initiatives and steadily carry out the pledge that represents our management principles, following Our Pledge, Mission Statement and Corporate Credo.

In medical practice support, we are obtaining more contracts for operational management at major regional hospitals. We are also developing exemplary healthcare malls to provide medical services that society and local communities desire, and are improving the quality of our start-up support. In these ways we are meeting diverse needs.

In the pharmacy business, to bolster in-home medical care, we are expanding coordination between pharmacies and home-visit nursing stations. Also, to promote self-medication support and high-value pharmacies, we are trying to bring more "healthcare stations for the public" into local communities, at which citizens can feel free to come in and get advice on health, and leave with peace of mind.

We also focus on helping employees improve their skills, which increases the value of our human resources, though internal management certification in Practice Process Innovation (PPI) and an on-the-job program known as GOES—the Gradable OJT Educational System for Pharmacists.

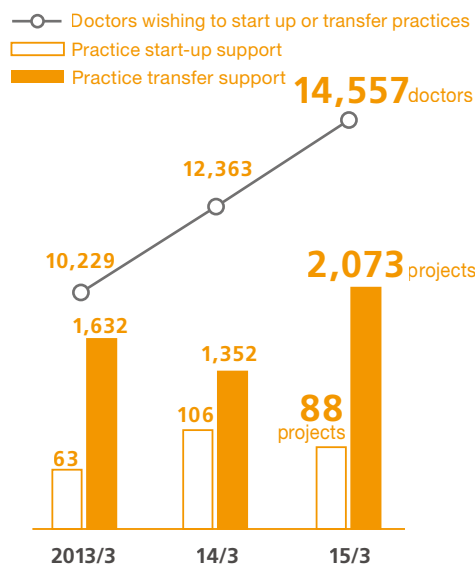
In Japan's super-aged society, changes are continually taking place in the medical system. As changes occur, we are using our position as a company involved in medical care and working to build a future in which people can live with peace of mind.

Performance for the Year Ended March 2015

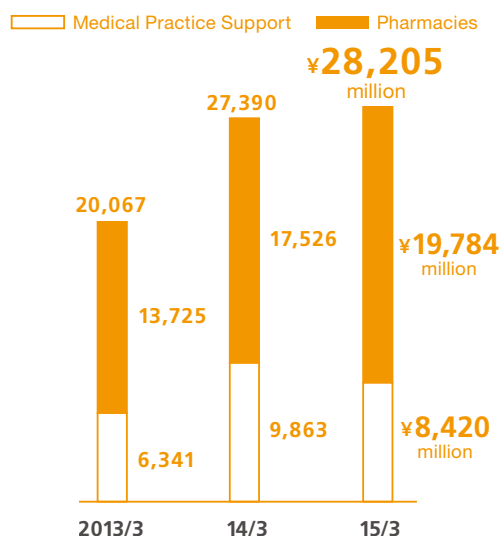
Percentage of Total Sales



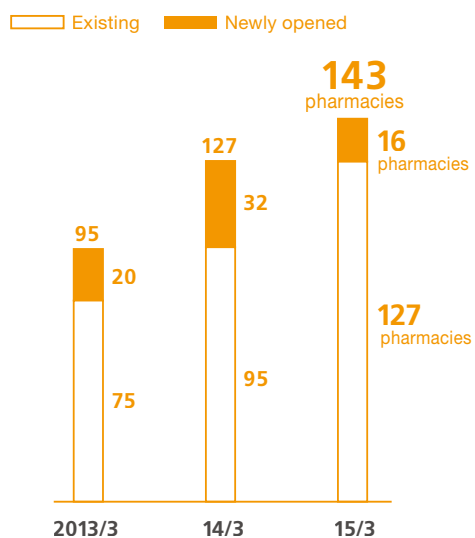
Practice Start-up/Transfer Support and Number of Doctors Registered



Net Sales



Number of Pharmacies



## Kyushu Office



Kazuya Watabe  
Senior Managing Officer  
Manager of Kyushu Office

### **We aim to alleviate customers' anxieties and help create a better society that provides peace of mind.**

This fiscal year all of our employees made self-improvement efforts and worked to hone their skills, and as a result they took important steps forward in solidifying their relationships with customers.

The coming fiscal year is the second year of our medium-term management plan—"Further Challenge—Toward a better society in which people can live with a sense of security."

We aim to take measures based on our management principles that give our employees a sense of pride in their work and a sense of purpose, and allow us to grow as a regional office with our employees.

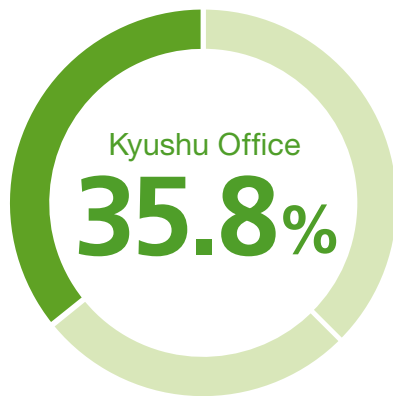
We aim to achieve the goal of building a platform for regional healthcare networks by leading the industry with our DtoD system and high-value pharmacies. To accomplish this we are solving problems for major regional hospitals through management support. By placing importance on valuing our existing customers we have become highly dependable. We are also taking full advantage of our DtoD system to develop exemplary healthcare malls which provide the medical services that society and local communities desire.

In the pharmacy business, we are putting our pharmacists' abilities to work. Fulfilling our role as a good partner to medical institutions, we ensure that our pharmacies provide genuine added value by strengthening the coordination of medical care, making medical costs more reasonable, expanding in-home medical care, and providing support for self-medication.

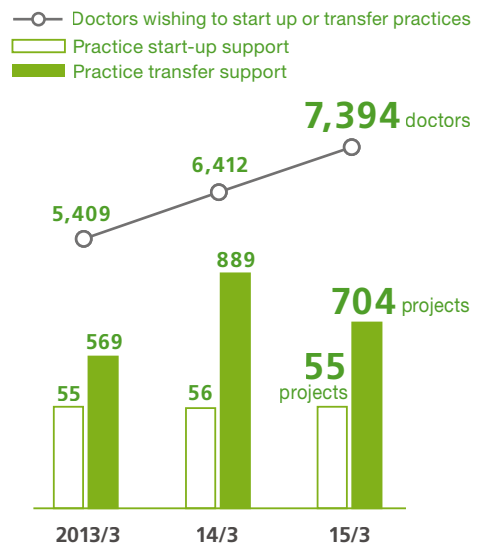
As a company with foundations in consulting, we supply a variety of services that aim to alleviate the anxieties and dissatisfactions held by society, the medical services community, and our customers. We do this through our DtoD system and high-value pharmacies. We promise to listen to the opinions of our clients and do our very best to work together as a regional office so that we may be of service and bring joy to our customers.

Performance for the Year Ended March 2015

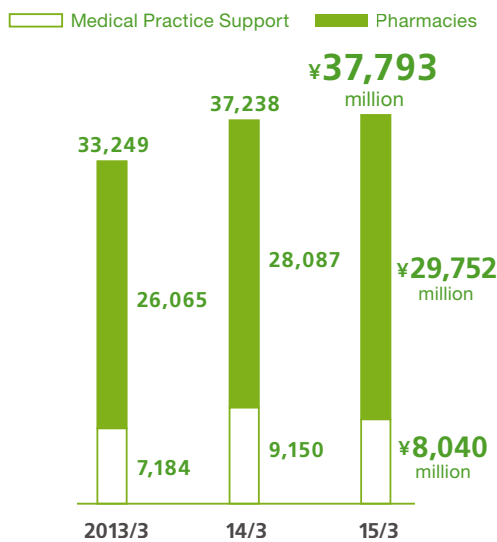
Percentage of Total Sales



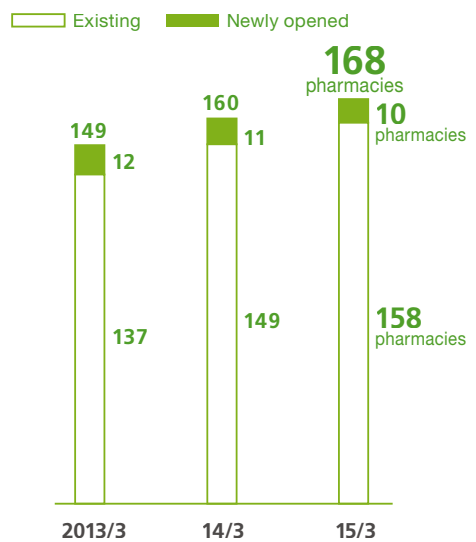
Practice Start-up/Transfer Support and Number of Doctors Registered



Net Sales



Number of Pharmacies



## Directors, Audit & Supervisory Board Members and Corporate Executive Officers (As of June 19, 2015)

### Board of Directors



**Itsuo Tashiro**

Representative Director,  
President and Chief Executive  
Officer



**Kenji Sakamoto**

Representative Director,  
Executive Vice President



**Shinya Mikita**

Director & Senior Executive  
Managing Officer



**Makoto Kuroda**

Director & Senior Executive  
Managing Officer



**Masatoshi Sadahisa**

Director & Executive  
Managing Officer



**Moritaka Nakashima**

Director & Executive  
Managing Officer



**Hirosada Oyamada**

Director & Senior  
Corporate Adviser



**Makoto Nogami**

Director (External Director)



**Kiyotaka Watanabe**

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

**Itsuo Tashiro**

President and Chief Executive Officer  
In charge of President's Office and Corporate Auditing Division

**Kenji Sakamoto**

Executive Vice President  
In charge of Higashinohon Office, Nishinohon Office, Kyushu Office

**Shinya Mikita**

Senior Executive Managing Officer  
In charge of Consulting Division, Business Promotion Division  
Manager of Business Promotion Division

**Makoto Kuroda**

Senior Executive Managing Officer  
In charge of Management Division, Management Strategy Division  
Manager of Management Strategy Division

**Takao Nakashima**

Executive Managing Officer  
Manager of Nishinohon Office

**Kohichi Hashimoto**

Executive Managing Officer  
Manager of President's Office

**Takahide Terada**

Executive Managing Officer  
Manager of Consulting Division

**Masatoshi Sadahisa**

Executive Managing Officer  
In charge of Personnel Division  
Manager of Personnel Division

**Joji Haraguchi**

Executive Managing Officer  
Representative Director and President of Somtech Co., Ltd.

**Moritaka Nakashima**

Executive Managing Officer  
In charge of Business Administration Division, SME Co., Ltd.  
Representative Director and President of SME Co., Ltd.

**Genichi Shimmura**

Senior Managing Officer  
Assistant Manager of Consulting 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 Business Administration 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 Business Promotion Division  
Manager of Pharmacy Business Promotion Department

**Osamu Yamasaki**

Managing Officer  
Higashinohon Office  
Manager of Higashinohon Sales Management Division

**Masatomo Hara**

Managing Officer  
Higashinohon Office  
Manager of Higashinohon Pharmacy Management Division  
Representative Director and President of Matsumura Co., Ltd.  
Representative Director and President of Akatsuki Pharmacy Co., Ltd.

**Katsuyuki Honda**

Managing Officer  
Assistant Manager of Personnel Division  
Manager of Personnel Department

## 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 19, 2015)

The board of directors is made up of 9 members, of which 2 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 19, 2015)

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.

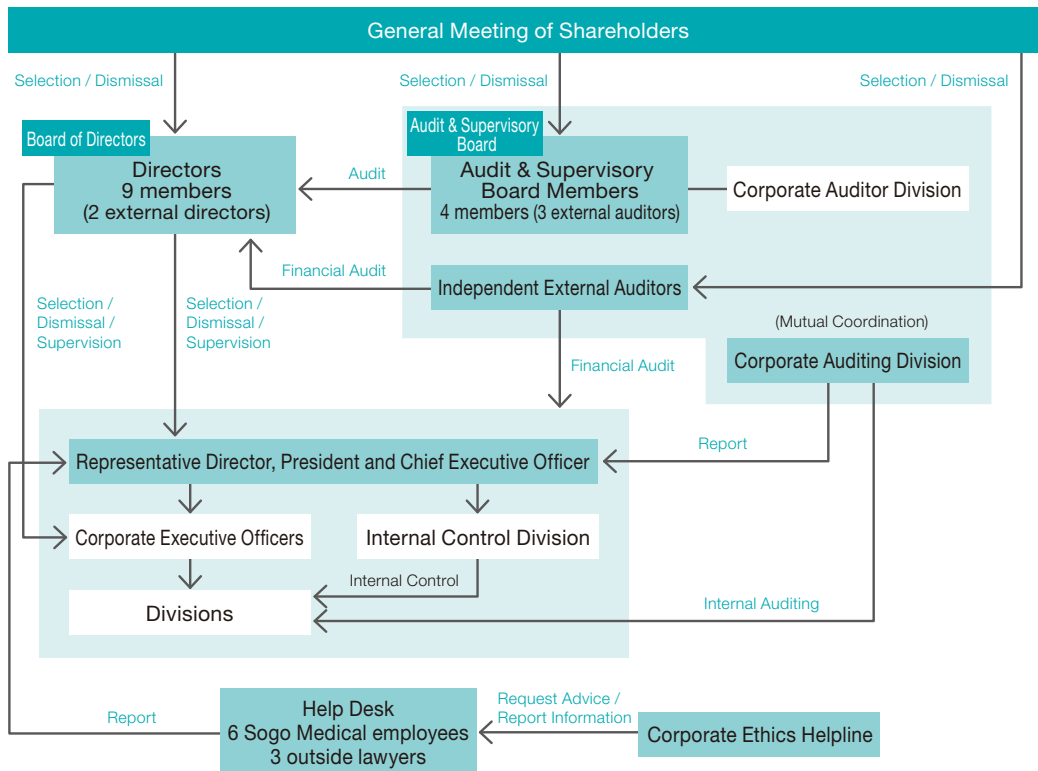
Internal audits are held systematically by the corporate

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 19, 2015)



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 2015

Officer category	Number of recipients	Total by form of remuneration (¥ million)				
		Basic compensation	Stock options	Bonuses	Retirement compensation	
Directors (not including external directors)	12	231	231	-	-	-
Audit & supervisory board members (not including external auditors)	1	9	9	-	-	-
Outside officers	5	17	17	-	-	-
<b>Total</b>	<b>18</b>	<b>258</b>	<b>258</b>	<b>-</b>	<b>-</b>	<b>-</b>

- Notes:
1. The total remuneration for directors does not include employee salaries for those directors who are also employed as employees.
  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.

## CSR Management & Topics

**Our CSR activities are the very same as our business activities—working to build a better society through good medical practice. We work hard to develop valuable human resources who can promote good medical practice and make 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 care, and that is connected to the development of society and improving the lives of many people. Through supporting good medical care in the future, we aim to fulfill our social mission as a company.

### Developing personnel to carry out next-generation management

#### Sosojuku: Developing next-generation leaders

Sosojuku is the name of our training school, and its name carries the meaning of creating a new Sogo Medical. In order to develop personnel to carry out next-generation management, and cultivate the character needed for leadership, we provide training to polish each trainee's foresight, imagination and ability to think in terms of total optimization.

#### Basic Course

1. Basic conceptual skills
2. Basic business models
3. Basic business communication
4. How to read financial statements and financial summaries
5. Basics of finance and accounting
6. Basics of business strategy

#### Advanced Course

1. Understanding strategies of listed healthcare companies
2. Recognizing and understanding the outside environment
3. Image of a unique Japanese healthcare business model among trainees
4. Quick presentation and extraction of ideas for new business candidates
5. Screening and narrowing down new business candidates
6. Verifying feasibility of new business candidates
7. Development of business models for new business candidates
8. Formulation of business strategies and business plans for new business candidates
9. Formulation of business development plans for new business candidates



**Understanding other people and other divisions is essential for total optimization thinking.**

Student from the program's 3rd cycle

**Tsunashi Shimoshinbara**  
Pharmacy Business Promotion Division

Through one year of training, I further improved my awareness beyond the pharmacy business to encompass a company-wide perspective. This enabled me to master total optimization thinking. As a result of active, collaborative communication and discussion crossing boundaries between areas such as pharmacies, sales, the head office and Group companies, we were able to provide the HealthCare Note service (electronic medicine scheduler) at pharmacies by using ICT. We also made progress in developing products for over-the-counter sales.

**We must aim to be a company essential to society.**

Student from the program's 7th cycle

**Masahiro Monji**  
Higashinohon Sales Management Division,  
Higashinohon Office

I entered the school in February 2015 and learned about corporate strategy and thinking. I feel that, thanks to this program, I can now carry out company analysis at a deeper level when considering, for example, how other companies are generating their profits, and whether they have potential for the future. In the future, I would like to apply what I've learned at the Sosojuku school to development of healthcare malls, create new businesses for the local community, and develop the ideal healthcare mall.



## Compliance Efforts and Stance

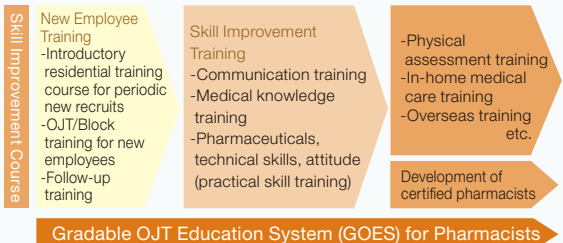
Compliance is generally thought of in the sense of “regulatory compliance,” or conforming with laws and internal regulations. However, we undertake compliance in a broader sense. In addition to complying with laws, we consider compliance to mean acting in an ethical manner and eschewing any activity 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.



### Improving the skills of pharmacists

## Going beyond specialization, to growth as a healthcare provider

In order to develop valuable human resources who can contribute to society, we provide thorough personnel education from two perspectives: a skill improvement course (GOES) for developing specialized capabilities as a pharmacist, and a management course for developing the ability to operate a pharmacy.



## Strive to provide peace of mind, and ensure treatment reaches a successful conclusion.

GOES trainee | From April 2009 to the present

### Kanako Miyazaki

Board-Certified Pharmacy Specialist,  
Tenjin Chuo Location, Sogo Pharmacy



I learned about pharmaceutical knowledge and techniques, as well as communication, and I realized the importance of these topics for achieving successful treatment. By understanding the condition and needs of the patient, we can communicate the right amount of information at the right time, so patients can take their medication with peace of mind. At present, I am participating in team medicine as a board-certified pharmacist for diabetes, based on what I have learned in GOES. I am working to provide more detailed guidance while improving my specialized expertise.

## Systematic learning is also useful in consulting.

GOES trainee | From April 2010 to May 2014

### Hirofumi Kuwabata

Consulting Promotion Division



Because I have systematically acquired the knowledge and skills needed by a board-certified pharmacist, I can do my work as a pharmacist while being constantly aware of potential problems. In addition, I've learned about topics such as inventory management, insurance billing, and risk management, and developed an understanding of pharmacy operation. Also, I made a career change in 2014, starting work as a consultant supporting medical institutions by leveraging my previous experience and knowledge. In the future, I would like to propose measures to improve management at major hospitals.

## 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



**Naomasa Mitsukado**  
Auditor (External Auditor)

One year has passed since I was appointed, as an attorney, to be an external auditor for Sogo Medical. The company's mission statement is "To build a better society through good medical practice," and we are striving to implement measures to realize a unique Japanese healthcare business model in which we contribute to building a medical system that can efficiently provide high-quality care to citizens.

Perpetual action by the company is essential for achieving these goals, but strengthening and ensuring consistent compliance is a necessary precondition for achieving quick management decision-making and improving company value in response to the corporate environment. Compliance is frequently translated into Japanese simply as "obeying the law," but its true meaning goes beyond that and includes respect for social norms and corporate ethics. To ensure this sort of management, Sogo Medical has an audit & supervisory board, comprised of a total of 4 auditors: 2 standing auditors and 2 part-time auditors. Each auditor attends board of directors' meetings, expresses honest opinions, and freely asks questions from his or her own specialized field or perspective. Directors in charge and other executives always answer with due seriousness and clarity. It is this good "ventilation" of issues that is thought to be a barometer of compliance.

## Five-Year Summary of Consolidated Financial Statements

Years Ended March 31		2011	2012	2013	2014	2015
Net sales	(¥ million)	72,789	80,222	86,658	103,318	107,945
Operating income	(¥ million)	4,148	4,848	4,324	5,014	5,017
Ordinary income	(¥ million)	4,212	4,881	4,343	5,068	5,227
Net income	(¥ million)	2,167	2,504	2,532	2,856	2,774
Total net assets	(¥ million)	17,421	19,511	21,636	23,934	26,521
Total assets	(¥ million)	43,057	53,160	57,138	66,982	69,811
Net assets per share	(yen)	1,206.58	1,351.39	1,496.64	1,655.73	1,824.14
Net income per share	(yen)	149.67	173.46	175.41	197.82	192.20
Cash dividends per share	(yen)	30.00	35.00	40.00	40.00	40.00
(Includes interim dividend)	(yen)	(15.00)	(17.50)	(20.00)	(20.00)	(20.00)
Dividend payout ratio	(%)	20.0	20.2	22.8	20.2	20.8
Capital adequacy ratio	(%)	40.5	36.7	37.8	35.7	37.7
Net income to shareholders' equity ratio	(%)	13.1	13.6	12.3	12.6	11.0
Price-earnings ratio	(times)	7.3	8.6	9.5	10.5	17.6
Price-to-book-ratio	(times)	0.9	1.1	1.1	1.2	1.8
Number of shares outstanding	(thousands of shares)	15,340	15,340	15,340	15,340	15,340
Cash flows from operating activities	(¥ million)	4,179	4,484	7,269	7,461	6,051
Cash flows from investing activities	(¥ million)	(4,111)	(4,086)	(3,380)	(5,335)	(5,296)
Cash flows from financing activities	(¥ million)	(1,275)	(170)	(2,777)	(1,370)	(1,637)
Cash and cash equivalents at end of period	(¥ million)	3,756	3,984	5,095	5,851	4,968
Number of regular employees	(people)	2,097	2,195	2,508	2,650	2,951
Number of part-time employees	(people)	602	623	735	1,064	1,190

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		2011	2012	2013	2014	2015
Operating income to net sales ratio	(%)	5.7	6.0	5.0	4.9	4.6
Ordinary income to net sales ratio	(%)	5.8	6.1	5.0	4.9	4.8
Net income to net sales ratio	(%)	3.0	3.1	2.9	2.8	2.6
Total assets turnover	(times)	1.7	1.5	1.5	1.5	1.5
Return on assets	(%)	10.6	10.2	7.9	8.2	7.6
Current ratio	(%)	129.6	131.7	128.8	122.0	121.5
Fixed assets to capitalization	(%)	77.1	78.1	80.0	81.7	83.7
Interest-bearing debt ratio	(%)	19.4	27.4	25.1	23.2	23.7
Net debt-to-equity ratio	(times)	0.3	0.5	0.4	0.4	0.4

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

Net sales increased 4.5%, to ¥107,945 million, from the previous year. This was due to the effects of increased revenue from opening new pharmacies. In terms of income, operating income increased by 0.1% to ¥5,017 million, and ordinary income by 3.1% to ¥5,227 million. Net income fell by 2.8% to ¥2,774 million due to changes in corporate tax rates and other tax changes.

In April 2014, Sogo Medical began a new three-year medium-term management plan "Further Challenge—Toward a better society in which people can live with a sense of security." This plan establishes medium-term goals and specific priority measures. It expands and further evolves previous efforts, and at the same time, we are taking up issues confronting society by developing new services that are needed in the world.

In this year, we provided support for doctors starting a practice in 308 cases (including inherited practices and healthcare malls), and expanded into businesses such as lease agreements and opening new pharmacies. The number of doctors wishing to start or transfer their practice who are registered with our DtoD system reached 56,505 at the end of the year (an increase of 8,075 from the end of the previous year). This year, we opened 48 pharmacies (including 9 due to M&A), and as a result, the number of pharmacies at the end of the year increased by 45 to a total of 538. There were 22 new pharmacies opened in Higashinohon, 16 in Nishinohon, and 10 in Kyushu.

### 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 "Higashinohon," "Nishinohon," 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, designing, and construction of medical facilities.

Net sales from medical practice support for the year were ¥25,811 million, a reduction of 13.3% from the previous year. This was due to a drop of 20.3% in leasing and installment net sales to ¥15,243 million, even though results from consulting and rental were flat. Operating income increased by 4.8% to ¥1,005 million. The following describes the situation in each division.

#### (1) Consulting

Net sales from the consulting division posted a 1.3% increase year on year, to ¥1,693 million. Of this amount, medical institution management consulting sales rose 1.7%, to ¥1,061 million. Sales related to support for doctors who wish to transfer or start up practice rose 0.7%, to ¥632 million. In addition to supporting 5,535 transfer projects, we also supported 308 practice start-up support projects, which extended into leasing contracts and the opening of new pharmacies.

#### (2) Rental

Net sales in the rental division were ¥5,922 million, a 0.1% increase over the previous year. Within these results, net sales of products increased by 4.7% to ¥1,728 million, and rental sales decreased by 1.6% to ¥4,193 million.

### (3) Leasing and Installment

Net sales in the leasing/installment division fell 20.3% year on year, to ¥15,243 million. This is due to a 33.6% decrease, to ¥5,159 million, in medical equipment sales.

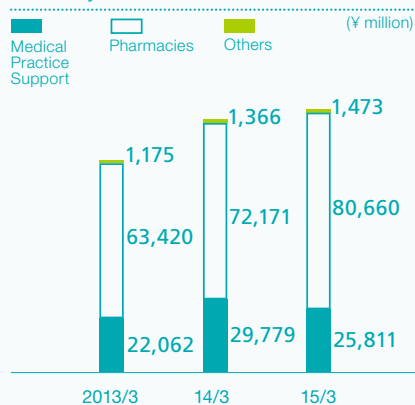
Despite accounts receivables-installment sales rising 7.1%, to ¥1,806 million, lease receivables and investment assets fell 15.5%, to ¥1,701 million, and operating assets fell 5.2%, to ¥3,508 million. Although the number of leasing contracts recovered somewhat from the downturn after the increase in consumption tax, there was a decrease of 14.9% year on year to ¥9,928 million.

### (4) Others (Including the Design and Construction of Medical Facilities)

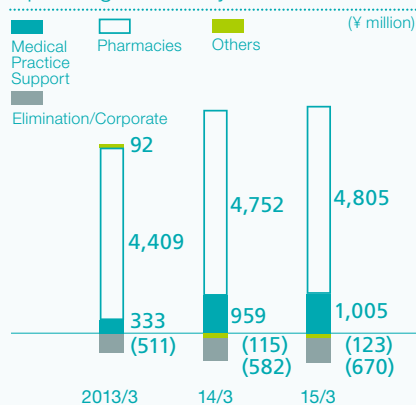
Net sales in the others division fell 4.1% year on year, to ¥2,952 million.

Years Ended March 31	2013	2014	2015
Net sales (¥ million)	86,658	103,318	107,945
Medical Practice Support	22,062	29,779	25,811
Consulting	1,334	1,672	1,693
Rental	5,795	5,914	5,922
Leasing and Installment Sales	12,979	19,113	15,243
Others	1,952	3,079	2,952
Pharmacies	63,420	72,171	80,660
Others	1,175	1,366	1,473
Operating income (¥ million)	4,324	5,014	5,017
Medical Practice Support	333	959	1,005
Pharmacies	4,409	4,752	4,805
Others	92	(115)	(123)
Elimination/Corporate	(511)	(582)	(670)

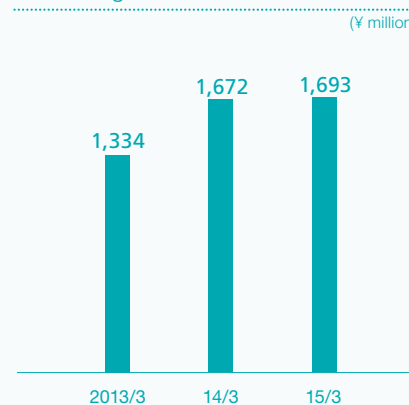
Sales by Business



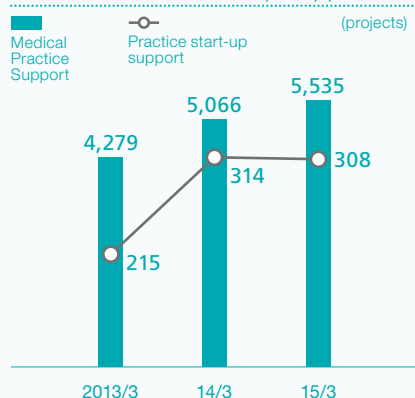
Operating Income by Business



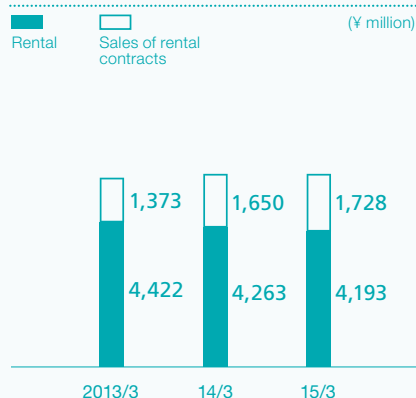
Consulting Sales



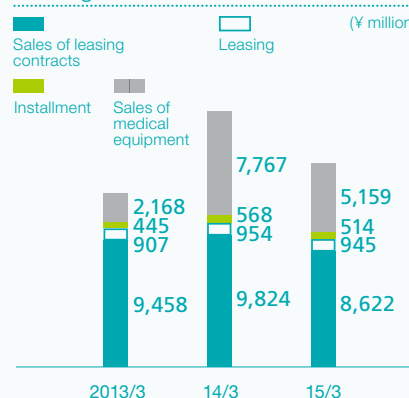
Practice Transfer/Start-up Support



Rental Sales



Leasing and Installment Sales



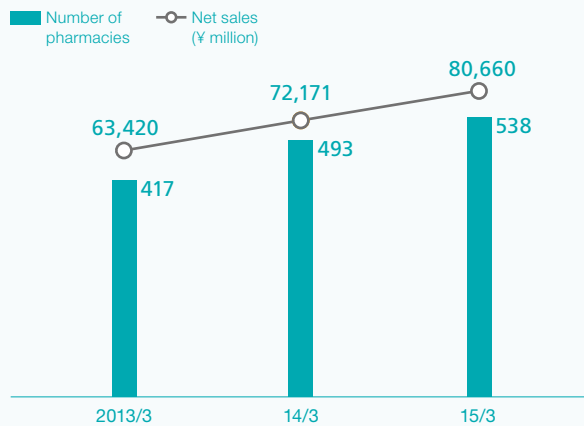
## Management's Discussion and Analysis

### Pharmacies

The pharmacy division comprises dispensing pharmacies that target patients who have received diagnoses from medical institutions.

We opened 48 new pharmacies (including 9 pharmacies from M&A activities), and as a result the number of pharmacies at year-end was 538, up 45 from last year, contributing ¥2,871 million toward net sales. Net sales from existing pharmacies rose 0.8%, to ¥68,130 million. Sales from the 78 pharmacies opened in the previous fiscal year rose 158.5%, to ¥8,168 million. As a result, net sales from the pharmacy division rose 11.8%, to ¥80,660 million. Also, operating income rose 1.1%, to ¥4,805 million.

### Number of Pharmacies / Pharmacy Sales



### By Region

#### Higashinihon

Although sales declined in the leasing and installment division and rental division, in the pharmacies division, net sales increased by 7.9% to ¥39,614 million year on year. This was due to the contribution of sales from pharmacy subsidiaries whose stock was acquired in the previous year, as well as factors such as increased revenue due to opening of new pharmacies.

Operating income fell to ¥842 million, a 34.7% drop, due to an increase in sales management costs.

#### Nishinihon

Although sales from leasing and installment declined, there was a 3.0% increase in net sales from pharmacies, to ¥28,205 million. This was due to the contribution of sales from pharmacy subsidiaries whose stock was acquired in the previous year, as well as factors such as increased revenue due to opening of new pharmacies.

Operating income showed a 14.1% increase over the previous year, to ¥1,510 million, due to increased profits driven by higher sales from pharmacies.

#### Kyushu

Net sales rose by 1.5% from the previous year, to ¥37,793 million, due to factors such as increased revenue due to opening new locations in the pharmacies division, and increased sales in the rental division.

Operating income was ¥2,643 million, an increase of 1.2% year on year.



Years Ended March 31	2013	2014	2015
Net sales (¥ million)	86,658	103,318	107,945
Higashinohon	31,747	36,700	39,614
Medical Practice Support	8,145	10,177	8,617
Pharmacies	23,601	26,522	30,997
Nishinohon	20,067	27,390	28,205
Medical Practice Support	6,341	9,863	8,420
Pharmacies	13,725	17,526	19,784
Kyushu	33,249	37,238	37,793
Medical Practice Support	7,184	9,150	8,040
Pharmacies	26,065	28,087	29,752
Others	1,595	1,989	2,331
Operating income (¥ million)	4,324	5,014	5,017
Higashinohon	1,282	1,289	842
Nishinohon	989	1,324	1,510
Kyushu	2,256	2,611	2,643
Others	247	346	620
Adjustments	(452)	(558)	(599)

#### Forecast for the Fiscal Year Ending March 31, 2016

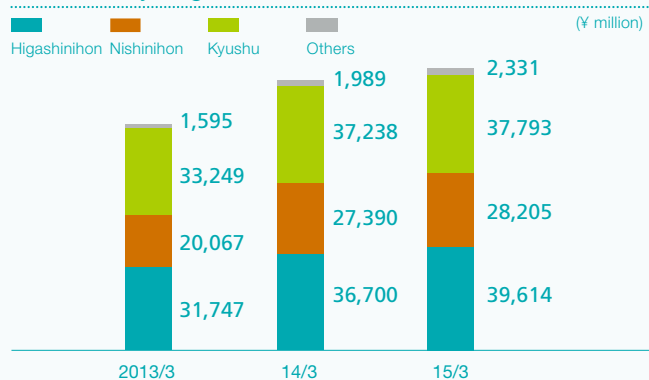
The year ending in March 2016 will be the second year of our medium-term management plan "Further Challenge—Toward a better society in which people can live with a sense of security."

By working on our three priority initiatives—undertaking new business, improving existing business, and enhancing corporate value—we hope to further promote the DtoD system and valuable pharmacies, and improve results by increasing both revenue and sales. In order to achieve results commensurate with market scale, which has been an issue since the previous medium-term management plan, we are continuing to make a broad range of efforts. These include strengthening our branch system, carrying out planned personnel rotation, developing consultants, developing valuable human resources using the PPI system for in-house certification, and accumulating off-balance-sheet assets to build a foundation for the future.

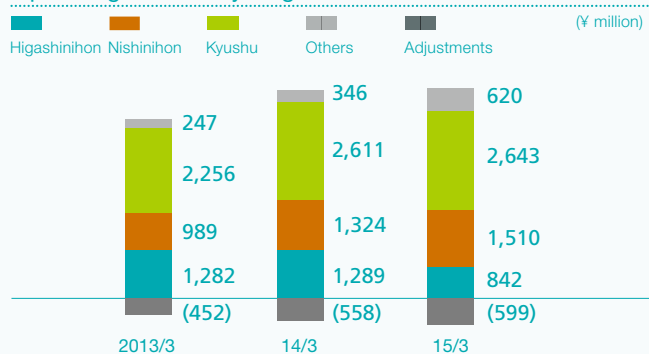
As for specific initiatives Sogo Medical will take, we offer medical management support and coordination to major regional medical institutions, design the promotion of projects such as healthcare malls, and actively make efforts in continuing our practice start-up support and new pharmacy openings. We are expecting to take on 480 practice start-up support projects (a 55.8% year-on-year rise), and to open 50 new pharmacies (a 4.2% increase).

As a result of these initiatives, we forecast net sales to rise 11.2%, to ¥120,000 million. We anticipate operating income to rise 10.7%, to ¥5,566 million, ordinary income to rise 5.2%, to ¥5,500 million, and net income for the year to rise 17.2%, to ¥3,252 million.

#### 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 ¥2,828 million over the previous year, to ¥69,811 million. Current assets declined by ¥463 million, to ¥36,584 million. Factors underlying this were an ¥884 million drop in cash and deposits, an ¥840 million drop in notes and accounts receivable-trade, and a ¥1,068 million increase in inventories. Noncurrent assets rose by ¥3,291 million to ¥33,226 million. This was due to increases of ¥1,345 million in buildings and structures, ¥914 million in land, and ¥557 million in investment securities.

#### Liabilities

Liabilities for the year were ¥43,290 million, a ¥241 million increase over the previous year. Current liabilities fell by ¥249 million to ¥30,109 million. This was the result of a ¥1,531 million increase in notes and accounts payable-trade, and a ¥747 million increase in the current portion of long-term loans payable. Noncurrent liabilities rose by ¥490 million year on year to ¥13,180 million. This was due to a ¥1,644 million increase in long-term loans payable, and a ¥1,395 million decrease in long-term accounts payable (installment purchase). In addition, interest-bearing debt (including lease obligations and accounts payable-installment purchases) increased by ¥1,020 million to ¥16,572 million, and the net debt-to-equity ratio—found by subtracting cash and deposits from interest-bearing debt and dividing the result by shareholders' equity—rose by 0.03 points, to 0.44.

#### Net Assets

As of March 31, 2015, net assets were ¥26,521 million, a year-on-year increase of ¥2,587 million. Net income increased net assets by ¥2,774 million and dividends payments decreased net assets by ¥577 million. As a result, the capital adequacy ratio was 37.7%, an increase of 2.0 percentage points compared to 35.7% on March 31, 2014.

#### Cash Flows

As of March 31, 2015, cash and cash equivalents totaled ¥4,968 million, a year-on-year decrease of ¥882 million (15.1%). The primary factors are described below.

#### Cash Flows from Operating Activities

Cash provided by operating activities increased by ¥6,051 million. The major cash increases were ¥5,175 million from income before income taxes, ¥3,746 million from adjustment for depreciation and amortization, and ¥1,050 million from a decrease in notes and accounts receivable-trade. The major cash decreases were ¥1,735 million from a decrease in notes and accounts payable-trade and ¥2,108 million from income taxes paid.

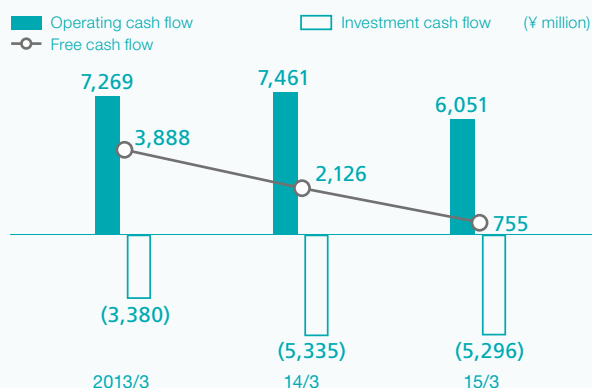
#### Cash Flows from Investing Activities

Cash decreased by ¥5,296 million as a result of investing activities. This was due to acquisition of own-used assets (¥3,767 million), acquisition of subsidiary stock (¥579 million), acquisition of investment securities (¥270 million), and expenditures for assignment of business from others (¥263 million).

#### Cash Flows from Financing Activities

Cash decreased by ¥1,637 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 (¥4,749 million), there was a decrease in cash from repayment of long-term loans payable (¥3,211 million), repayment of installment payables (¥2,094 million), repayment of lease obligations (¥512 million) and payment of dividends (¥577 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 our DtoD system as our starting point, we are making efforts to expand business. We accelerated the openings of new pharmacies, and we also actively took challenges in new fields like the long-term care business and management contracting. We plan on continuing these policies. Therefore, we anticipate that suitable funds will be needed to achieve these goals in the years to come.

Capital for the 48 new pharmacies (including 9 pharmacies from M&A transactions) that we opened in the fiscal year ended March, 2015 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 seek to maintain a net debt-to-equity ratio of 0.5.

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.

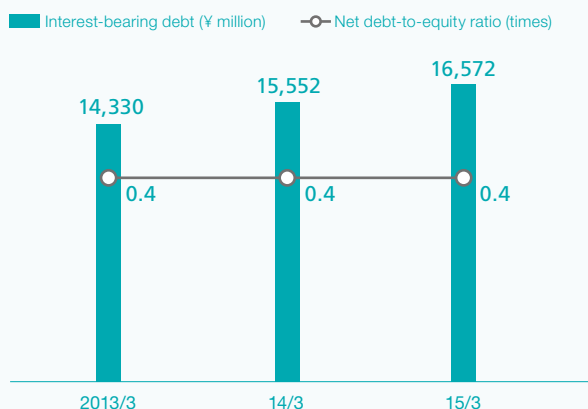
#### Shareholder Returns

Our basic policy on shareholder returns is to maintain a payout ratio of approximately 20%. Owing to our increase in net income during the year under review, our dividend remained the same as last year, ¥80 per share. 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.

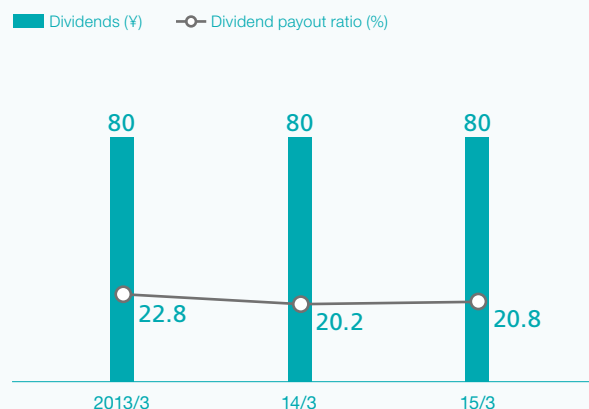
Also, on April 1, 2015, we carried out a 2-for-1 split of common stock. This was done in order to lower the price-per-unit investment in our stock. This will provide an environment in which all of our investors can make investments more easily, while also improving liquidity of our shares and expanding 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. The first step to realizing this goal is to work toward the achievement of our new medium-term management plan.

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



#### Trends in Dividends



## 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 19, 2015.

#### 1. 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 drugs and dispensing fees. Revenue from drugs is based on official prices called the Drug Price Standards decided under the Health Insurance Act, while revenue from dispensing 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 Affairs 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 Affairs 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.

## 2. 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.

## 3. 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 leasing 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.

## 4. 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 doctors in public practice, 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.

## 5. 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

	2013 (Apr. 1, 2012– Mar. 31, 2013)	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	5,115	5,873	4,988
Notes and accounts receivable-trade	14,327	18,326	17,485
Accounts receivable-installment sales	1,377	1,687	1,806
Lease receivables and investment assets	2,120	2,014	1,701
Inventories	4,973	6,475	7,543
Deferred tax assets	687	762	628
Other	1,595	1,933	2,450
Allowance for doubtful accounts	(13)	(26)	(19)
<b>Total current assets</b>	<b>30,184</b>	<b>37,047</b>	<b>36,584</b>
<b>Noncurrent assets</b>			
Property, plant and equipment			
Property for lease	7,985	6,871	5,929
Buildings and structures, net	6,203	7,418	8,763
Land	3,018	3,078	3,992
Other, net	1,591	2,065	3,116
Total property, plant and equipment	18,799	19,433	21,801
Intangible assets			
Goodwill	3,279	5,294	5,252
Other	711	953	1,031
Total intangible assets	3,990	6,248	6,283
Investments and other assets			
Investment securities	1,290	1,008	1,566
Deferred tax assets	587	568	468
Other	2,294	2,681	3,107
Allowance for doubtful accounts	(8)	(5)	(0)
Total investments and other assets	4,163	4,252	5,141
<b>Total noncurrent assets</b>	<b>26,953</b>	<b>29,934</b>	<b>33,226</b>
<b>Total assets</b>	<b>57,138</b>	<b>66,982</b>	<b>69,811</b>

(¥ million)

	2013 (Apr. 1, 2012– Mar. 31, 2013)	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable-trade	15,065	20,372	18,841
Short-term loans payable	330	350	360
Current portion of long-term loans payable	1,679	2,155	2,903
Lease obligations	519	503	363
Accrued expenses	1,541	1,725	2,072
Income taxes payable	1,077	1,333	1,452
Deferred profit on installment sales	129	175	190
Other	3,093	3,743	3,925
<b>Total current liabilities</b>	<b>23,437</b>	<b>30,358</b>	<b>30,109</b>
<b>Noncurrent liabilities</b>			
Long-term loans payable	3,570	5,191	6,835
Lease obligations	824	944	1,028
Long-term accounts payable-installment purchase	5,604	4,450	3,055
Other	2,064	2,103	2,260
Total noncurrent liabilities	12,063	12,689	13,180
<b>Total liabilities</b>	<b>35,501</b>	<b>43,048</b>	<b>43,290</b>
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Capital stock	3,513	3,513	3,513
Capital surplus	4,136	4,136	4,136
Retained earnings	14,779	17,058	19,255
Treasury stock	(1,043)	(1,043)	(1,044)
<b>Total shareholders' equity</b>	<b>21,386</b>	<b>23,665</b>	<b>25,861</b>
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	222	240	475
<b>Total accumulated other comprehensive income</b>	<b>222</b>	<b>240</b>	<b>475</b>
<b>Subscription rights to shares</b>	<b>1</b>	<b>–</b>	<b>–</b>
<b>Minority interests</b>	<b>26</b>	<b>28</b>	<b>184</b>
<b>Total net assets</b>	<b>21,636</b>	<b>23,934</b>	<b>26,521</b>
<b>Total liabilities and net assets</b>	<b>57,138</b>	<b>66,982</b>	<b>69,811</b>

## Consolidated Financial Statements

### Consolidated Statements of Income

(¥ million)

	2013 (Apr. 1, 2012– Mar. 31, 2013)	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)
Net sales	86,658	103,318	107,945
Cost of sales	73,503	88,889	93,139
Gross profit	13,155	14,428	14,805
Selling, general and administrative expenses	8,831	9,414	9,787
Operating income	4,324	5,014	5,017
Non-operating income	151	183	368
Dividends income	15	16	20
Dividends income of life insurance	12	–	–
Rent income	30	35	38
Insurance cancellation refunds	–	–	106
Other	93	130	202
Non-operating expenses	132	128	159
Interest expenses	67	57	75
Loss on valuation of investments securities	–	–	17
Other	65	71	65
Ordinary income	4,343	5,068	5,227
Extraordinary income	201	48	–
Gain on sales of investment securities	178	41	–
Contributed income	23	7	–
Extraordinary loss	85	70	51
Impairment loss	4	34	51
Loss on sales of investment securities	–	26	–
Loss on valuation of investment securities	6	–	–
Litigation expenses	39	–	–
Office transfer expenses	35	9	–
Income before income taxes	4,460	5,046	5,175
Income taxes-current	1,747	2,082	2,236
Income taxes-deferred	175	105	163
Total income taxes	1,922	2,187	2,400
Income before minority interests	2,537	2,858	2,774
Minority interests in income	5	2	0
Net income	2,532	2,856	2,774



## Consolidated Statements of Comprehensive Income

(¥ million)

	2013 (Apr. 1, 2012– Mar. 31, 2013)	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)
Income before minority interests	2,537	2,858	2,774
Other comprehensive income			
Valuation difference on available-for-sale securities	106	18	234
Total other comprehensive income	106	18	234
Comprehensive income	2,643	2,876	3,009
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	2,638	2,874	3,009
Comprehensive income attributable to minority interests	5	2	0

## Consolidated Statements of Change in Net Assets

(¥ million)

	Shareholders' equity				Total shareholders' equity	Accumulated other comprehensive income			Net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock		Valuation difference on available-for-sale securities	Subscription rights to shares	Minority interests	
<b>Balance at the end of FY2012</b>	3,513	4,136	12,788	(1,043)	19,395	116	—	—	19,511
Dividends from surplus	—	—	(541)	—	(541)	—	—	—	(541)
Net income	—	—	2,532	—	2,532	—	—	—	2,532
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—	106	1	26	133
<b>Balance at the end of FY2013</b>	3,513	4,136	14,779	(1,043)	21,386	222	1	26	21,636
Dividends from surplus	—	—	(577)	—	(577)	—	—	—	(577)
Net income	—	—	2,856	—	2,856	—	—	—	2,856
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—	18	(1)	2	18
<b>Balance at the end of FY2014</b>	3,513	4,136	17,058	(1,043)	23,665	240	—	28	23,934
Dividends from surplus	—	—	(577)	—	(577)	—	—	—	(577)
Net income	—	—	2,774	—	2,774	—	—	—	2,774
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	—	(1)
Net changes of items other than shareholders' equity	—	—	—	—	—	234	—	156	390
<b>Balance at the end of FY2015</b>	3,513	4,136	19,255	(1,044)	25,861	475	—	184	26,521

## Consolidated Financial Statements

### Consolidated Statements of Cash Flows

(¥ million)

	2013 (Apr. 1, 2012– Mar. 31, 2013)	2014 (Apr. 1, 2013– Mar. 31, 2014)	2015 (Apr. 1, 2014– Mar. 31, 2015)
<b>Net cash provided by (used in) operating activities</b>			
Income before income taxes	4,460	5,046	5,175
Depreciation and amortization	3,267	3,522	3,746
Impairment loss	4	34	51
Interest and dividends income	(17)	(18)	(22)
Capital cost and interest expenses	148	126	131
Decrease (increase) in notes and accounts receivable-trade	622	(3,468)	1,050
Decrease (increase) in accounts receivable-installment	(1)	(264)	(104)
Net decrease (increase) in lease receivables and investment assets	54	106	313
Decrease (increase) in inventories	(1,003)	(1,222)	(953)
Increase (decrease) in notes and accounts payable-trade	1,529	4,932	(1,735)
Increase (decrease) in other assets/liabilities	(118)	181	(223)
Other, net	261	439	839
Subtotal	9,207	9,416	8,269
Interest and dividends income received	17	18	22
Interest expenses paid	(148)	(130)	(131)
Income taxes paid	(1,807)	(1,842)	(2,108)
Net cash provided by (used in) operating activities	7,269	7,461	6,051
<b>Net cash provided by (used in) investing activities</b>			
Purchase of own-used assets	(3,032)	(3,308)	(3,767)
Proceeds from sales of own-used assets	349	88	–
Purchase of property for lease	(74)	(69)	(96)
Purchase of investment securities	–	(97)	(270)
Proceeds from sales of investment securities	341	444	–
Expenditures for business transfer	–	–	(263)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(455)	(2,277)	(579)
Payments of loans receivable	(191)	–	–
Other, net	(317)	(115)	(318)
<b>Net cash provided by (used in) investing activities</b>	(3,380)	(5,335)	(5,296)
<b>Net cash provided by (used in) financing activities</b>			
Net increase (decrease) in short-term loans payable	(12)	6	9
Proceeds from long-term loans payable	1,500	3,650	4,749
Repayment of long-term loans payable	(1,376)	(1,910)	(3,211)
Repayments of lease obligations	(593)	(573)	(512)
Repayments of installment payables	(1,755)	(1,963)	(2,094)
Cash dividends paid	(541)	(577)	(577)
Purchase of treasury stock	(0)	(0)	(1)
Other, net	1	(1)	–
<b>Net cash provided by (used in) financing activities</b>	(2,777)	(1,370)	(1,637)
Net increase (decrease) in cash and cash equivalents	1,111	755	(882)
Cash and cash equivalents at beginning of period	3,984	5,095	5,851
Cash and cash equivalents at end of period	5,095	5,851	4,968

## Segment Information

¥ million

## 2013

Apr. 1, 2012–Mar. 31, 2013

	Reportable Segments				Others*1	Total	Reconciliations*2	Consolidated amounts*3
	Higashinohon	Nishinohon	Kyushu	Total				
Sales								
Unaffiliated sales	31,747	20,067	33,249	85,063	1,595	86,658	—	86,658
Intersegment sales	25	11	3	41	810	851	(851)	—
Total	31,772	20,079	33,253	85,104	2,406	87,510	(851)	86,658
Segment profit	1,282	989	2,256	4,529	247	4,776	(452)	4,324
Segment assets	19,093	11,547	15,123	45,764	3,278	49,042	8,095	57,138

## 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 (¥452 million) included elimination of intersegment sales (¥6 million) and overall corporate expenses (–¥459 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 (¥8,095 million) included elimination investment against equity (–¥5,114 million) and overall corporate assets (¥13,985 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.

## 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.

## Corporate Information (As of June 1, 2015)

### 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	The Bank of Fukuoka, Ltd., Mizuho Bank, Ltd., The Kitakyushu Bank, Ltd., Sumitomo Mitsui Banking Corp., The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation, Sumitomo Mitsui Trust Bank, 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 Shizuoka Bank, Ltd., The Hachijuni Bank, Ltd., The Bank of Kyoto, Ltd., The Senshu Ikeda Bank, Ltd., The Kiyo Bank, Ltd., The Hiroshima Bank, Ltd., The San-in Godo 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 Chikuho Bank, Ltd., Development Bank of Japan Inc., The Norinchukin Bank, etc.
Relationships	
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) Care Medical Co., Ltd. (pharmacies) Beauty Drug Saito Co., Ltd. (pharmacies) Nakano Pharmacy Co., Ltd. (pharmacies) Matsumura Co., Ltd. (pharmacies) Akatsuki Pharmacy Co., Ltd. (pharmacies) Pharma Systems Co., Ltd. (pharmacies) Sogo Media Supply Co., Ltd. (TV rental service for hotels, etc.) Sogo Medipro Co., Ltd. (medical staff introduction and temporary placement services) 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. (medical and health information service)
Bases	595 (3 offices, 23 branches, 4 sales offices, 1 satellite office, 547 pharmacies, 17 in-hospital stores)
Employees	3,307 full-time workers, 1,208 part-time workers

### 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.	Jan. 2011	Started wholesale marketing of medical and pharmaceutical products.
Oct. 1987	Started real estate agency and practice inheritance businesses.	Oct. 2011	Acquired all outstanding shares of Maeda Pharmacy Co., Ltd., a pharmacy.
Nov. 1987	Started the TV rental business for patients.	Nov. 2011	Started long-term care service businesses, such as residential homes for the elderly.
Jun. 1988	Established the first Sogo Pharmacy.	Jun. 2012	Acquired all outstanding shares of Sun Villa Co., Ltd., a fee-based residential home for the elderly.
Oct. 1989	Name changed to Sogo Medical Co., Ltd.	Nov. 2012	Acquired all outstanding shares of Yataya Pharmacy Co., Ltd., a pharmacy.
Nov. 1989	Started the "Green Members" (now "Succeed Members") member system targeted to medical personnel.	Dec. 2012	Acquired all outstanding shares of Sumiredo Pharmacy Co., Ltd., a pharmacy.
Oct. 1994	Started the planning, design, and construction of medical facilities.	Apr. 2013	Absorption-type merger with Sogo Medical Pharmacy Kanto Co., Ltd., a pharmacy.
Aug. 2000	Listed on Second Section of Tokyo Stock Exchange.	Aug. 2013	Acquired all outstanding shares of pharmacies Taikodo Yakkyoku Honten Co., Ltd. and TM Yakkyoku 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.	Dec. 2013	Acquired all outstanding shares of Care Medical Co., Ltd., a pharmacy.
Sep. 2001	Listed on First Section of Tokyo Stock Exchange.	Mar. 2014	Acquired all outstanding shares of pharmacies Beauty Drug Saito Co., Ltd. and Nakano Pharmacy Co., Ltd.
Oct. 2001	Started the DtoD system.	Apr. 2014	Absorption-type merger with Sogo Healthcare Service Co., Ltd., a company operating shops in hospitals.
Jan. 2002	Acquired all outstanding shares of the pharmacies Hello Medical Co., Ltd., Hello Network Co., Ltd. and Hase Dispensing Pharmacy Co., Ltd.	Aug. 2014	Acquired all outstanding shares of pharmacies Matsumura Co., Ltd. and Akatsuki Pharmacy Co., Ltd.
Dec. 2003	Started temporary introduction and placement service of other medical staff.	Sep. 2014	Absorption-type merger with Sumiredo Pharmacy Co., Ltd., a pharmacy.
Apr. 2005	Started hospital operational management contracting.	Oct. 2014	Absorption-type merger with pharmacies Taikodo Yakkyoku Honten Co., Ltd. and TM Yakkyoku Co., Ltd.
Aug. 2007	Formed business alliance with Mitsui and Co., Ltd..	Mar. 2015	Acquired 61.6% of stock of Hokendohjinsha Inc., a medical and health information service company.
Jun. 2010	Acquired all outstanding shares of Aoba Pharmacy Co., Ltd., a pharmacy.	May 2015	Acquired all outstanding shares of Pharma Systems Co., Ltd., a pharmacy.

## Stock Information (As of March 31, 2015)

### Shareholder Composition

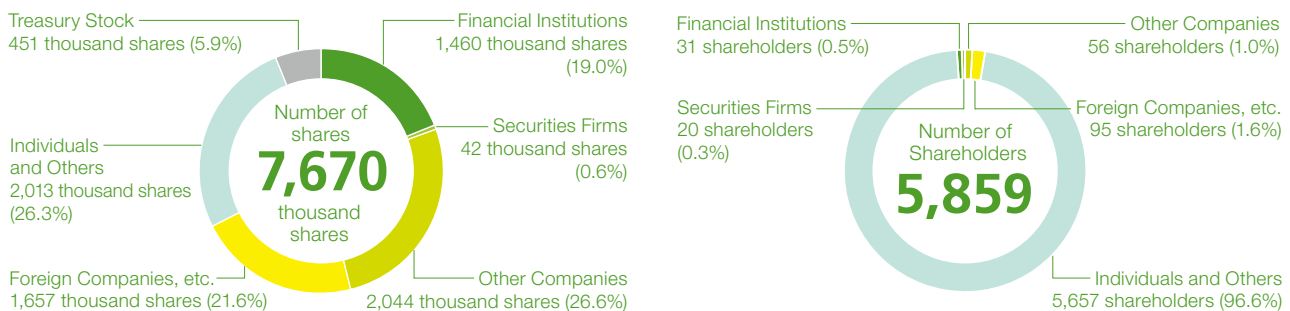
Total Number of Issued Shares	7,670,078 shares
Number of Shareholders	5,859 shareholders
Number of Unit Shareholders	5,240 shareholders

### Major Shareholders (Top 10 Largest Shareholders)

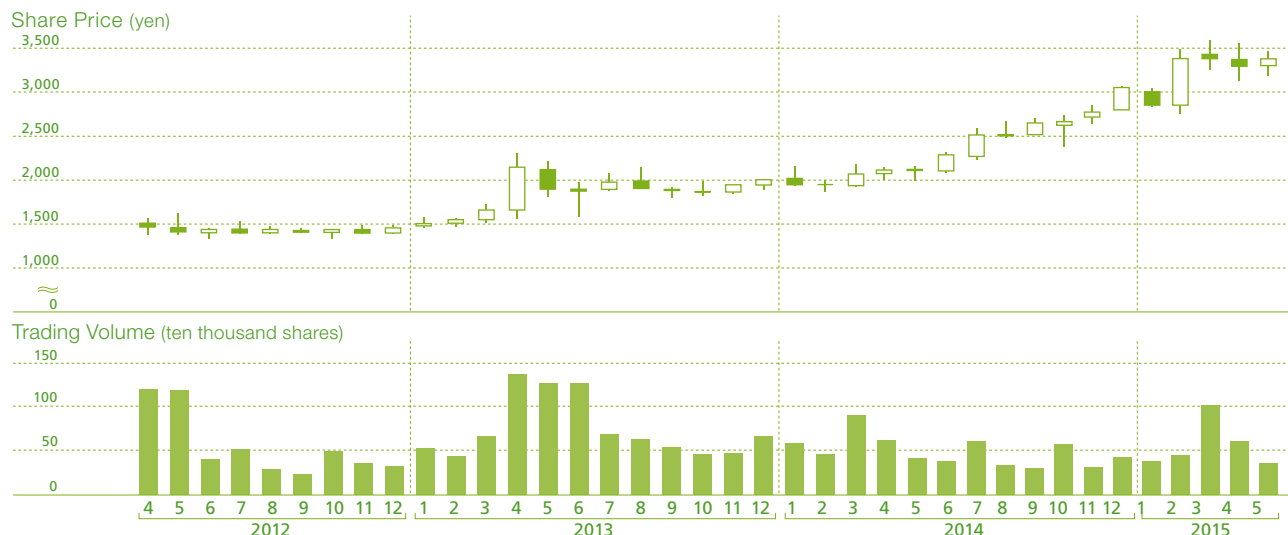
Name of Shareholder	Number of Shares Held (thousands of shares)	Shareholding Ratio
Mitsui & Co., Ltd.	1,550	21.5%
The SFP Value Realization Master Fund Limited (Standing proxy: Citibank Japan Ltd.)	489	6.8%
Century Tokyo Leasing Corporation	361	5.0%
The Bank of Fukuoka, Ltd.	307	4.3%
Hirosada Oyamada	226	3.1%
The Kitakyushu Bank, Ltd.	202	2.8%
Japan Trustee Services Bank, Ltd. (Trust account)	132	1.8%
State Street Bank and Trust Company 505001 (Standing proxy: Settlement Sales Department, Mizuho Bank, Ltd.)	122	1.7%
Employees Shareholders' Association of Sogo Medical	122	1.7%
Northern Trust Co (AVFC) Sub A/C Non Treaty (Standing proxy: Tokyo Branch, Hong Kong and Shanghai Banking Corporation Limited)	116	1.6%

Ratios of controlling shares are calculated excluding Sogo Medical treasury stock (451 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

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Printed in Japan