

Annual Report 2017

From April 1, 2016 to March 31, 2017

Good Medical Practice through Good Management

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

Management Principles

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

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.

Sogo Medical's Vision of Good Medical Practice

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

- ◆ Bringing people together _____ Recipients and providers of medical practice and the local community understand and share each other's thoughts and situations with trust and respect.
- ◆ Optimal settings _____
 - Permanent settings for efficient medical resource allocation and development
 - Reliable, safe settings for medical practice recipients and providers
 - Settings for differentiated medical functions, coordinated to realize the potential of specialization
 - Settings for appropriate information disclosure to facilitate consent and choice
- ◆ Compassionate medical practice _____ Compassionate medical practice from the beginning to the end of life through the social, economic, physical, and psychological aspects of care, enhancing the quality of life for all, and enabling them to smile with a sense of hope.

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

Corporate Logo

The logo is designed around a human being motif.

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



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

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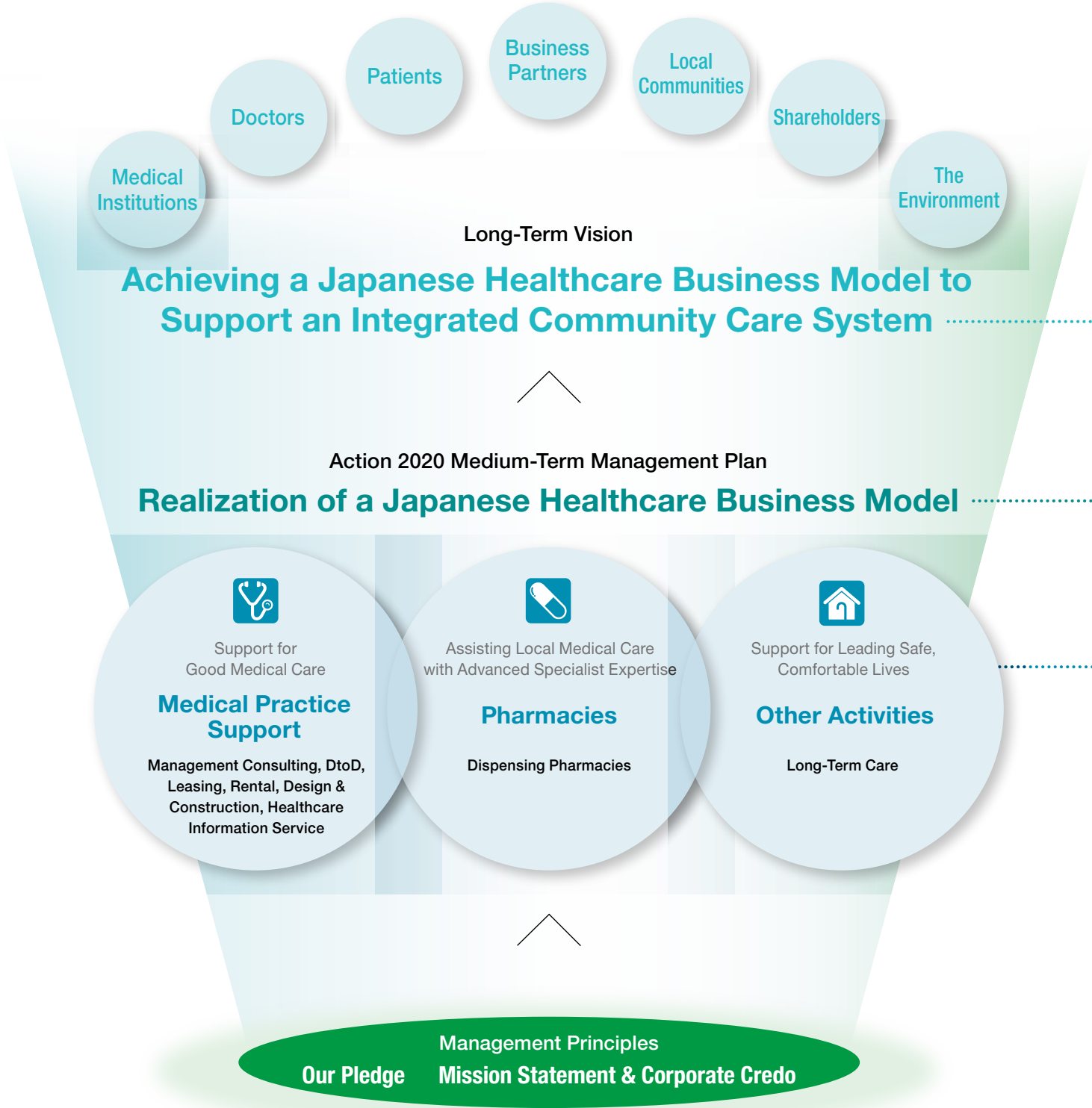
Stock Information

A cautionary note on forward-looking statements

- This annual report contains forward-looking statements relating to performance projections and future predictions that are based on judgments made in light of information available at the time of writing, and as a result includes risks and uncertainties. For this reason, there is a possibility that actual results may differ from such forecasts.
- If it becomes necessary to make revisions to items presented in this annual report after publication, the revised items will be updated on the company website in the "Investor Relations" section.

Long-Term Vision & Business Outline

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



Long-Term Vision Achieving a Japanese Healthcare Business Model to Support an Integrated Community Care System

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

Action 2020 Medium-Term Management Plan Realization of a Japanese Healthcare Business Model

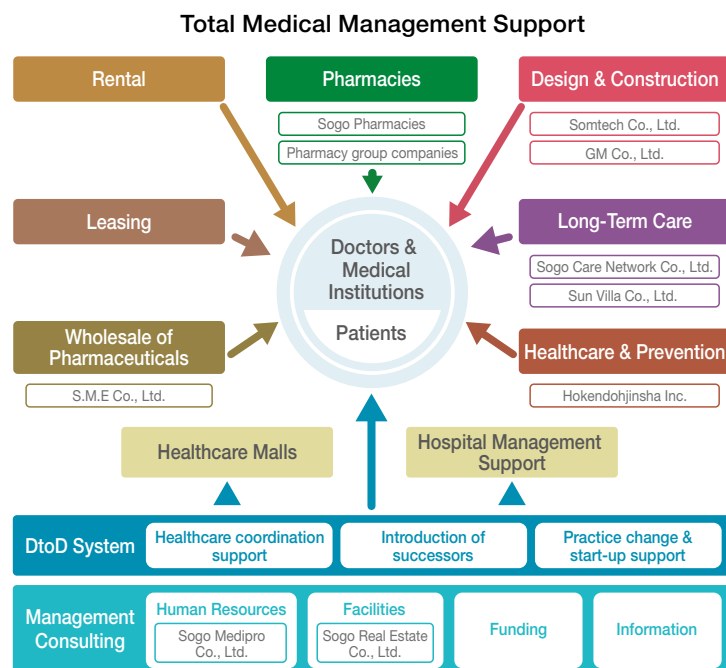
(For the three-year period from April 2017 to March 2020)

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



Providing Total Consulting-Based Medical Management Support

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



Business Overview

Medical Practice Support



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

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

Pharmacies



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

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

Others



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

Contributing to the Revitalization of Local Medical Care through the DtoD (Doctor to Doctor) System

15 Years of Helping Doctors Reach Their Aspirations

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

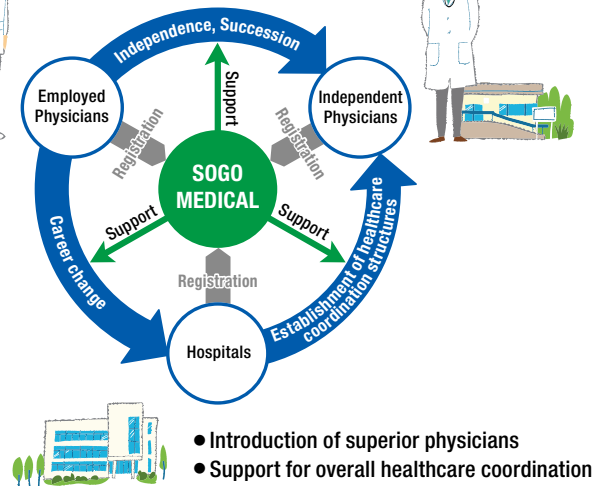
The DtoD system is a framework that supports both the ambitions of doctors and good medical practices. For example, one service offered under the DtoD system provides extensive nationwide placement information to doctors wishing to change their practice, suggesting opportunities that provide the best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

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

Career change, support to launch independent practice



Introduction of successor



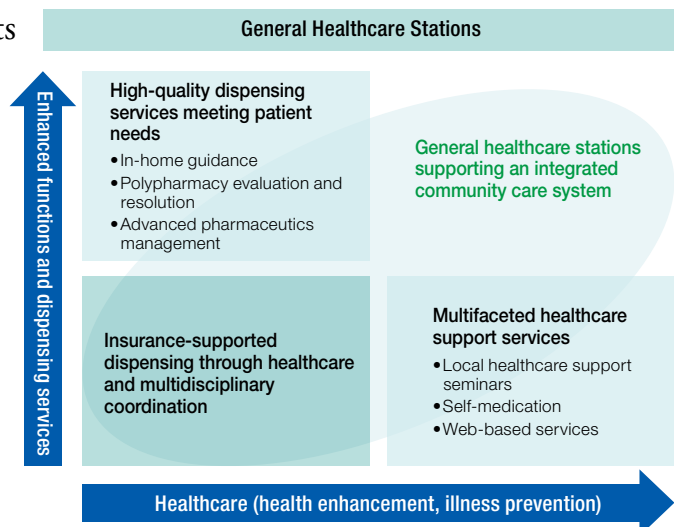
High-Value Pharmacies with Local Roots

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

Also, through our GOES*2 independent training system, we are furthering efforts to improve the quality of medical service by providing our pharmacists with the necessary medical and pharmaceutical knowledge, communication ability, technical skills, and proper attitude.

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

*2 GOES: Gradable OJT Educational System



Sogo Medical's Development

Net Sales
(¥ billion)

140

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

120

100

80

60

40

20

0

Net Sales Ordinary Income

1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997

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

November 1987
TV rental business for patients launched

June 1988
Pharmacy business launched

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

October 1994
Design and construction of medical facilities begun

Major Events

1978-1987

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

• 1987 November
TV rental business for patients launched



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

1988-1996

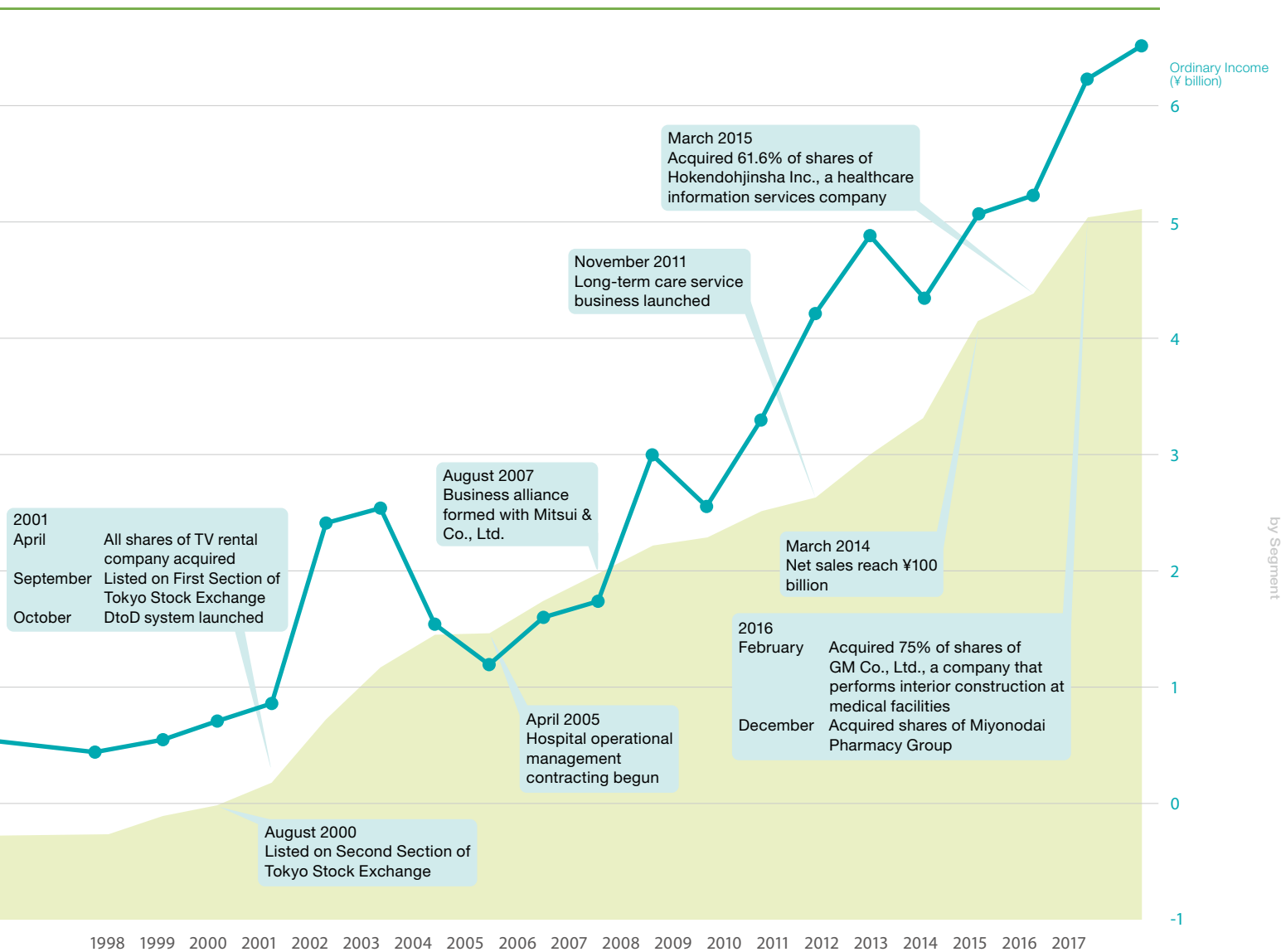
• 1988 June
Pharmacy business launched

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

• 1994 October
Design and construction of medical facilities begun



First Sogo Pharmacy, in Sakuradai



January 2002
100th Sogo Pharmacy opened

November 2004
200th Sogo Pharmacy opened

June 2010
300th Sogo Pharmacy opened

December 2012
400th Sogo Pharmacy opened

April 2014
500th Sogo Pharmacy opened

December 2016
600th Sogo Pharmacy opened

1997-2006

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



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

2007-2016

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



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

2017 Highlights

Each humble activity adds up and leads to steady growth.

Medical Practice Support

418 new practice questionnaires collected.



New Practice Questionnaires

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



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

Seminar Participation from Doctors

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

69,159 doctors are registered with our DtoD system.

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

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



We have 39 healthcare management consultants.

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

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

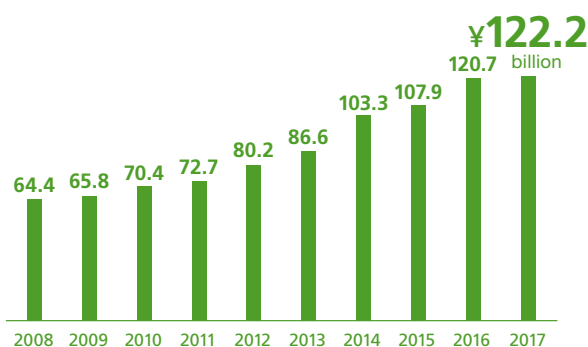
Succeed Members now total 1,666.



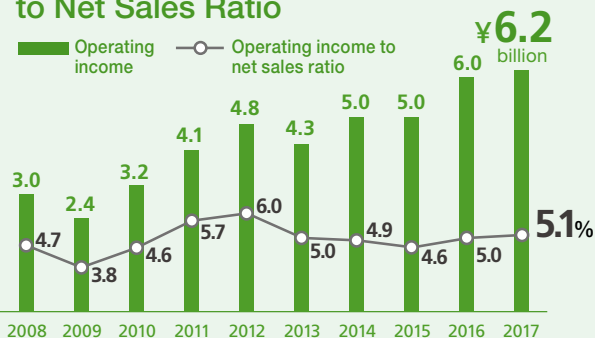
Succeed Members

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

Net Sales



Operating Income / Operating Income to Net Sales Ratio



Pharmacies

We ran economic comparison simulations for 83 pharmacies.

Economic Comparison Reports

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

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

HealthCare Note

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

2,364
Pharmacists

Pharmacists

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



(As of March 1, 2017)

There are
now 674
Sogo
Pharmacies.

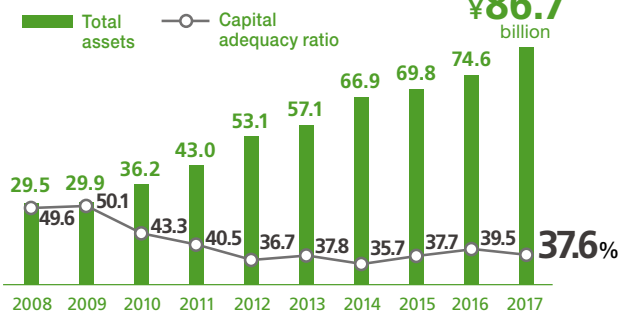
Sogo Pharmacies

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

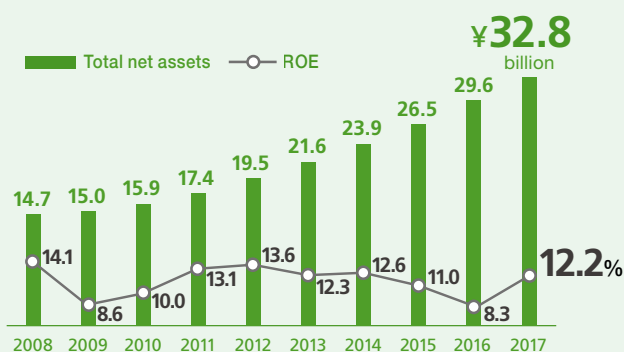
We provided feedback to
doctors from 95,948 trace
reports.

Trace Reports

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

Total Assets /
Capital Adequacy Ratio

Total Net Assets / ROE



Fiscal year ending March 31

We are building a platform for regional healthcare networks through our DtoD system and high-value pharmacies.



Kenji Sakamoto

Representative Director,
President and
Chief Executive Officer

President's Message

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Medium-Term Management Plan Priority Initiative 2 Improving Existing Businesses

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

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

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General Outline of the Fiscal Year Ending March 31, 2017

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

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

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



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

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

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

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

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

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

We expect demand for management support to

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

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

We are synergizing to enhance the content of our businesses.

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

Proprietors of enterprises employing more than 50 people are required to carry out an annual stress check. Through Hokendohjinsha, we are strengthening the marketing of our stress check requirement package. To respond to diverse customer requests including unified checks across group companies, or group

company-specific employee guidance (or check duration, or high-stress indicators) with unified headquarters control—we began offering Co-Labo stress check packages for group companies in January 2017. Going forward, we will coordinate with Hokendohjinsha to promote businesses that will contribute to the health of local community residents.

* EAP: Employee Assistance Program

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

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

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

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

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

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

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

We extended the efforts of the previous term to promote an organization where employees with disabilities can achieve independence and work with confidence and pride as a strategic strength of the company. We also promoted

greater participation on the part of female employees, implementing training courses to develop female managers and seminars to promote opportunities for women.

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

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

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

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

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

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

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

16 Policy Background

17 Action 2020 Medium-Term Management Plan

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20 Our Long-Term Vision



Action 2020 Medium-Term Management Plan

Policy Background

Evaluation of Previous Medium-Term Management Plan and Main Points of the New Plan

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

Summary Evaluation of the Previous Plan

1 Undertaking New Businesses

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

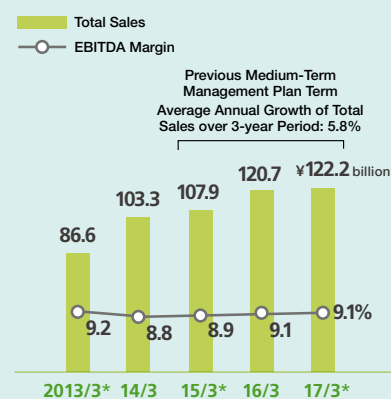
2 Improving Existing Businesses

- 858 practice start-ups (including 52 healthcare malls)
- Initiated new "start-up from scratch" support system*
- Generic drug utilization rate over 70% (quantitative base)
- 220,000 trace reports (feedback to physicians)

3 Enhancing Corporate Value

- Consolidated new personnel system, made impartial evaluations visible
- Delegated significant decision authority, speeding up decision-making

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



Note: EBITDA = Earnings before tax + depreciation expense + goodwill amortization
 EBITDA Margin = EBITDA ÷ Total Sales
 * revised fiscal year, treatment income

Anticipated Changes in Operating Environment

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

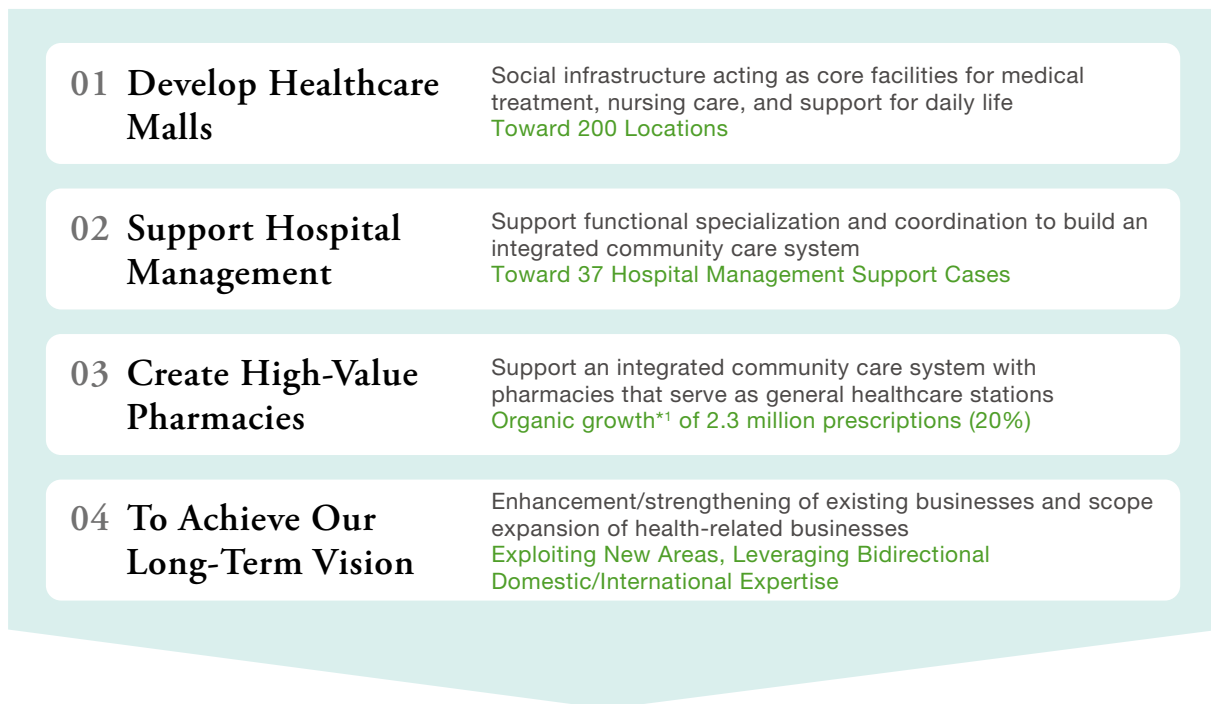
	New Medium-Term Management Plan Term				
	Fiscal year ending March 31, 2017	Fiscal year ending March 31, 2018	Fiscal year ending March 31, 2019	Fiscal year ending March 31, 2020	Fiscal year ending March 31, 2021
Revised Treatment Income	●	Central Social Insurance Medical Treatment Income Active discussion of revision	●		●
Revised Drug Income	●		●	●	●
Revised Long-Term Care Income		Care insurance for ordinary Diet session Submission of system revision proposal	●		
Treatment Plan	6th Treatment Plan		7th Treatment Plan (start of Community Health Care Visions)		
Care Insurance Business Plan	Care Insurance Business Plan		Care Insurance Business Plan		
Macro Factors			End of House of Representatives Term	End of House of Councilors Term / Consumption Tax Increase	Tokyo Olympics and Paralympics

Action 2020 Medium-Term Management Plan

Realization of a Japanese Healthcare Business Model

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

Objectives for the Fiscal Year Ending March 31, 2020



Building a Platform for Regional Healthcare Networks

Management Targets (Fiscal year ending March 31, 2020)

Cash Flow <hr/> Total Sales ¥160 billion (organic) <hr style="border-top: 1px dashed black;"/> EBITDA Margin*² Over 9%	Growth Investment <hr/> Facilities Investment ¥20 billion allocated over three years Aggressive use of M&A and coordination in separate category	Financial Strategy <hr/> Net Debt-to-Equity Ratio*³ Approx. 0.5 (times) <small>Where funding is required to support strategic growth, we will use mainly interest-bearing debt and limit the ratio to approximately 1.0</small>	Total Shareholder Returns <hr/> Payout Ratio Maintained at minimum 20% Maintaining stable, continuous dividend payouts
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*1 Organic Growth: independent growth exclusive of M&A

*2 EBITDA: Earnings before tax + depreciation expense + goodwill amortization
EBITDA Margin: EBITDA ÷ Total Sales

*3 Net debt-to-equity ratio: (Interest-bearing debt – cash and deposits – certificates of deposit)/shareholders' equity
Interest-bearing debt includes lease obligations and installment purchase accounts payable that are included in the consolidated balance sheet

Action 2020 Medium-Term Management Plan

Action Plan

01 Healthcare Mall Development

Toward 200 Locations

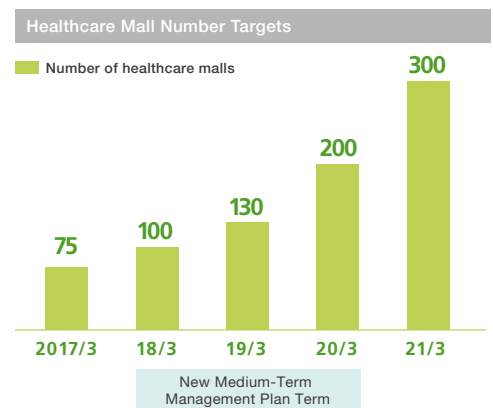
Creating healthcare malls to meet the challenges faced by local communities is a step toward enhanced community security.

Because we believe development of healthcare malls is a step toward more secure communities from a medical standpoint, Sogo Medical is actively supporting the creation of such malls nationwide.

Concentrating medical capabilities required by communities in healthcare malls and promoting coordination between physicians enhances utility for patients and creates a sense of security.

Furthermore, by promoting the creation of ideal healthcare malls that incorporate functions other than medical treatment, including nursing care, healthcare and prevention, and daily life support, and by deepening mutual coordination between physicians, we will contribute to building a society that allows local residents to continue living in familiar neighborhoods with peace of mind.

As regional cities become more compact, we are helping to make communities better places to live by supporting the development of healthcare malls that bring dispersed medical and other functions together in one location.



Healthcare mall categories

Independent Clinic Grouping

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

General Treatment Clinic Type & Specialized Treatment Clinic Type

Healthcare mall offering treatment by specialist physicians in multiple treatment disciplines

Patients can undergo health examinations in a number of treatment specialties in a single clinic, enhancing patient utility through unified patient data management, reception, and payment.

Model Case Study

Healthcare malls offer new potential to provide medical capabilities on a par with hospitals.

Sogo Medical is developing healthcare malls that can serve mild-symptom, chronic-phase and other patients with the same effectiveness as advanced acute care hospitals.

Healthcare malls scheduled to open in October 2017 will offer 10 specialties also found in advanced acute care hospitals. These malls will deliver treatment services in coordination with hospitals, contributing to formation of an efficient, effective treatment delivery structure.

Estimated Opening

October 2017

Planned medical departments

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

Model coordination with hospitals

Advanced Acute Care Hospital (advanced medical treatment)

Provide advanced treatment to acute-phase patients.

Outpatient acceptance

→

Specialized Treatment Clinic-Type Healthcare Mall (primary care treatment)

Respond to chronic-phase and mild-symptom patient needs with wide range of medical departments.

←

Health screening, hospital admission, introduction of patients requiring specialized treatment

Healthcare Mall Evolution

Community healthcare mall

Malls will offer nursing care, healthcare and prevention, and other functions in addition to medical treatment to support healthcare and daily life in local communities.

These malls will serve as centers of support for local residents to continue living in familiar neighborhoods with peace of mind.

02 Hospital Management Support

Toward 37 Hospital Management Support Cases

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

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

Management Support Case Targets

	2017/3	18/3	19/3	20/3
New cases		3	9	20
Total cases at the close of the term	5	8	17	37

New Medium-Term Management Plan Term

Solutions

Securing personnel

- Invitation of partner physicians
- Secure consultants able to serve as heads of administration or management planning

Information gathering

- Gather information relating to consulting needs of corporate and private hospitals
- Promote specialized treatment clinic-type healthcare malls

Service expansion

- Expand Succeed Members services

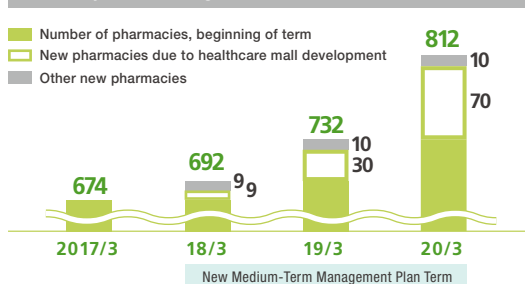
03 Create High-Value Pharmacies

Organic growth of 2.3 million prescriptions (20%)

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

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

Pharmacy Number Targets



04 To Achieve Our Long-Term Vision

Exploiting New Areas, Leveraging Domestic / International Expertise

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

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

Domestic

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

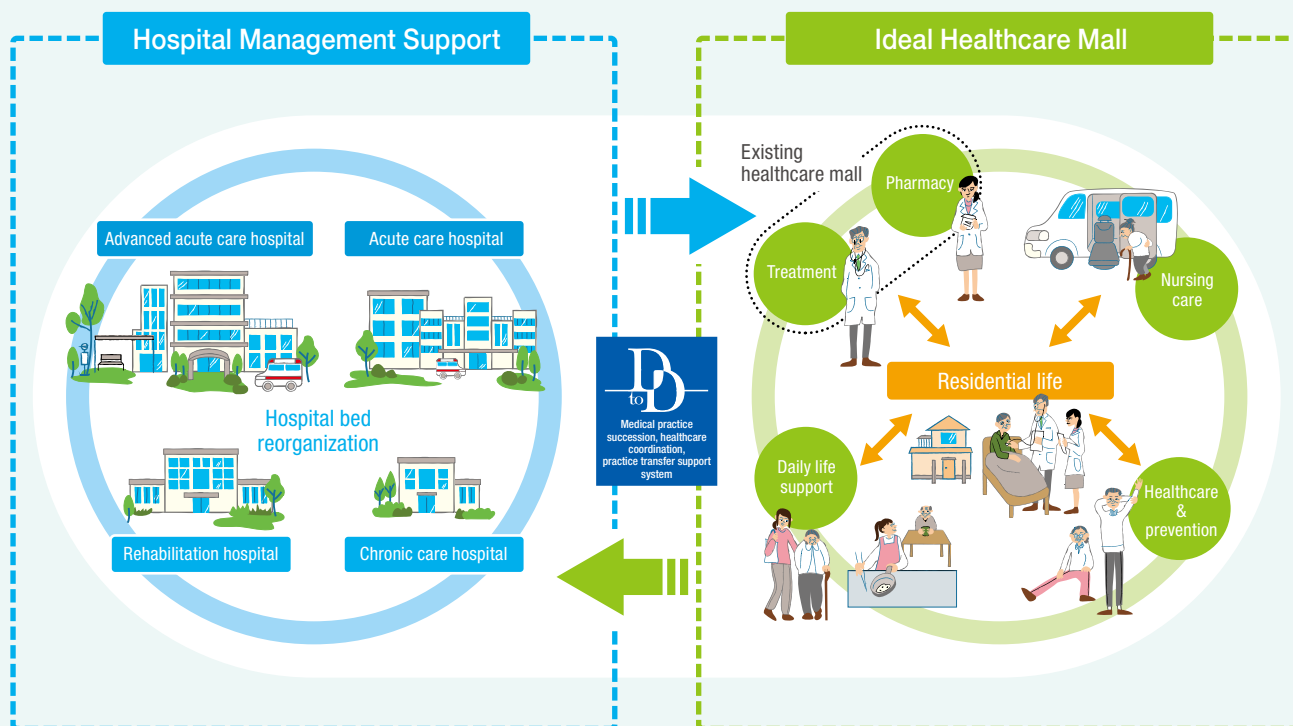
- Extend and strengthen existing businesses;
- Consider commercialization of these themes in new areas.

International

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

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

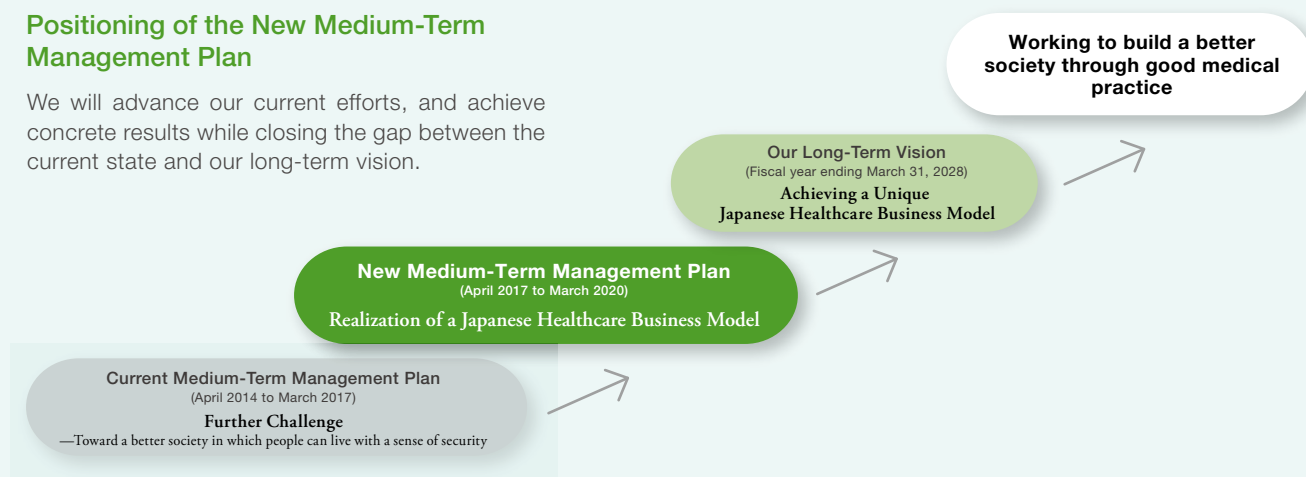
Achieving a Japanese Healthcare Business Model to Support an Integrated Community Care System



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

Positioning of the New Medium-Term Management Plan

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



Action Reports

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33 Other Topics



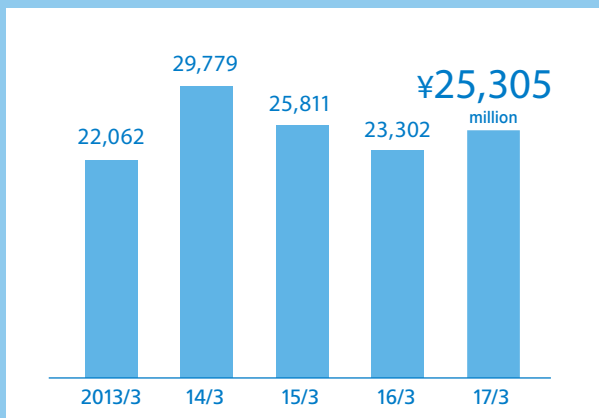
Medical Practice Support Business

Summary & Data

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

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

Medical Practice Support Business Total Sales



Developing and Expansion of Healthcare Malls

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

Promoting Support for Medical Practice Succession

Preserving local medical practices that support daily life.

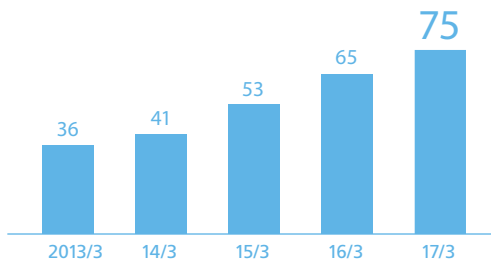
We supported 46 medical practice successions during the term.

Hospital Management Support

To help meet the challenges of a changing medical environment, we provided hospital bed reorganization consulting for 20 medical institutions.

Healthcare malls not only provide patients with greater convenience, they promote more efficient treatment by fostering coordination among physicians, and are contributing to the provision of in-home care through coordination with other professionals. We are continuing to focus on healthcare mall development, and the number of healthcare malls totaled 75 at the end of the term. Going forward, we will actively promote the creation of healthcare malls as centers for treatment and nursing care.

Healthcare malls at the close of the term

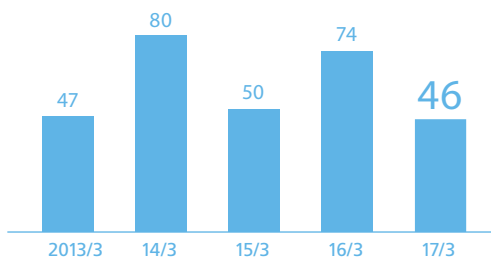


Healthcare malls opened during the term

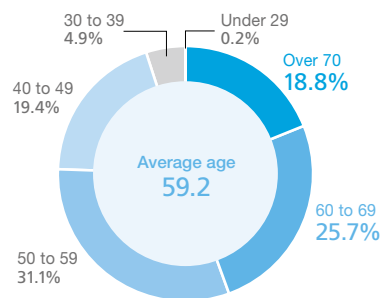


One of the major challenges facing local medical care is the aging of practice owners and a lack of available successors. Sogo Medical is promoting support for third-party medical practice succession, using our nationwide DtoD network of physicians wishing to transfer or start their own practices, to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

Medical practice succession support cases



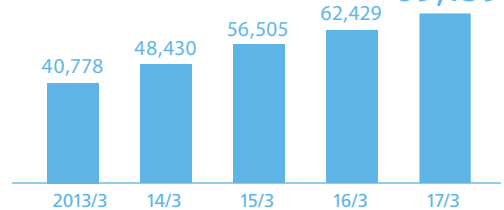
Physician age distribution



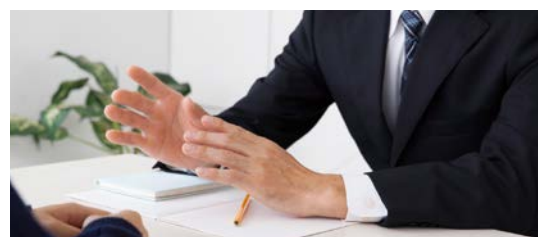
* Physicians: practice owners, enterprise representatives or employees.

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

Doctors Who Wish to Transfer or Open a Practice



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



Sotaro Nagahata
Senior Consultant
Consulting Division
Sogo Medical Co., Ltd.

Takahiro Honda
Leader
Nagoya Branch
Sogo Medical Co., Ltd.

Yuji Saito
Chairman, Kiyosu Respiratory Medical Hospital
Director, Haruhi Respiratory Medical Hospital

Action Report **1** Hospital Management Support

Realizing One Physician's Vision with Total Management Support

Kiyosu Respiratory Medical Hospital
Haruhi Respiratory Medical Hospital

Relocation and management support for specialized hospital

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

In 2012, we matched a corporate health insurance association-supported hospital, which the corporation was looking to divest, with Dr. Yuji Saito, a physician registered with our DtoD service. This marked the start of the project, and over four years later, the new hospital opened.

High-quality medical care for the entire local community. We worked to realize one doctor's dream.

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

In 2012, when Dr. Saito became director of the new hospital, he decided to replace the aging structure and upgrade Kiyosu's medical infrastructure. To realize his



ideal of treatment for both acute- and chronic-phase patients, Sogo Medical coordinated resources at its head office, as well as at the regional office and branch levels, to deliver total support, including finding a new location, building design and construction, and personnel recruitment. At the same time, Sogo Medical consultants began providing internal and external management support.

はるひ呼吸器病院



Our goal was to create a center of local medical care by providing internal and external management support.

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

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

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

issues, and advertising."

Nagoya Branch member Takahiro Honda is responsible for other aspects of management support. "I coordinate with Mr. Nagahata to provide support in a variety of areas like physician introductions, leasing and installment payments, and rentals. Our goal is for Haruhi Respiratory Medical Hospital to become an important part of Aichi



Prefecture's regional healthcare network. We're working hard to contribute to local medical care by combining our respective skill sets with our physician, local, and



corporate networks."

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

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

Action Report **2** Healthcare Mall Development

Kajigaya-Ekimaе Clinic Mall



Areas of Support

Real estate search, design/construction, pharmacy opening, etc.

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

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

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

negotiation with the landlord and financing negotiations with financial institutions.

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

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

Action Report **3** Healthcare Mall Development

Miyahara Clinic Mall



Areas of Support

Real estate search, design/construction, pharmacy opening, etc.

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

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

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

and equipment selection and installation.

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

Furthermore, we are continuing to search for a practitioner in gynecology, or ophthalmology, and will continue to support the mall in its efforts to meet the needs of young and old.

Shingu Chuo-Ekimaе Mall



Areas of Support

Start-up consulting, leasing, installment payments, real estate search, pharmacy opening, etc.

Medical treatment suited to a growing, changing community. A healthcare mall with residents' needs in mind.

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

After the mall opened, we

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

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

Elm Josei Clinic



Areas of Support

Start-up consulting, real estate search, etc.

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

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

In October 2015, we began providing medical practice succession support for the clinic, which handles over 300 births annually. The new director wanted to expand the midwife staff, strengthen childbirth services, and provide enhanced post-partum guidance to new mothers. This would

require new equipment and remodeling of the old clinic building.

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



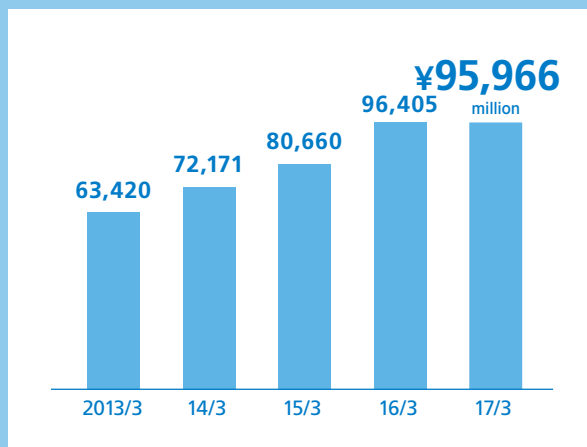
Pharmacy Business

Summary & Data

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

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

Pharmacy Business Total Sales



Creating high-value pharmacies

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

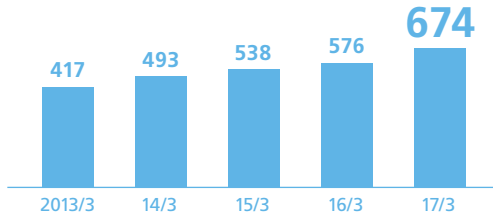
Sogo Medical’s goal for pharmacists and pharmacies

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

We have actively promoted the strengthening of pharmacy functions, for example by helping pharmacists acquire highly specialized capabilities and by providing support for health improvement. In addition, by opening new and acquiring existing pharmacies, we expanded our network to 674 locations.

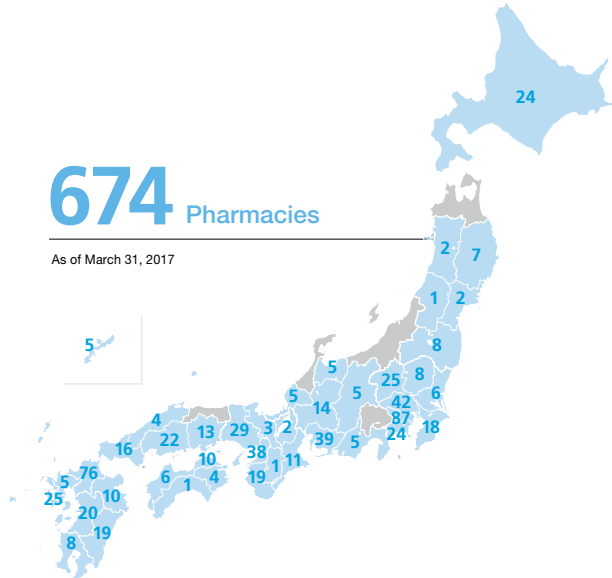
Expanding nationwide network

Number of Pharmacies



674 Pharmacies

As of March 31, 2017



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

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

Healthcare Support Functions

Contributing to illness prevention and healthcare support

- Procurement capabilities and advice structure to enable proper selection of medications requiring guidance for use
- Health advice desk, examination recommendation and introductions to medical institutions, etc.



Advanced Pharmaceuticals Functions

Meeting needs for advanced pharmaceuticals management

- Coordination with medical institutions to manage side effects of cancer treatment; selection of HIV medications, etc.



Primary Care Pharmacists and Pharmacies

Centralization and ongoing monitoring of information relating to use of medications

Ongoing monitoring of side effects and efficacy; prevention of duplicate medications and pharmacological interactions

Utilizing ICT (electronic drug history notebooks, etc.)

- Monitor prescription information for all medical institutions visited by the patient
- Monitor medications used, including nonprescription drugs, in a centralized, ongoing manner; provide pharmacological management and guidance

24-hour and in-home response

Responding to nighttime and holiday in-home care needs

- 24-hour response
- Pharmacological management and guidance in the use of medications for in-home patients

* In addition to coordination with local pharmacies and regional pharmacist associations, coordination is possible with comprehensive regional support centers, etc., serving as centers for advice in remote areas

Coordination with medical institutions, etc.: information sharing via medical information coordination network

- Prescription verification and recommendation
- Feedback on side effects and medication status
- Provision of advice relating to medications, health, etc.
- Promotion of testing at medical institutions

Healthcare Support Pharmacy

(Source: prepared by Sogo Medical from Ministry of Health, Labour and Welfare data)

On-the-job Training Program Launched



Training with simulated patient

We launched a practical training program for approximately 1,500 pharmacists nationwide.

This training will enable us to enhance the quality of our frontline service.

To support the Primary Care Pharmacist System established by the government in April 2016, we began a new personnel training program in August of the same year.

The program consists of two components. The first includes providing guidance to patients regarding safe and effective non-prescription medications, as well as self-medication support

advice relating to daily life patterns and other topics. The second component uses simulated patients to strengthen pharmacists' communication skills. Training is given over a two to three month period in each of 44 national districts, with the goal of producing more effective primary care pharmacists.

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



Sterile clean bench compounding

*Becoming an in-home care specialist pharmacist requires internal certification.

We help pharmacists specialize.

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

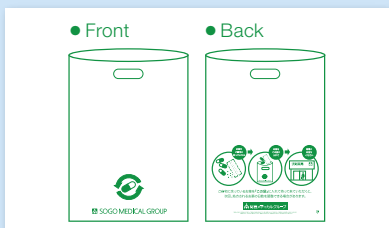
To further bolster our capabilities to meet expanding in-home medical care needs, we launched a training program for in-home care specialist pharmacists in FY2016.

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

influences oral care.

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

Managing Leftover Medications



Leftover medication bags

All Sogo Pharmacies offer free leftover medication bags.

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

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

Starting in May 2016, Sogo Medical Group began distributing free leftover medication bags. Upon their visit to the pharmacy, we

confirm whether or not patients have leftover medications. If they do, we collect the medication on the spot, or provide them with a bag for return of the medication on a subsequent visit. Over the approximately seven months since the program began, the value of surplus medications collected totaled approximately ¥35 million, or ¥5 million per month on average.

Healthcare Support Pharmacy Activities

Healthcare support pharmacy case studies



Managing medications requiring guidance for use



Healthcare advice seminars and healthcare support implementation

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

Healthcare support pharmacies are equipped with basic primary care pharmacist and pharmacy functions, and actively support the health of local community residents.

In October 2016, Sogo Pharmacy Hagi was the first to be certified as a healthcare support pharmacy. By the end of the term, the number of such pharmacies totaled 35.

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

forward, we will continue to actively promote these pharmacies to create high-value pharmacies.

Activity examples

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

Strengthening Our Health Event Program



Health event

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

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

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

Package content

1. Lectures by pharmacists and nationally certified senior nutritionists

Information relating to cognitive impairment and diabetes prevention

2. Hands-on health events

Simple memory tests, brain stimulation programs

3. Health measurement events

Measurement of such metrics as blood pressure, vascular age, and body composition, with pharmacist advice on results

Promotion of Specialist Cancer and Diabetes Training for Pharmacists



Cancer Conversation Café



Helping a patient



Accurate dispensing

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

To meet patients' advanced pharmaceuticals management needs, Sogo Medical Group is pursuing an internal certification program in specialized cancer and diabetes training for pharmacists. In FY2016 we selected 13 pharmacies in seven areas across Japan, and provided training to approximately 30 pharmacists.

Since 2011, Sogo Pharmacy

Tenjin Chuo has offered services from specialist pharmacists with cancer and diabetes training certifications to provide patients with optimal care. Based on the expertise thus accumulated, we are expanding these efforts throughout the company through systematic training in such areas as disease awareness, patient psychology, and care procedures.

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

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

●Condition-Specific Pharmacist System

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

●Cancer Conversation Café: Learning From Cancer Patients

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

●Recruitment of Accredited Pharmacists of Ambulatory Cancer Chemotherapy

Four pharmacists at Tenjin Chuo have acquired certification as Accredited Pharmacists of Ambulatory Cancer Chemotherapy from the Japanese Society of Pharmaceutical Oncology (as of April 2017, only 22 pharmacy-based pharmacists held this certification nationwide). This is the only certification in Japan for pharmacists aiming to acquire and utilize cancer treatment knowledge and technique, and the capacity to provide patient support.

Miyonodai Pharmacy Group with 91 Locations Joins Sogo Medical



Pharmacist guides an elderly in-home patient in the use of medications

Applying advanced techniques and expertise throughout its network, Miyonodai Pharmacy Group is helping to build an integrated community care system.

In December 2016, Miyonodai Pharmacy Group became part of the Sogo Medical Group.

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

Furthermore, Miyonodai Pharmacy Group has a first-rate business base

in the Tokyo metro area, where demand for in-home medical care is increasing.

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

Pharmacy Forum



Case study presentation

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

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

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

Personnel from other dispensing pharmacies also take regular part in these forums, which promote further efforts to achieve functional reinforcement of primary care pharmacists and pharmacies across location and enterprise boundaries.

Development of Private Brand Products and Opening a Virtual Shop



Virtual shop poster displaying products with QR codes (Sogo Pharmacy Tenjin Chuo)

Sogo pharmacists and nationally certified senior nutritionists collaborated to develop original products.

Now these products are available for order and home delivery through our virtual shops!

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

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

* Smartphone app developed by AliveCast Inc.

Animated Video



Original animation: "Grandpa's Medicine"

This original animated video promotes awareness of Sogo Pharmacy.

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

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

In April 2016, the government established the Primary Care Pharmacist System. When patients have a better understanding of the role of their pharmacist, pharmacists gain expanded opportunities to demonstrate their capabilities, which produces benefits for local medical care. Going forward, Sogo Medical will aim to create primary care pharmacists and pharmacies that can support local medical care through a wide range of activities.

Business Performance by Segment

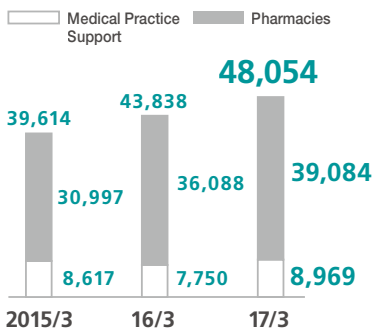
36 2017 Business Performance by Segment

2017 Business Performance by Segment

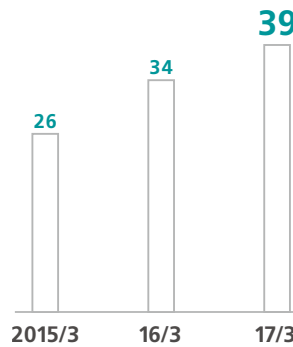
Higashinihon Office



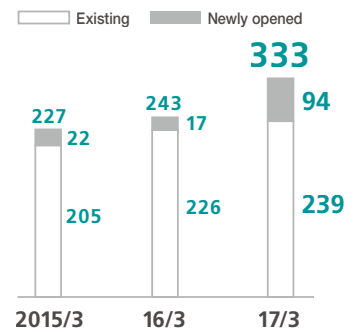
Net Sales (¥ million)



Number of Healthcare Malls



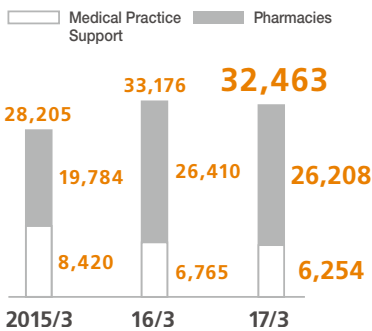
Number of Pharmacies



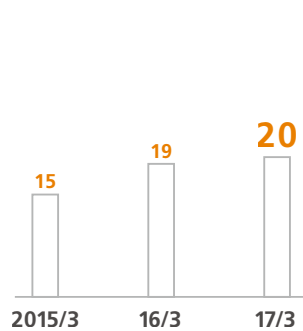
Nishinihon Office



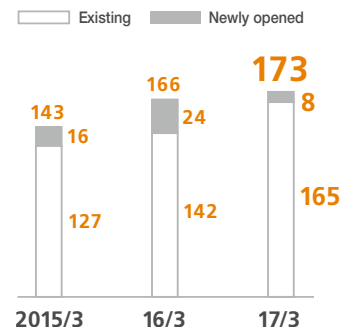
Net Sales (¥ million)



Number of Healthcare Malls



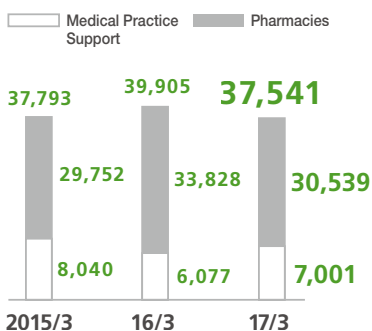
Number of Pharmacies



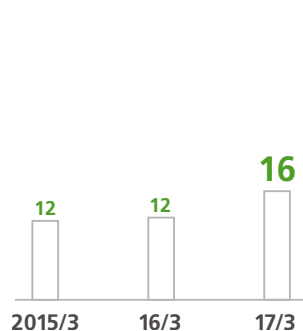
Kyushu Office



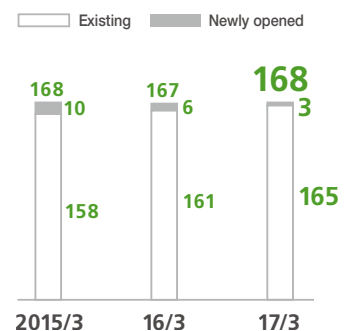
Net Sales (¥ million)



Number of Healthcare Malls



Number of Pharmacies



Corporate Governance

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Directors, Audit & Supervisory Board Members and Corporate Executive Officers (As of June 22, 2017)

Board of Directors



Kenji Sakamoto

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



Shinya Mikita

Representative Director,
Executive Vice President
In charge of Higashinohon Office



Makoto Kuroda

Director & Senior Executive
Managing Officer
In charge of Nishinohon Office



Masatoshi Sadahisa

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



Moritaka Nakashima

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



Takao Nakashima

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



Itsuo Tashiro

Director & Vice Chairman



Kiyotaka Watanabe

Director (External Director)



Eiichi Seki

Director (External Director)



Takashi Kamite

Director (External Director)

Audit & Supervisory Board Members



Shoji Hirao

Standing Auditor



Seiou Yamakawa

Standing Auditor (External Auditor)



Naomasa Mitsukado

Auditor (External Auditor)



Setsuko Gondou

Auditor (External Auditor)

Corporate Executive Officers

Kenji Sakamoto*

President and Chief Executive
Officer

Shinya Mikita*

Executive Vice President

Makoto Kuroda*

Senior Executive Managing Officer

Masatoshi Sadahisa*

Senior Executive Managing Officer

Moritaka Nakashima*

Senior Executive Managing Officer

Takao Nakashima*

Senior Executive Managing Officer
Manager of DtoD Strategy Division

Kohichi Hashimoto

Executive Managing Officer
Manager of Management Strategy
Division

Joji Haraguchi

Executive Managing Officer
Manager of Kyushu Office

Yuriko Tanigawa

Executive Managing Officer
Manager of Pharmacy Management
Division

Akihiro Shitozawa

Executive Managing Officer
Manager of Medical Practice Support
Business Division
Manager of New Business Development
Division

Takahide Terada

Senior Managing Officer
Assistant to Manager of Kyushu Office
Dispatched to HAMIQ

Genichi Shimmura

Senior Managing Officer
Deputy Manager of DtoD Strategy Division

Kazuya Watabe

Senior Managing Officer
Manager of Administration Division
Manager of General Affairs Department

Shigeyuki Nakano

Senior Managing Officer
Manager of Higashinihon Office

Takamichi Okuno

Managing Officer
Assistant Manager of Administration
Division

Nobuo Fujii

Managing Officer
Assistant to Manager of Higashinihon
Office

Toshikazu Matsuo

Managing Officer
Assistant Manager of Pharmacy
Management Division

Osamu Yamasaki

Managing Officer
Manager of Nishinihon Office

Masatomo Hara

Managing Officer
Assistant Manager of Pharmacy
Management Division
Manager of In-Home Care Promotion
Business Department

Katsuyuki Honda

Managing Officer
Manager of Personnel Division
Manager of Hiring Department

Tetsuro Irie

Managing Officer
Manager of Consulting Division
Manager of Consulting Promotion
Department

Takeshi Togami

Managing Officer
Assistant to Manager of Higashinihon
Office
Manager of Medical Profession
Management Support Division

Tadahiro Dantsuka

Managing Officer
Assistant Manager of Management
Strategy Division

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

Corporate Governance

Basic Policy

Sogo Medical considers one of its most important issues facing management to be recognizing the importance of corporate ethics based on legal compliance, while also making prompt decisions in response to the ever-changing business environment and working to make management sounder in order to record continued corporate value. To achieve that, it is necessary to build good relationships with customers, clients, local communities, employees, and other stakeholders, at the

same time as enhancing corporate governance by strengthening, improving, and implementing functional systems required by law, including the general meeting of shareholders, board of directors, audit and supervisory board, and independent external auditors.

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

Corporate Governance System (As of June 22, 2017)

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

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

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

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

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

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

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

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

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

Auditing System (As of June 22, 2017)

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

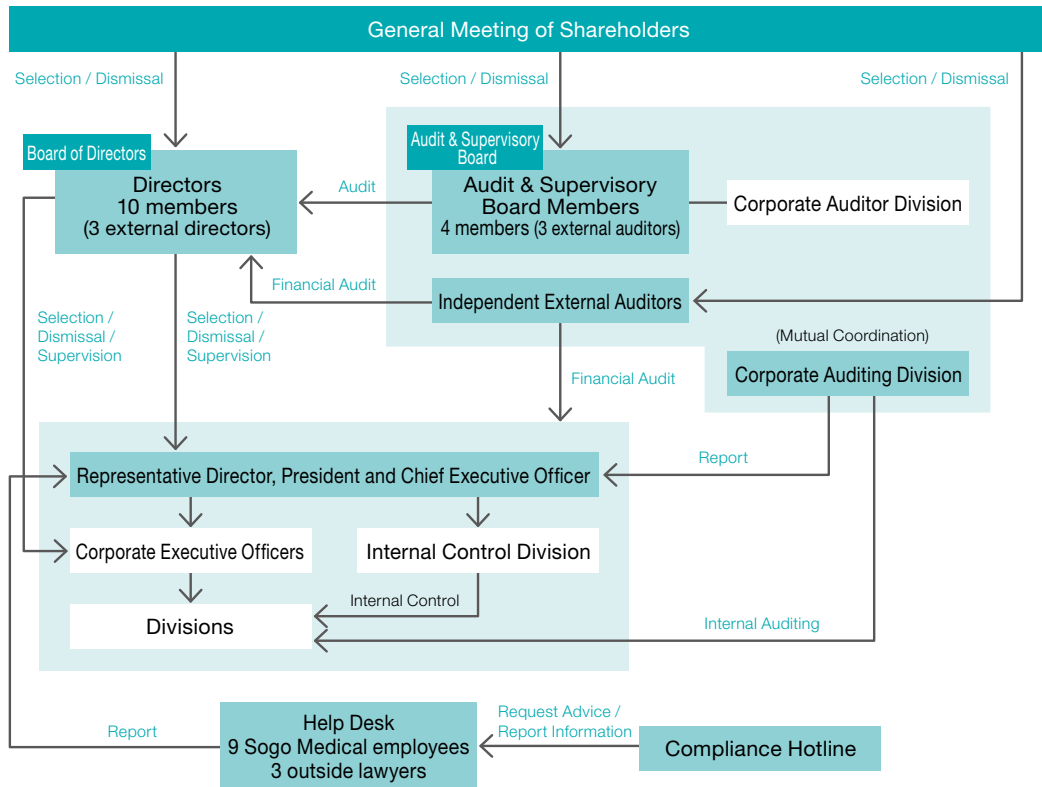
Auditors monitor the legality of operations based on financial standards, audit planning, and task divisions, as outlined by the audit and supervisory board.

Internal audits are held systematically by the corporate

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

Collectively, the audit and supervisory board members, corporate auditing division, independent external auditors, and internal control division exchange information regarding audit planning and audit results as required, working to achieve efficient and effective audits.

Governance Systems (As of June 22, 2017)



Officer Remuneration

Shareholders monitor remuneration through a limit to the total amount of remuneration for directors and audit and supervisory board members (including bonuses) decided through resolutions at the general meeting of shareholders. The president (who is the representative director and an executive

officer) decides remuneration for directors after consulting with the board of directors and compensation for auditors is decided after discussion among auditors, in both cases within the limits decided at the general meeting of shareholders.

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

Officer category	Number of recipients	Total by form of remuneration (¥ million)			
		Basic compensation	Stock options	Bonuses	
Directors (not including external directors)	8	174	174	—	—
Audit & supervisory board members (not including external auditors)	1	12	12	—	—
Outside officers	6	32	32	—	—
Total	15	218	218	—	—

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

Internal Control System and Compliance System

Sogo Medical is striving to build up its Group-wide compliance system by establishing a common corporate charter and code of ethics shared by the Sogo Medical Group.

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

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

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

Information Management System

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

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

Risk Management System

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

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

CSR Management & Topics

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

Four Principal Elements of CSR

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

The Sogo Medical Group's CSR activities are the same as its business activities—to build a better society through good medical practice.

Our job is to support good medical practice, and that is connected to the development of society and improving the lives of many people. Through supporting good medical practice in the future, we aim to fulfill our social mission as a company.

Compliance Efforts and Stance

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

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



CSR Management & Topics

Promoting Diversity

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

In April 2017, the Personnel Division, which functions as the core promoter of diversity within the company, established the

Diversity Promotion Group. In addition to measures to promote greater utilization of female employees and to change employees' approach to work, the group will work to promptly implement broad measures to further utilize a diverse range of individuals, including persons with disabilities and senior citizens.

Major Activity 1: Promoting Employment for Persons with Disabilities

Launching a corporate network to promote employment of persons with disabilities

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



Participating Enterprises

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

Major Activity 2: Promoting Female Employees' Activities

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

Sogo Medical revamped its personnel system, and in 2013 it launched a job transfer system. Over three years the system, which anticipates future business expansion, has resulted in

15 employees, including 12 women, switching from clerical to professional positions.

Sogo Medical Job Classifications

Professional Positions (must fulfill all of the following requirements)	Clerical Positions (principally centered on the following)
<ul style="list-style-type: none"> • Principally engaged in planning • May be ordered to transfer place of work, requiring relocation of residence • Eligible for promotion to executive positions 	<ul style="list-style-type: none"> • Principally engaged in standardized work • Not subject to transfer orders • In principle, no change in job classification (however, job transfer system is available) • Not eligible for promotion to executive positions

Promoting Work-Life Balance

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

In 2007, Sogo Medical was recognized by the Ministry for Health, Labour and Welfare as an enterprise that supports

childrearing and awarded the Kurumin mark, which is given to companies that promote next-generation childcare support policies. In FY2017, we began a pilot program to allow employees to work from home, and with this and other measures, we are augmenting our efforts to create and promote the utilization of internal systems that match women's life plans.

Examples of Systems to Support Diverse Work Styles

- Support for employees with non-work commitments

Childcare leave, reduced working hours for childcare, nursing care leave, reduced working hours for nursing care

- Addressing the problem of long working hours

Promotion of no-overtime days, consecutive vacation days, etc.

System
User's
Voice



Miho Tsuruta
Hiring Dept.

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

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

Systems used: **Childcare leave (3 times)** **Reduced working hours for childcare**
Job transfer system **Consecutive vacation days**

Development of Human Resources

With the aim of ongoing human resource development, we are adopting and implementing a graded training structure corresponding to employees' growth and roles, including graded programs and executive development programs. Our

management principles are the foundation of every training program, and through these programs we are working to realize the characteristics that are needed in each employee.

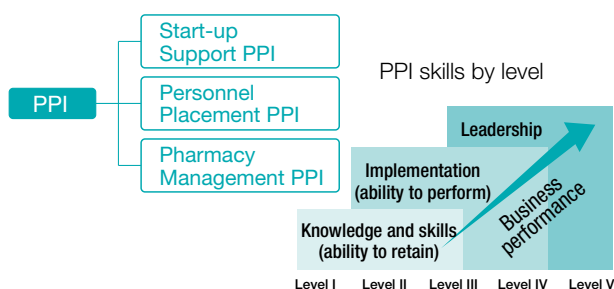
Principal Training Programs

- Practice Process Innovation (PPI) Internal Certification

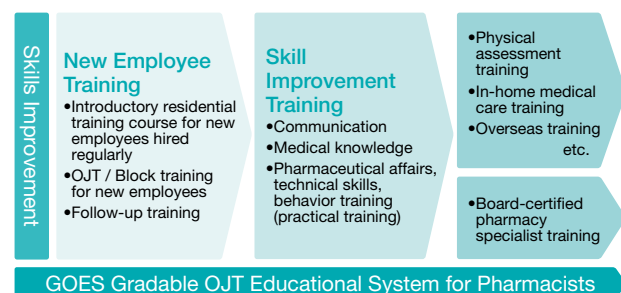
PPI is Sogo Medical's internal certification system for personnel working in the areas of start-up support, personnel placement, and pharmacy management.

- Gradable OJT Educational System (GOES) for Pharmacists

GOES is an independent on-the-job training system for helping pharmacists fully utilize their skills.



(PPI: Practice Process Innovation)



Financial Section

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Five-Year Summary of Consolidated Financial Statements

Years Ending March 31		2013	2014	2015	2016	2017
Net sales	(¥ million)	86,658	103,318	107,945	120,776	122,216
Operating income	(¥ million)	4,324	5,014	5,017	6,087	6,248
Ordinary income	(¥ million)	4,343	5,068	5,227	6,196	6,440
Net income attributable to owners of the parent	(¥ million)	2,532	2,856	2,774	2,318	3,779
Total net assets	(¥ million)	21,636	23,934	26,521	29,646	32,880
Total assets	(¥ million)	57,138	66,982	69,811	74,621	86,760
Net assets per share	(yen)	1,496.64	1,655.73	1,824.14	1,967.14	2,178.46
Net income per share	(yen)	175.41	197.82	192.20	154.65	252.52
Cash dividends per share	(yen)	40.00	40.00	40.00	45.00	50.00
(Includes interim dividend)	(yen)	(20.00)	(20.00)	(20.00)	(22.50)	(25.00)
Dividend payout ratio	(%)	22.8	20.2	20.8	29.1	19.8
Capital adequacy ratio	(%)	37.8	35.7	37.7	39.5	37.6
Net income to shareholders' equity ratio (ROE)	(%)	12.3	12.6	11.0	8.3	12.2
Price-earnings ratio	(times)	9.5	10.5	17.6	24.7	16.6
Price-to-book ratio	(times)	1.1	1.2	1.8	1.9	1.9
Number of shares outstanding	(thousands of shares)	15,340	15,340	15,340	15,340	15,340
Cash flows from operating activities	(¥ million)	7,269	7,461	6,051	7,004	10,931
Cash flows from investing activities	(¥ million)	(3,380)	(5,335)	(5,296)	(4,981)	(9,933)
Cash flows from financing activities	(¥ million)	(2,777)	(1,370)	(1,637)	(635)	3,301
Cash and cash equivalents at end of period	(¥ million)	5,095	5,851	4,968	6,356	10,655
Number of regular employees	(people)	2,508	2,650	2,951	3,233	4,047
Number of part-time employees	(people)	735	1,064	1,190	1,208	1,132

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

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 ending March 31, 2015.)

Management's Discussion and Analysis

1. Operation Results

Overview of Performance During the Year

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

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

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

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

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

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

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

Segment Financial Results by Business and Region

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

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

By Business

Medical Practice Support

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

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

The following describes the situation in each division.

(1) Consulting

Net sales from the consulting division posted a 7.4% increase year on year, to ¥2,035 million. Of this amount, medical institution management consulting sales rose 20.4% to ¥1,483 million. Sales related to support for doctors who wish to transfer or start up a practice decreased 16.8% to ¥551 million. In addition to supporting 5,183 transfer projects, medical practice succession support cases totaled 46.

(2) Rental

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

(3) Leasing and Installment

Net sales in the leasing/installment division fell 8.0% year on year, to ¥10,153 million. This was the result of an 18.0% drop in lease net sales to ¥711 million, and a 10.5% drop in product sales to ¥7,774 million.

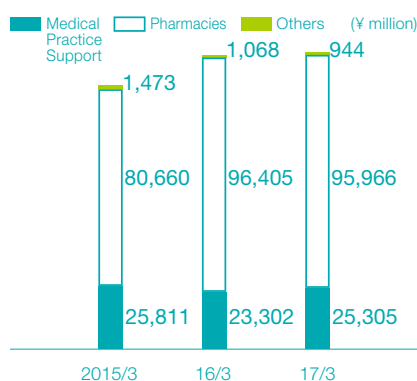
Elsewhere, lease receivables and investment assets fell 35.1% to ¥911 million; installment receivables were 2.8% lower at ¥1,821 million; and operating assets declined 16.6% to ¥2,732 million. The balance of lease contracts fell 9.3% to ¥9,008 million, due to a variety of factors including the influence of negative interest rates.

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

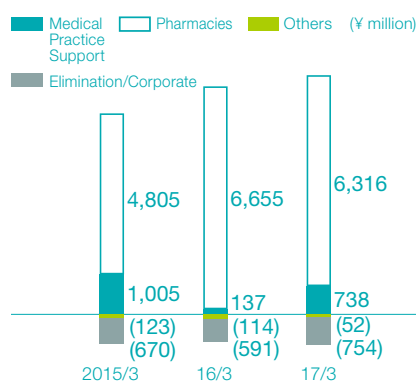
Total sales in the others division expanded 28.0% to ¥6,280 million, thanks in part to positive performance by GM Co., Ltd. (interior finishing of hospitals and clinics) and Somtech Co., Ltd. (planning, design and construction of hospitals, clinics and assisted living facilities).

Years Ending March 31	2015	2016	2017
Net sales (¥ million)	107,945	120,776	122,216
Medical Practice Support	25,811	23,302	25,305
Consulting	1,693	1,894	2,035
Rental	5,922	5,465	6,836
Leasing and Installment	15,243	11,035	10,153
Others	2,952	4,905	6,280
Pharmacies	80,660	96,405	95,966
Others	1,473	1,068	944
Operating income (¥ million)	5,017	6,087	6,248
Medical Practice Support	1,005	137	738
Pharmacies	4,805	6,655	6,316
Others	(123)	(114)	(52)
Elimination/Corporate	(670)	(591)	(754)

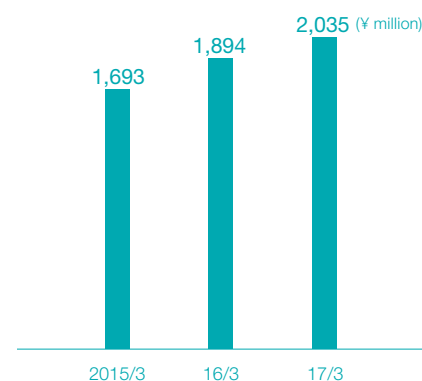
Sales by Business



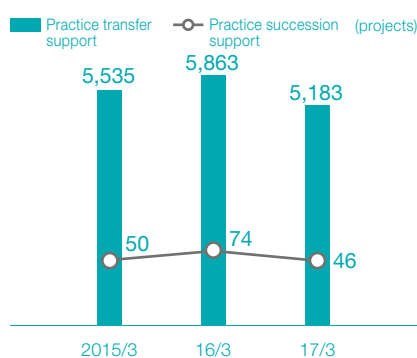
Operating Income by Business



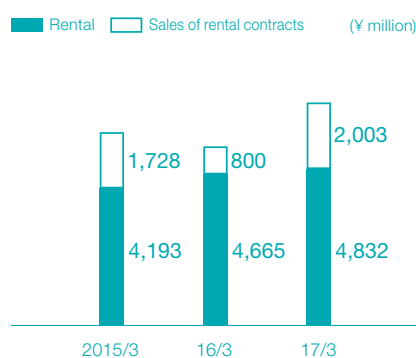
Consulting Sales



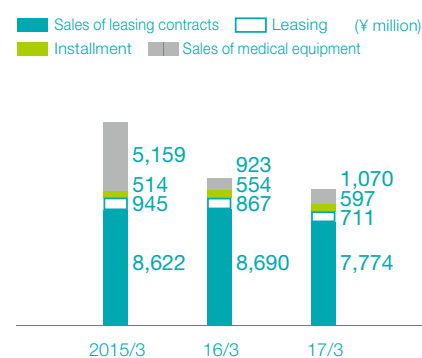
Medical Practice Transfer/ Succession Support Projects



Rental Sales



Leasing and Installment Sales



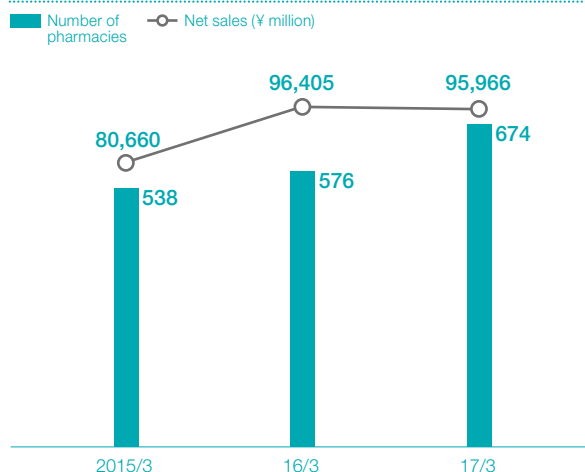
Management's Discussion and Analysis

Pharmacies

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

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

Number of Pharmacies / Pharmacy Sales



By Region

Higashinihon

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

Operating income rose to ¥1,408 million, a 14.6% increase, due in part to increased sales in the rental division.

Nishinihon

Despite an increase in sales in the rental division and the design and construction business, net sales were ¥32,463 million, 2.1% below the level achieved in the previous term, due partly to lower sales in the leasing and installment division.

Operating income rose 5.5%, to ¥2,197 million, driven by higher sales in the rental division, the design and construction business, as well as increased profits in the consulting division.

Kyushu

Although sales were higher for the rental division, the leasing and installment division and the design and construction business, net sales were 5.9% lower, at ¥37,541 million, partly due to a drop in average prescription revenue at the pharmacy division's existing outlets.

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

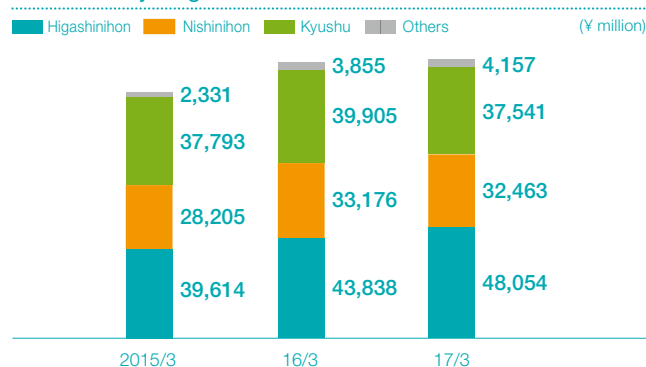
Years Ending March 31	2015	2016	2017
Net sales (¥ million)	107,945	120,776	122,216
Higashinohon	39,614	43,838	48,054
Medical Practice Support	8,617	7,750	8,969
Pharmacies	30,997	36,088	39,084
Nishinohon	28,205	33,176	32,463
Medical Practice Support	8,420	6,765	6,254
Pharmacies	19,784	26,410	26,208
Kyushu	37,793	39,905	37,541
Medical Practice Support	8,040	6,077	7,001
Pharmacies	29,752	33,828	30,539
Others	2,331	3,855	4,157
Operating income (¥ million)	5,017	6,087	6,248
Higashinohon	842	1,228	1,408
Nishinohon	1,510	2,082	2,197
Kyushu	2,643	2,854	2,576
Others	620	490	856
Adjustments	(599)	(568)	(790)

Forecast for the Fiscal Year Ending March 31, 2018

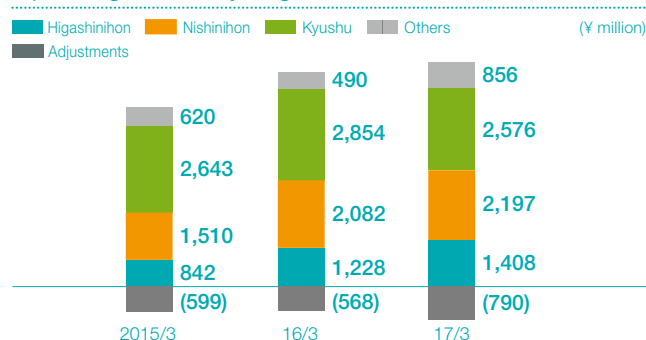
In April 2017, Sogo Medical inaugurated Action 2020, its new medium-term management plan, which will unfold over a span of three years. During the fiscal year ending March 31, 2018, the first year of the plan, we will build a platform for regional healthcare networks by working actively to develop healthcare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

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

Net Sales by Region



Operating Income by Region



Management's Discussion and Analysis

2. Financial Position

Assets

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

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

Liabilities

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

Net Assets

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

Cash Flow

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

Cash Flows from Operating Activities

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

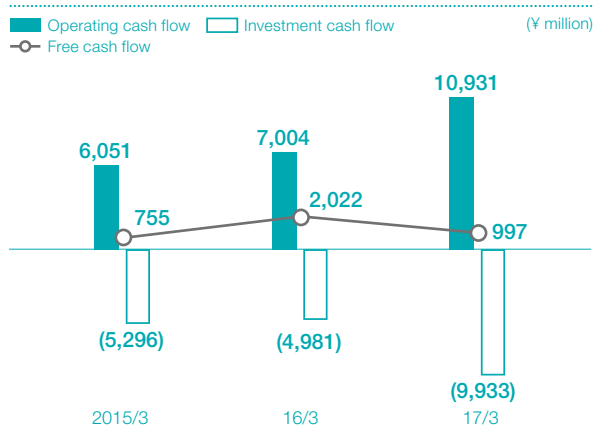
Cash Flows from Investing Activities

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

Cash Flows from Financing Activities

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

Trends in Cash Flows



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

3. Financial Strategies

Issues on the Financial Front

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

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

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

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

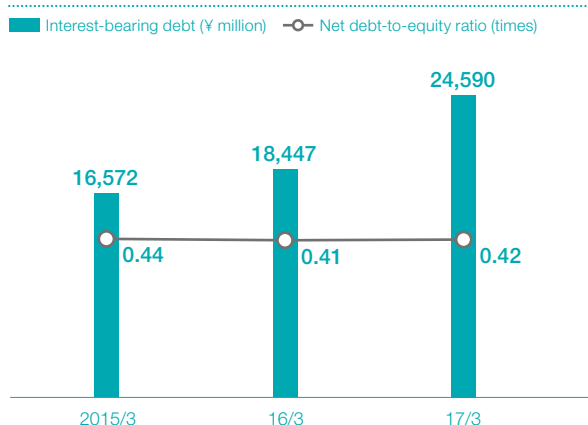
Shareholder Returns

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

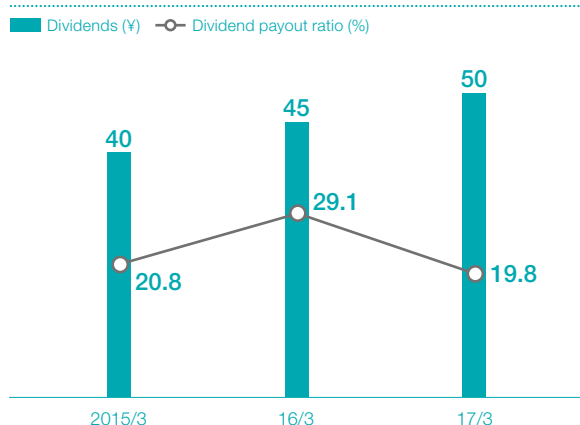
The Action 2020 medium-term management plan, which went into effect in April 2017, states a policy of maintaining the minimum dividend payout ratio at 20%. Based on this policy, the next annual dividend payment is expected to be ¥55.0 per share (interim and yearend dividends of ¥27.5).

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

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



Trends in Dividends



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

Risk Information

Business Risks

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

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

1. M&A and Other Investments

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

2. Pharmacies

A. Pharmacies and separation of dispensing and prescribing functions

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

B. Pharmacy regulations

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

C. Drug price and dispensing fee revisions

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

D. Dispensing errors

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

E. Consumption tax

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

F. Recruitment of pharmacists and the pharmacy opening plan

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

3. Rental

A. Rental transactions

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

B. Responding to technological advances

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

C. Consumption tax

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

4. Leasing / installment

A. Changes in interest rates

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

B. Product sales

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

5. DtoD promotion

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

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

6. Personal information protection

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

Consolidated Financial Statements

Consolidated Balance Sheet

	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)
Assets			
Current assets			
Cash and deposits	4,988	6,376	10,830
Notes and accounts receivable-trade	17,485	19,617	21,395
Accounts receivable-installment sales	1,806	1,874	1,821
Lease receivables and investment assets	1,701	1,403	911
Inventories	7,543	6,583	6,557
Deferred tax assets	628	789	811
Other	2,450	2,566	2,710
Allowance for doubtful accounts	(19)	(20)	(38)
Total current assets	36,584	39,189	44,999
Noncurrent assets			
Property, plant and equipment			
Property for lease	5,929	5,177	4,823
Buildings and structures, net	8,763	11,716	13,312
Land	3,992	4,109	4,720
Other, net	3,116	2,539	2,216
Total property, plant and equipment	21,801	23,542	25,072
Intangible assets			
Goodwill	5,252	5,833	9,703
Other	1,031	1,201	1,537
Total intangible assets	6,283	7,034	11,241
Investments and other assets			
Investment securities	1,566	1,134	1,327
Deferred tax assets	468	507	445
Other	3,107	3,231	3,673
Allowance for doubtful accounts	(0)	(19)	(0)
Total investments and other assets	5,141	4,853	5,446
Total noncurrent assets	33,226	35,431	41,760
Total assets	69,811	74,621	86,760

(¥ million)

	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)
Liabilities			
Current liabilities			
Notes and accounts payable-trade	18,841	18,590	20,258
Short-term loans payable	360	610	415
Current portion of long-term loans payable	2,903	4,046	4,607
Lease obligations	363	267	256
Accrued expenses	2,072	2,972	2,629
Income taxes payable	1,452	1,572	1,762
Deferred profit on installment sales	190	182	187
Other	3,925	2,994	3,112
Total current liabilities	30,109	31,237	33,228
Noncurrent liabilities			
Long-term loans payable	6,835	9,204	15,171
Lease obligations	1,028	714	920
Long-term accounts payable-installment purchase	3,055	1,938	2,160
Other	2,260	1,880	2,397
Total noncurrent liabilities	13,180	13,737	20,650
Total liabilities	43,290	44,975	53,879
Net assets			
Shareholders' equity			
Capital stock	3,513	3,513	3,513
Capital surplus	4,136	5,566	5,566
Retained earnings	19,255	20,944	24,012
Treasury stock	(1,044)	(920)	(920)
Total shareholders' equity	25,861	29,104	32,172
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	475	338	432
Total accumulated other comprehensive income	475	338	432
Non-controlling shareholders	184	203	275
Total net assets	26,521	29,646	32,880
Total liabilities and net assets	69,811	74,621	86,760

Consolidated Financial Statements

Consolidated Statements of Income

(¥ million)

	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)
Net sales	107,945	120,776	122,216
Cost of sales	93,139	103,178	103,761
Gross profit	14,805	17,598	18,454
Selling, general and administrative expenses	9,787	11,511	12,206
Operating income	5,017	6,087	6,248
Non-operating income	368	287	447
Dividends income	20	22	25
Rent income	38	31	21
Insurance cancellation refunds	106	36	21
Gain on sales of investment securities	–	–	168
Other	202	196	209
Non-operating expenses	159	178	254
Interest expenses	75	75	81
Loss on valuation of investments securities	17	–	–
Loss on lease cancellation	–	–	35
Other	65	103	137
Ordinary income	5,227	6,196	6,440
Extraordinary loss	51	1,371	48
Impairment loss	51	1,014	48
Loss on sales of stocks of subsidiaries and affiliates	–	87	–
Loss on valuation of investment securities	–	270	–
Income before income taxes	5,175	4,824	6,391
Income taxes-current	2,236	2,569	2,452
Income taxes-deferred	163	(68)	87
Total income taxes	2,400	2,501	2,540
Net income	2,774	2,323	3,851
Net income attributable to non-controlling shareholders	0	4	71
Net income attributable to owners of the parent	2,774	2,318	3,779

Consolidated Statements of Comprehensive Income

(¥ million)

	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)
Net income	2,774	2,323	3,851
Other comprehensive income			
Valuation difference on available-for-sale securities	234	(136)	94
Total other comprehensive income	234	(136)	94
Comprehensive income	3,009	2,186	3,945
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	3,009	2,181	3,873
Comprehensive income attributable to non-controlling shareholders	0	4	71

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	Non-controlling shareholders	
Balance on March 31, 2014	3,513	4,136	17,058	(1,043)	23,665	240	28	23,934
Dividends from surplus	–	–	(577)	–	(577)	–	–	(577)
Net income attributable to owners of the parent	–	–	2,774	–	2,774	–	–	2,774
Purchase of treasury stock	–	–	–	(1)	(1)	–	–	(1)
Disposition of treasury stock	–	–	–	–	–	–	–	–
Net changes of items other than shareholders' equity	–	–	–	–	–	234	156	390
Balance on March 31, 2015	3,513	4,136	19,255	(1,044)	25,861	475	184	26,521
Dividends from surplus	–	–	(629)	–	(629)	–	–	(629)
Net income attributable to owners of the parent	–	–	2,318	–	2,318	–	–	2,318
Purchase of treasury stock	–	–	–	(708)	(708)	–	–	(708)
Disposition of treasury stock	–	1,429	–	832	2,262	–	–	2,262
Net changes of items other than shareholders' equity	–	–	–	–	–	(136)	18	(117)
Balance on March 31, 2016	3,513	5,566	20,944	(920)	29,104	338	203	29,646
Dividends from surplus	–	–	(710)	–	(710)	–	–	(710)
Net income attributable to owners of the parent	–	–	3,779	–	3,779	–	–	3,779
Purchase of treasury stock	–	–	–	–	–	–	–	–
Disposition of treasury stock	–	–	–	–	–	–	–	–
Net changes of items other than shareholders' equity	–	–	–	–	–	94	71	166
Balance on March 31, 2017	3,513	5,566	24,012	(920)	32,172	432	275	32,880

Consolidated Financial Statements

Consolidated Statements of Cash Flows

(¥ million)

	2015 (Apr. 1, 2014– Mar. 31, 2015)	2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)
Net cash provided by (used in) operating activities			
Income before income taxes	5,175	4,824	6,391
Depreciation and amortization	3,746	3,836	3,902
Goodwill amortization	805	1,021	987
Impairment loss	51	1,014	48
Interest and dividends income	(22)	(23)	(27)
Capital cost and interest expenses	131	112	105
Decrease (increase) in notes and accounts receivable-trade	1,050	(993)	1,127
Decrease (increase) in accounts receivable-installment sales	(104)	(75)	57
Net decrease (increase) in lease receivables and investment assets	313	298	491
Decrease (increase) in inventories	(953)	1,253	751
Increase (decrease) in notes and accounts payable-trade	(1,735)	(1,436)	(670)
Increase (decrease) in other assets/liabilities	(223)	(798)	(193)
Other, net	33	620	258
Subtotal	8,269	9,652	13,230
Interest and dividends income received	22	23	27
Interest expenses paid	(131)	(111)	(103)
Income taxes paid	(2,108)	(2,559)	(2,222)
Net cash provided by (used in) operating activities	6,051	7,004	10,931
Net cash provided by (used in) investing activities			
Purchase of own-used assets	(3,767)	(4,233)	(3,152)
Proceeds from sales of own-used assets	–	172	4
Purchase of property for lease	(359)	(876)	(264)
Purchase of investment securities	(270)	(11)	–
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(579)	(147)	(6,440)
Other, net	(318)	115	(80)
Net cash provided by (used in) investing activities	(5,296)	(4,981)	(9,933)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	9	64	(224)
Proceeds from long-term loans payable	4,749	6,485	10,933
Repayment of long-term loans payable	(3,211)	(3,001)	(4,446)
Repayments of lease obligations	(512)	(751)	(324)
Repayments of installment payables	(2,094)	(2,092)	(1,924)
Cash dividends paid	(577)	(629)	(710)
Purchase of treasury stock	(1)	(708)	–
Net cash provided by (used in) financing activities	(1,637)	(635)	3,301
Net increase (decrease) in cash and cash equivalents	(882)	1,387	4,299
Cash and cash equivalents at beginning of period	5,851	4,968	6,356
Cash and cash equivalents at end of period	4,968	6,356	10,655

Segment Information

(¥ million)

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 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.

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

Notes:

*1. Others includes business segments that are not classified as reportable segments, which includes wholesale distribution of pharmaceutical products and healthcare information services.

*2. Reconciliations were as follows:

(1) Reconciliation for reportable segment loss (–¥568 million) included elimination of intersegment sales (¥1 million) and overall corporate expenses (–¥570 million). The overall corporate expenses were mainly classified as general and administrative expenses and were not allocated to reportable segments.

(2) Reconciliation for reportable segment assets (¥8,695 million) included elimination investment against equity (–¥9,562 million) and overall corporate assets (¥18,902 million). The 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.

2017 Apr. 1, 2016–Mar. 31, 2017	Reportable Segments				Others*1	Total	Reconciliations*2	Consolidated amounts*3
	Higashinohon	Nishinohon	Kyushu	Total				
Sales								
Unaffiliated sales	48,054	32,463	37,541	118,059	4,157	122,216	—	122,216
Intersegment sales	1	368	—	369	5,455	5,825	(5,825)	—
Total	48,055	32,831	37,541	118,428	9,613	128,042	(5,825)	122,216
Segment profit	1,408	2,197	2,576	6,182	856	7,038	(790)	6,248
Segment assets	37,691	18,056	15,045	70,793	5,239	76,032	10,727	86,760

Notes:

*1. Others includes business segments that are not classified as reportable segments, which includes wholesale distribution of pharmaceutical products and healthcare information services.

*2. Reconciliations were as follows:

(1) Reconciliation for reportable segment loss (–¥790 million) included elimination of intersegment sales (¥18 million) and overall corporate expenses (–¥809 million). The overall corporate expenses were mainly classified as general and administrative expenses and were not allocated to reportable segments.

(2) Reconciliation for reportable segment assets (¥10,727 million) included elimination investment against equity (–¥17,598 million) and overall corporate assets (¥29,410 million). The overall corporate assets were mainly classified as parent company deposits and were not allocated to reportable segments.

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

Corporate Information (As of June 1, 2017)

Corporate Outline

Company Name	Sogo Medical Co., Ltd.
Head Office	Fukuoka Tenjin Center Bldg. 16F, 2-14-8 Tenjin, Chuo-ku, Fukuoka
Founded	June 12, 1978
Capital	¥3,513 million
Listed	First Section, Tokyo Stock Exchange. (Code 4775)
Banking Relationships	The Bank of Fukuoka, Ltd., Mizuho Bank, Ltd., The 77 Bank, Ltd., The Kita-Nippon Bank, Ltd., The Bank of Yokohama, Ltd., The Gunma Bank, Ltd., The Joyo Bank, Ltd., The Chiba Bank, Ltd., The Chiba Kogyo Bank Ltd., The Musashino Bank, Ltd., The Shizuoka Bank, Ltd., The Hachijuni Bank, Ltd., The First Bank of Toyama, Ltd., The Bank of Kyoto, Ltd., The Juroku Bank, Ltd., The Senshu Ikeda Bank, Ltd., The Kiyo Bank, Ltd., The Chugoku Bank, Ltd., The Hiroshima Bank, Ltd., The San-in Godo Bank, Ltd., The Shikoku Bank, Ltd., The Kitakyushu Bank, Ltd., The Miyazaki Bank, Ltd., The Oita Bank, Ltd., The Bank of Saga, Ltd., The Eighteenth Bank, Ltd., The Higo Bank, Ltd., The Kagoshima Bank, Ltd., The Nishi-Nippon City Bank, Ltd., The Chikuho Bank, Ltd., The Miyazaki Taiyo Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corporation, Sumitomo Mitsui Banking Corp., Sumitomo Mitsui Trust Bank, Limited, Development Bank of Japan Inc., The Norinchukin Bank, etc.
Group Companies	Somtech Co., Ltd. (design and construction of hospitals, clinics and assisted living facilities) Sogo Medipro Co., Ltd. (paramedical staff introduction and dispatch) Sogo Real Estate Co., Ltd. (lease and management business for medical facilities) S.M.E Co., Ltd. (wholesale of pharmaceuticals) Sogo Care Network Co., Ltd. (assisted living facility business) Sun Villa Co., Ltd. (Senior living associated with nursing service) Hokendohjinsha Inc. (healthcare information service) GM Co., Ltd. (interior finishing of hospitals and clinics)
Dispensing Pharmacies	Sogo Medical Pharmacy Chubu Co., Ltd., Aoba Pharmacy Co., Ltd., Maeda & Co., Ltd., Yataya Pharmacy Co., Ltd., Taikodo Yakkyoku Honten Co., Ltd., Beauty Drug Saito Co., Ltd., Pharma Systems Co., Ltd., Shokando Co., Ltd., Miyonodai Pharmacy Co., Ltd., Motoki Pharmacy Co., Ltd., Ai Dispensing Pharmacy Co., Ltd., Kanamecho Pharmacy Co., Ltd., Tsukasa Dispensing Pharmacy Co., Ltd., Koyu Co. Ltd., Mitsuhiro Co. Ltd., Flower Dispense Co., Ltd., Green Pharmacy Co., Ltd., Koyama Co., Ltd., Mitsuyasu Dispensing Pharmacy Co., Ltd., Kitano Dispensing Pharmacy Co., Ltd., KS Medicine Dispensing Pharmacy Co., Ltd.
Bases	710 (3 offices, 23 branches, 4 sales offices, 1 satellite office, 677 pharmacies, 2 in-hospital stores)
Employees	5,711 workers (4,296 full-time workers, 1,415 part-time workers)

Licensed personnel (including part-timers)

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

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

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

Stock Information (As of March 31, 2017)

Shareholder Composition

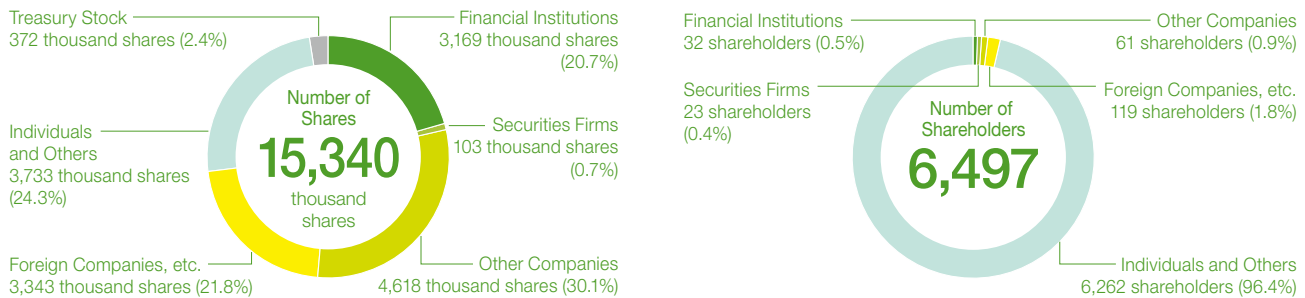
Total Number of Issued Shares	15,340,156 shares
Number of Shareholders	6,497 shareholders
Number of Unit Shareholders	5,839 shareholders

Major Shareholders (Top 10 Largest Shareholders)

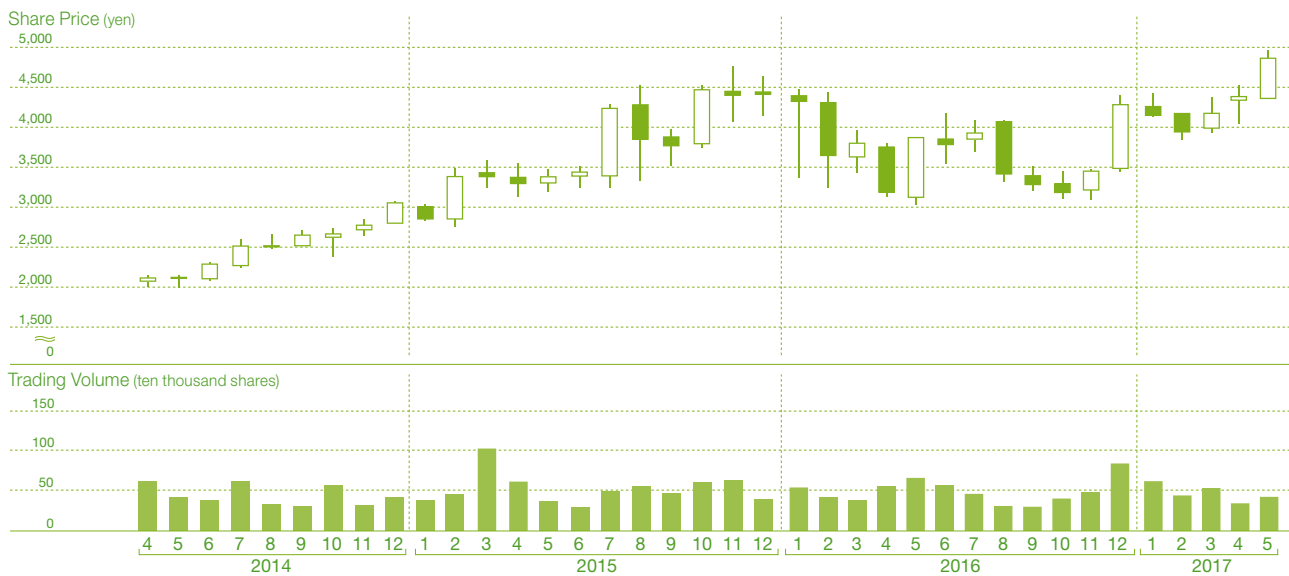
Name of Shareholder	Number of Shares Held (thousands of shares)	Shareholding Ratio
Mitsui & Co., Ltd.	3,819	25.51%
GOLDMAN SACHS INTERNATIONAL (Standing proxy: Goldman Sachs Japan Co., Ltd.)	1,191	7.95%
Tokyo Century Corporation	722	4.82%
The Bank of Fukuoka, Ltd.	615	4.10%
Hirosada Oyamada	453	3.03%
Japan Trustee Services Bank, Ltd. (trust account)	451	3.01%
The Kitakyushu Bank, Ltd.	404	2.69%
THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL OMNIBUS SECS LENDING ACCOUNT (Standing proxy: Mizuho Bank, Ltd.)	323	2.15%
Employees Shareholders' Association of Sogo Medical	235	1.57%
The Master Trust Bank of Japan, Ltd. (trust account)	202	1.35%

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

Breakdown of Shares by Type of Shareholder



Share Price and Trading Volume



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

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

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[*Memo*]

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