

Annual Report 2018

From April 1, 2017 to March 31, 2018



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. Doctors must have pride and a sense of mission to do everything in their power for the patient they are treating, and it is our mission to provide the institutional support that enables doctors to focus on the implementation of this good medical care.

Management Principles

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.

Corporate Logo

The logo is designed around a human being motif.

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



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

A cautionary note on forward-looking statements

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

Contents

Company Profile

- 02 Sogo Medical's Development
- 04 Vision 2028 (fiscal year ending March 2028)
- 06 Sogo Medical Business Overview
- 08 2018 Highlights
- 10 2018 Non-Financial Highlights

Company Profile

President's Message

- 14 Greeting
- 15 General Outline of the Fiscal Year Ended March 31, 2018
- 16 Medium-Term Management Plan Priority Initiatives
- 19 Achieving Our Vision 2028
- 20 Goals to achieve by the Fiscal Year Ending March 31, 2020 and Anticipated Challenges in the Operating Environment

President's Message

Action Reports

- 22 Medical Practice Support Business
- 32 Pharmacy Business
- 36 Other Topics

Action Reports

Corporate Governance

- 38 Sogo Medical from the Perspective of External Directors
- 40 Directors, Audit & Supervisory Board Members and Executive Officers
- 42 Corporate Governance
- 44 Internal Control System and Compliance System
- 45 CSR Management & Topics

Corporate Governance

Financial Section

- 49 Five-Year Summary of Consolidated Financial Statements
- 50 Management's Discussion and Analysis
- 56 Risk Information
- 58 Consolidated Financial Statements

Financial Section

Corporate Information

- 64 Corporate Information

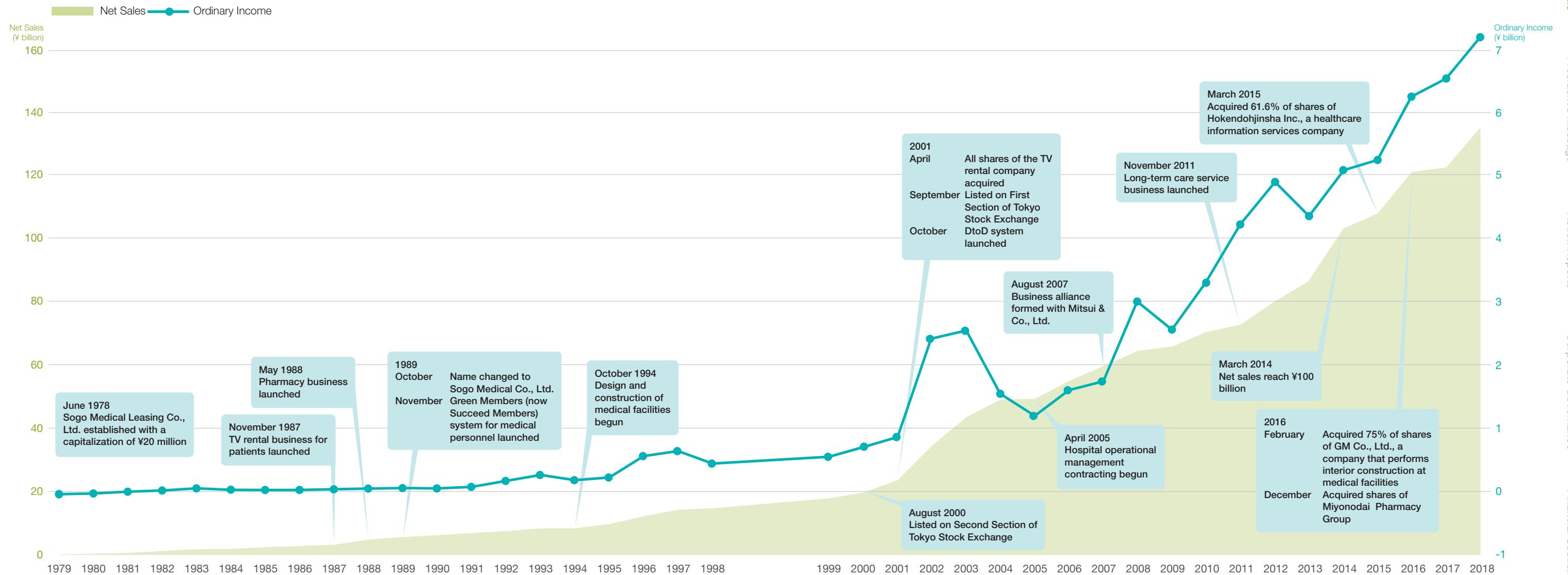
Corporate Information

Stock Information

- 65 Stock Information

Stock Information

Sogo Medical's Development



- 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

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 May Pharmacy business launched
- 1989 October Name changed to Sogo Medical Co., Ltd. November Green Members (now Succeed Members) system for medical personnel launched
- 1994 October Design and construction of medical facilities begun



First Sogo Pharmacy, in Sakuradai

1997-2006

- 2000 August Listed on Second Section of Tokyo Stock Exchange
- 2001 April All shares of the 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

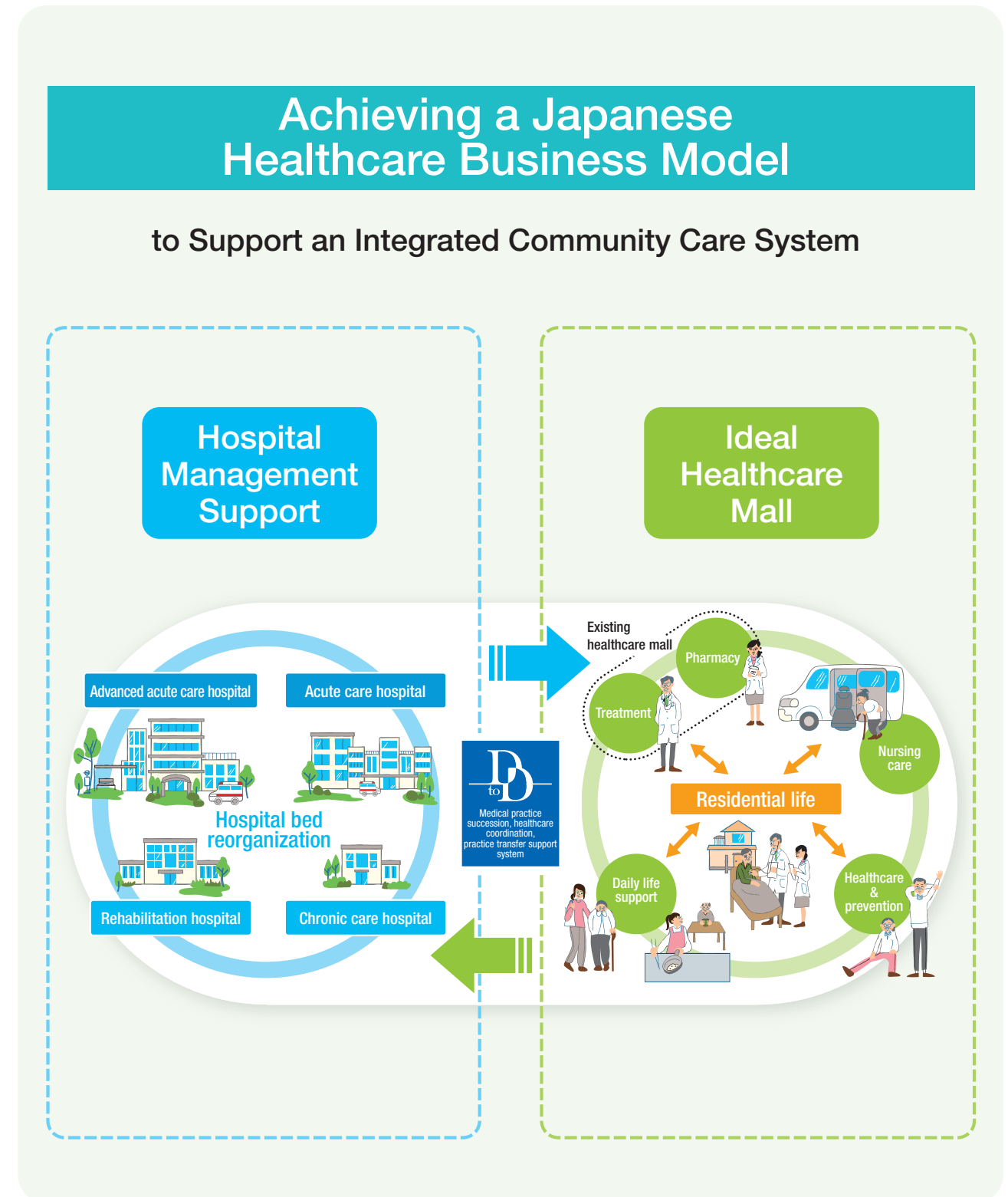
2007-2017

- 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



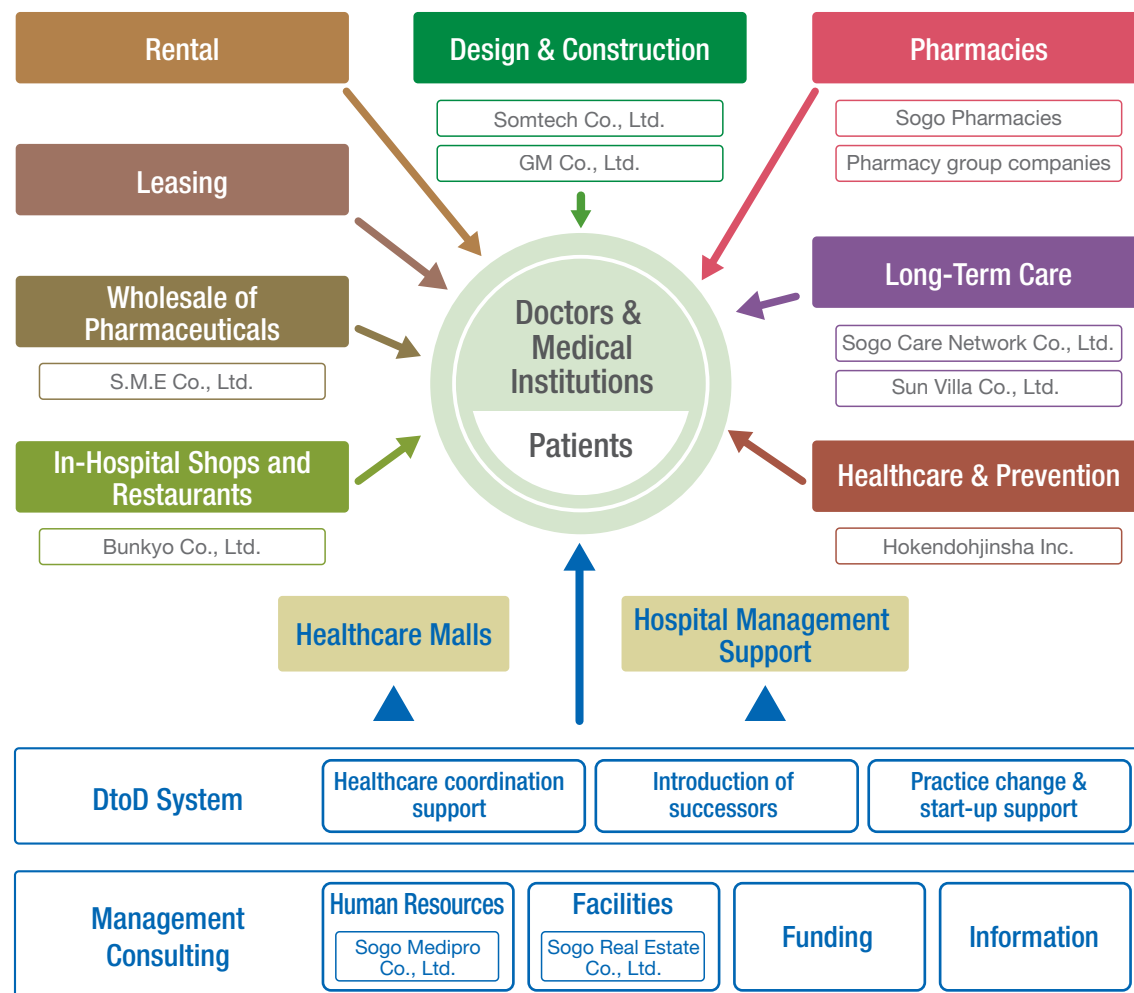
Villanova Otani, a fee-based home with long-term care for the elderly

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



Sogo Medical provides total consulting-based management support

From a consulting base, Sogo Medical offers total management support that helps partner hospitals and clinics realize more efficient, high-quality healthcare. We are engaged in a variety of activities that support good medical practice. Our DtoD system helps stimulate local medical care through physician referrals, support for medical practice handovers, and the coordination of medical care. We develop and manage healthcare malls to meet local treatment needs, establish primary care pharmacies with roots in local communities, and lease medical equipment to improve the quality of patient amenities. In these and other ways, we are expanding our business to offer multi-faceted support for good medical practice.



As of May 1, 2018

Contributing to the Revitalization of Local Medical Care

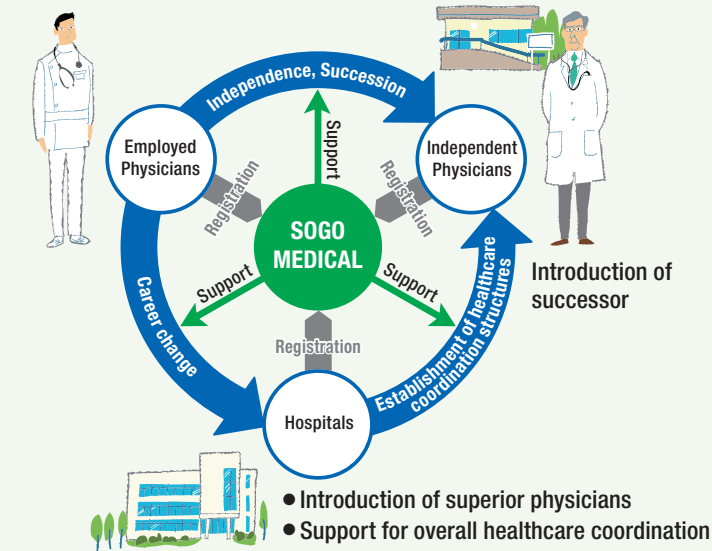
「DtoD」
(Doctor to Doctor)



Sogo Medical's DtoD System

Through our nationwide network of 28 offices, our DtoD system stimulates local medical care by generating ideal matches between outstanding personnel and medical facilities; providing comprehensive support for employed physicians and those working in private practices; and generating solutions for the challenges facing hospitals.

Career change, support to launch independent practice



Medical Practice Support

Management consulting; leasing and installment sales; rentals; planning, design, and construction of medical facilities; medical and health information services

Our DtoD services include management consulting in such areas as basic concept formulation, hospital bed reorganization simulations, management enhancement support for medical facilities, and the development and management of healthcare malls to meet local treatment and care needs. We also rent televisions to hospital patients, lease medical devices, and plan, design, and construct medical and long-term care facilities.

Pharmacies

Dispensing Pharmacies

We actively promote the establishment of "general healthcare stations" with roots in local communities and strong capabilities as "primary care pharmacies." We provide enhanced treatment and care by bolstering the role of pharmacists and pharmacies, and are expanding our efforts relating to in-home care as well as healthcare and prevention.



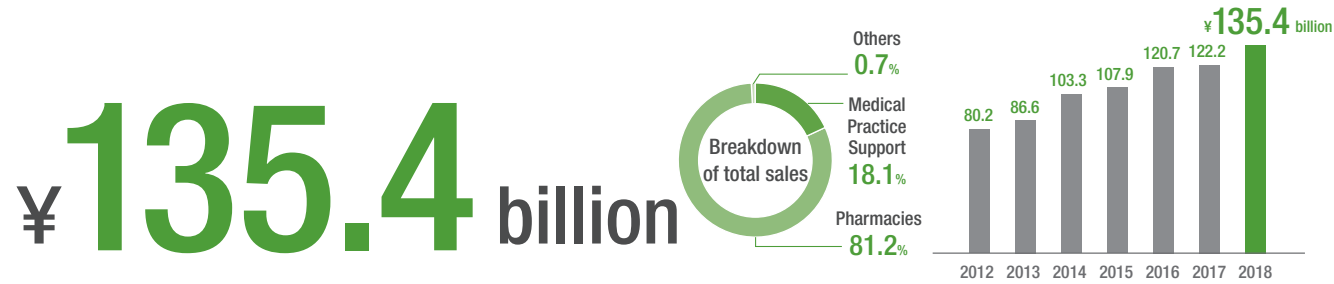
Others

Nursing Care

We are expanding our nursing 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.

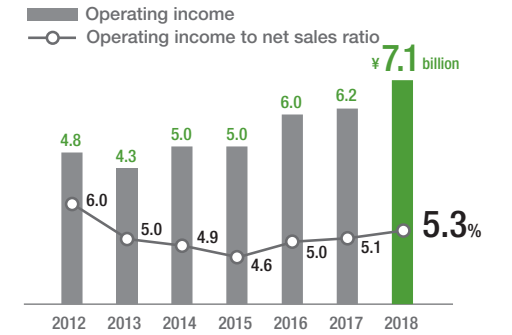


Net Sales



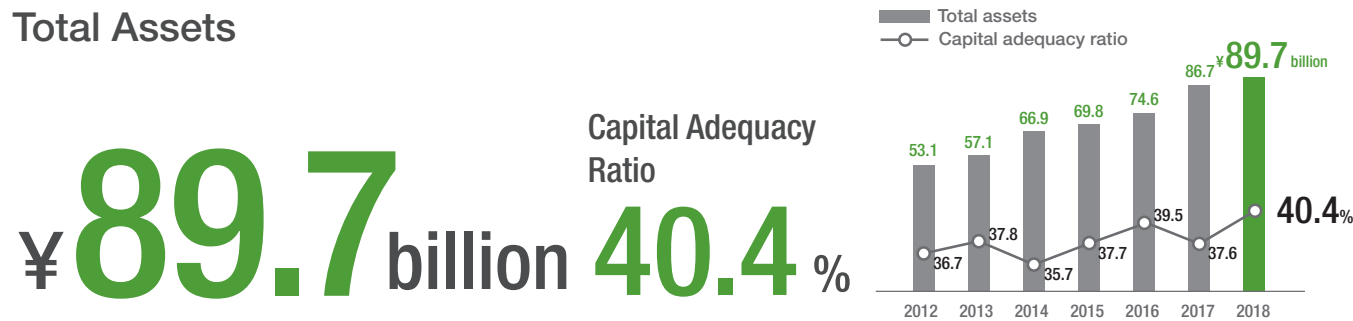
Net sales amounted to ¥135,431 million, an increase of 10.8% over the previous term. By segment, Medical Practice Support sales totaled ¥24,548 million, down 3.0%; Pharmacies totaled ¥109,918 million, up 14.5%; and Others totaled ¥964 million, up 2.1%.

Operating Income



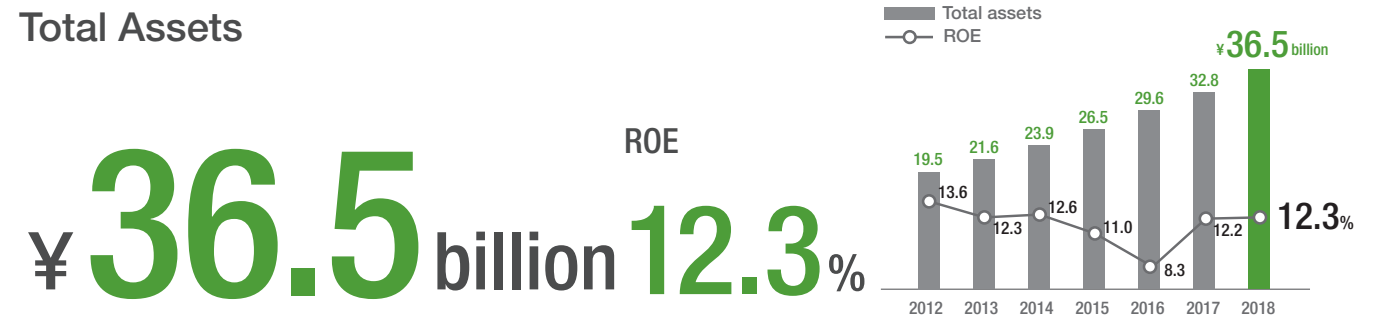
Operating income amounted to ¥7,189 million, a 15.1% increase over the previous term. Operating income by segment included Medical Practice Support at ¥884 million, down 10.3%, and Pharmacies at ¥7,139 million, up 17.6%.

Total Assets



Total assets expanded by ¥2,988 million during the term, to ¥89,748 million. Total current assets rose ¥3,300 million, to ¥48,299 million, largely due to a ¥3,707 million increase in cash and deposits. Total noncurrent assets fell ¥311 million, to ¥41,448 million, principally due to a ¥584 million reduction in goodwill.

Total Assets



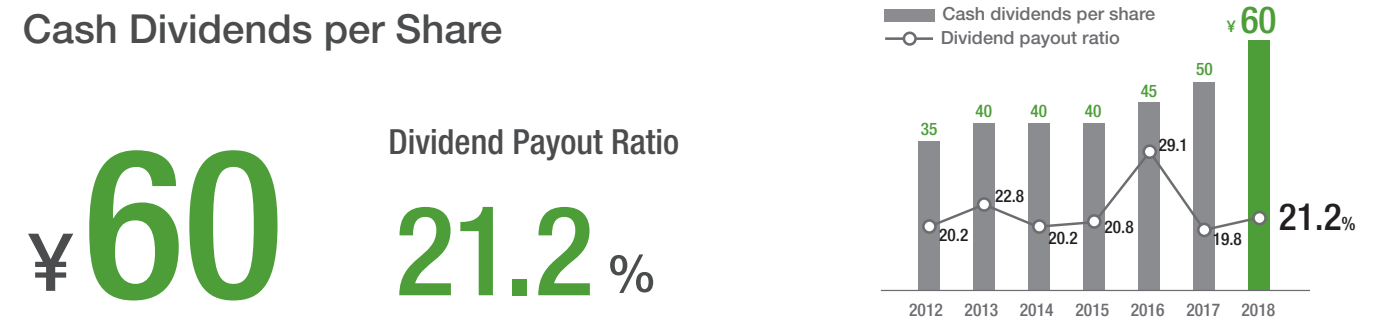
Total assets amounted to ¥36,526 million, an increase of ¥3,645 million over the previous term. A dividend payout of ¥785 million was offset by net income attributable to owners of the parent totaling ¥4,243 million.

Net Income Attributable to Owners of the Parent



At the close of the term, net income attributable to owners of the parent was ¥4,243 million, an increase of 12.3%.

Cash Dividends per Share

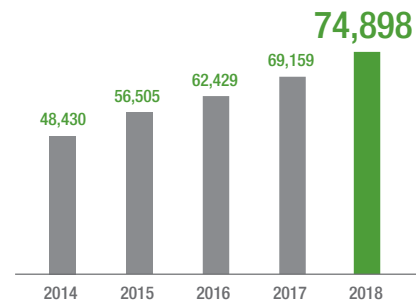


The annual dividend payment for the term totaled ¥60.0 per share, including a year-end dividend of ¥32.5 (including a commemorative dividend of ¥5.0 yen) and an interim dividend of ¥27.5. This equaled a payout ratio (consolidated) of 21.2%.

DtoD Participating Physicians
(physicians seeking to transfer or open a practice)



74,898



Succeed Members

1,680

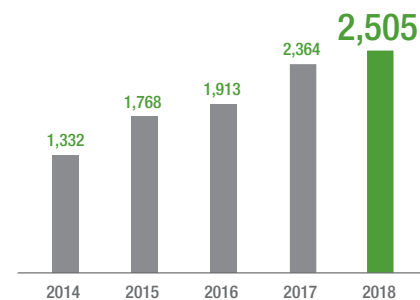
We provide support for medical practice management from a variety of angles, including human resources, facilities, funding, and information.

A significant number of physicians seeking to transfer or open a practice are registered with Sogo Medical's DtoD service. Our nationwide network of 28 offices works to match outstanding personnel with medical facilities.

Pharmacists

2,505

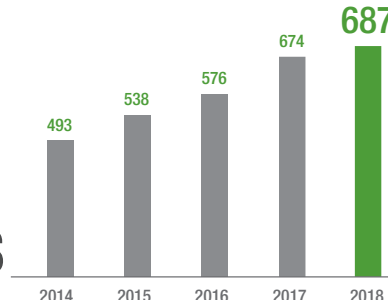
(as of March 1, 2018)
(certified full- and part-time pharmacists)



In addition to our healthcare support pharmacy activities and implementation of wide-ranging training systems, we support pharmacist skills enhancement for advanced pharmaceuticals management.

Pharmacies

687 locations



We have expanded our nationwide network of pharmacies to serve as "general healthcare stations" with local roots. Our goal is to further contribute to local treatment and care.

Healthcare Support Pharmacies



89 locations

Staffed with "primary care pharmacists" and equipped with "primary care pharmacy" capabilities, healthcare support pharmacies provide active support to local residents for independent health management. Sogo Medical Group pharmacies account for approximately 10% of the total of 879 such pharmacies nationwide.

HealthCare Note (Electronic Medicine Scheduler) registered users

82,523

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 drug administration.



Trace reports providing feedback to physicians

117,000 reports

Information from patients, including medication information, was shared with doctors to improve patient care quality in coordination with medical facilities.



Kenji Sakamoto
Representative Director,
President and
Chief Executive Officer

President's Message

- 14** Greeting
- 15** General Outline of the Fiscal Year Ended March 31, 2018
- 16** Medium-Term Management Plan Priority Initiative 1
Progress toward Healthcare Mall Development
- 17** Medium-Term Management Plan Priority Initiative 2
Progress toward Hospital Management Support
- 18** Medium-Term Management Plan Priority Initiative 3
Progress toward Creation of High-Value Pharmacies
- 19** Achieving Our Vision 2028
- 20** Goals to achieve by the Fiscal Year Ending March 31, 2020
and Anticipated Challenges in the Operating Environment



Greeting

It gives me great pleasure to present this annual report for FY2017.

In April 2017, we announced our Action 2020 Medium-Term Management Plan. Subsequent communication with shareholders, investors, and customers clearly indicated strong expectations for progress toward the realization of a Japanese healthcare business model.

At the same time, we committed anew to make the term a year of fulfillment of our Mission Statement: to build a better society through good medical practice.

Sogo Medical celebrated its 40th anniversary on June 12, 2018. The achievement of this milestone was due solely to the ongoing support and encouragement of our stakeholders, and for this I would like to express my sincere gratitude.

Going forward, Sogo Medical Group's employees will apply their combined energies to address a wide range of healthcare-related social challenges, promote the foundation of regional healthcare networks, and become an enterprise indispensable to society. I look forward to your continued guidance and support.

General Outline of the Fiscal Year Ended March 31, 2018

— Please describe progress during the term toward the goals of the Action 2020 Medium-Term Management Plan.

In the first year of its efforts to bring about the realization of a Japanese healthcare business model, Sogo Medical worked actively to achieve progress in the three main areas.

Our 10.8% growth over the previous term is a sign of society's need for our services.

During the term, we promoted activities in three main areas. First was development of healthcare malls, which will serve as social infrastructure acting as core facilities for medical treatment, nursing care, and support for daily life. Second was management support for hospitals, to support functional specialization and coordination to build an integrated community care system. Third was the creation of high-value pharmacies capable of supporting integrated community care systems as "general healthcare stations." As a result, total sales rose 10.8% to ¥135,400 million yen. By segment, medical practice support sales amounted to ¥24,548 million, down 3.0%; Pharmacies totaled ¥109,918 million, up 14.5%; and Others was ¥964 million, up 2.1%. These favorable results reflect Sogo Medical's successful reading of, and adjustments to, changes in its operating environment, and is an indication of society's demand for our services.

We are taking our activities to the next level to ensure that the coming fiscal year is even more productive.

The medical industry is currently promoting specialization and coordination of medical treatment through hospital bed reorganization. Akasaka Toranomon Clinic (Tokyo), which opened in October 2017, is taking the lead with Toranomon Hospital, an advanced acute care

facility, to achieve specialization and coordination of medical treatment. This result of our support service is a first for Sogo Medical and can be regarded as a model case for healthcare mall development. Going forward, we plan to help physicians realize their dreams and solve the challenges facing hospitals while realizing medical environments offering peace of mind to local residents. With regard to hospital management support, we gained experience providing total hospital management support to Lake Town Hospital of Orthopaedics (Saitama), and I feel we were successful in pursuing more advanced management activities. We continued to work toward the achievement of physicians' treatment ideals while taking into consideration the hospital management environment, and through our work there we were able to once again reconfirm the importance of accomplishing those ideals. With respect to the creation of high-value pharmacies, the number of healthcare support pharmacies increased to 89, and I believe we are approaching the realization of our "general healthcare station" concept. The pharmacy business is facing tough challenges with the revisions to pharmaceutical and dispensing fees. However, we will work actively to provide patients with high-quality dispensing services more closely attuned to their needs, and through diversified health support services, toward our aim of making our pharmacies even more essential to local communities.

Medium-Term Management Plan Priority Initiative 1

Progress toward Healthcare Mall Development

— Please profile Sogo Medical's activities and achievements in the area of healthcare mall development.

We made progress in mall development and internal organization, and are working toward the goals of the medium-term management plan.

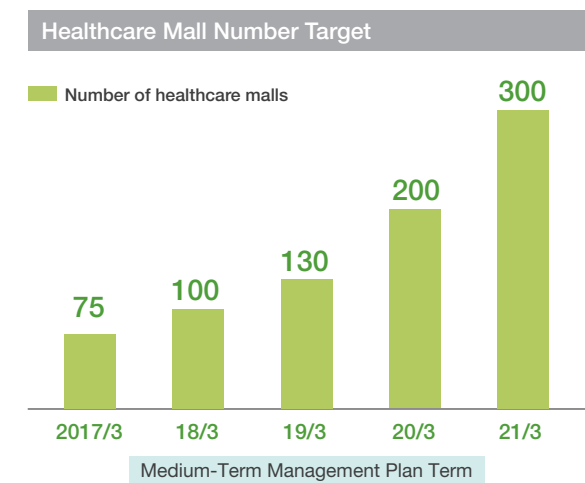
During the term, we continued efforts of the previous fiscal year to develop healthcare malls. We also opened malls across the nation, including Akasaka Toranomom Clinic and Medical Mall Toyosu, both in Tokyo, and Matsuo Medical Square II in Kyoto. By the end of the term, the number of such malls totaled 94 nationwide.

Akasaka Toranomom Clinic is particularly significant in that it was Sogo Medical's first specialized treatment clinic-type healthcare mall in coordination with Toranomom Hospital, an advanced acute care provider. We will use the expertise acquired from this experience to further support the specialization and coordination of medical facilities and contribute to more efficient medical treatment. We are also working to offer services relating to healthcare and prevention as well as nursing care. These activities include organizing health-related events at healthcare malls, and health screenings. Our goal is to support local health and daily life through community healthcare malls with advanced capabilities.

Our healthcare malls are centers for local communication across generations. They offer treatment, nursing care, healthcare and disease prevention, daily life support, and other functions, and demonstrate their capabilities in metropolitan and regional areas. Going forward, we will focus renewed effort on the Tokyo metropolitan area, the Tokai region, and the Kinki region to raise the number of mall development projects.

Every year, Sogo Medical achieves new

success in supporting physicians who are seeking to open new practices. In the process, our professionals gain further experience, and we are accumulating additional proprietary expertise. Going forward, each of our professionals in this area will work to raise the level of their Practice Process Innovation (PPI) Internal Certification, and we will seek to hire mid-career personnel who can make an immediate impact, to further enhance our support structure. In 2016 we established a Healthcare Mall Development Division in the Higashinohon Office, and in 2017, we launched the Healthcare Mall Development Group in the Nishinohon Office. Our goal is to reach 200 healthcare malls by the end of FY2019, and to this end we are further accelerating the pace of development.



Medium-Term Management Plan Priority Initiative 2

Progress toward Hospital Management Support

— Please summarize Sogo Medical's hospital management support activities and future challenges.

Having reached our target for the term, we will not be satisfied, but will continue working to secure human resources.

Sogo Medical provides hospital management consulting through dedicated on-site personnel as well as consultant visits. During the term, we initiated work on four new support cases, resulting in a total of nine cases in progress. In so doing, we achieved the first-year goal of the medium-term management plan.

Support for Lake Town Hospital of Orthopaedics included three on-site consultants, and was a distinctive example of our total hospital management support. We will internally share the expertise that was gained here, to enhance the quality of our management support.

We believe the demand for consulting services relating to hospital bed reorganization will continue into the future. Hospitals facing difficult management challenges will be likely to require management consultation about restructuring and other ongoing support. By leveraging our DtoD network, which encompasses over 70,000 registered physicians as well as medical facilities nationwide, we will work to realize practice conditions that are ideal for physicians to offer treatment and support the creation of environments that enable medical facilities to leverage their capabilities.

Overall, we see ample demand for our services, but reaching our target of 37 management support cases by the end of FY2019 will require us to secure more outstanding personnel. We are currently conducting internal management consulting seminars to enhance the capabilities of our personnel. We are also working to make Sogo Medical a more attractive place to bring in outside talent by enhancing our organizational structure.

	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

Medium-Term Management Plan Term

Medium-Term Management Plan Priority Initiative 3

Progress toward Creation of High-Value Pharmacies

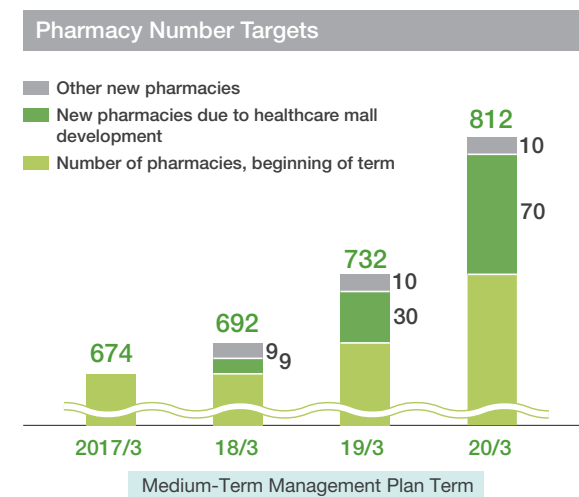
— Tell us about progress toward creating high-value pharmacies, and the outlook for the next fiscal year.

We are helping pharmacists to use their skills proactively through efforts including health support pharmacy registration.

The number of pharmacies increased by 18 locations during the term, to a total of 687 nationwide. Total sales were ¥109,900 million, an increase of 14.5% over the previous fiscal year. We reorganized our internal structure, replacing branch office-based management of Sogo Medical Group pharmacies with unified management through a new Pharmacy Management Division. This move is facilitating expertise and information sharing as well as more rapid lateral strategy deployment. Furthermore, we have divided the country into approximately 30 blocks for personnel deployment and pharmaceutical distribution to promote cost optimization and maximize the value we offer.

On the frontline, we are promoting activities to realize our “Vision for Patient-Centered Pharmacies.” With respect to primary care capabilities, we promoted the creation of highly differentiated pharmacies with roots in local communities, with the aim of expanding the role of our pharmacists and pharmacies in society. At the same time, we actively promoted healthcare support pharmacy registration, raising the total of registered Sogo Medical pharmacy locations to 89. There are 879 such pharmacies in Japan, and our locations account for approximately 10% of the total. At these pharmacies, we made ongoing efforts to demonstrate the professional capabilities of our pharmacists and further enhance the quality of our pharmacy services. These efforts include health consultation events held with support from nationally certified senior nutritionists, and promoting certification of supporters for the cognitively impaired.

The goal of these multifaceted activities is for patients to be pleased that they were able to access a Sogo Pharmacy. We will continue to enhance our capabilities toward realization of our Vision 2028.



Achieving Our Vision 2028

— Please characterize activities during the term toward fulfillment of the Vision 2028.

During the term, we strived to enhance and bolster the functioning of our core businesses, and sought to expand the scope of our peripheral businesses.

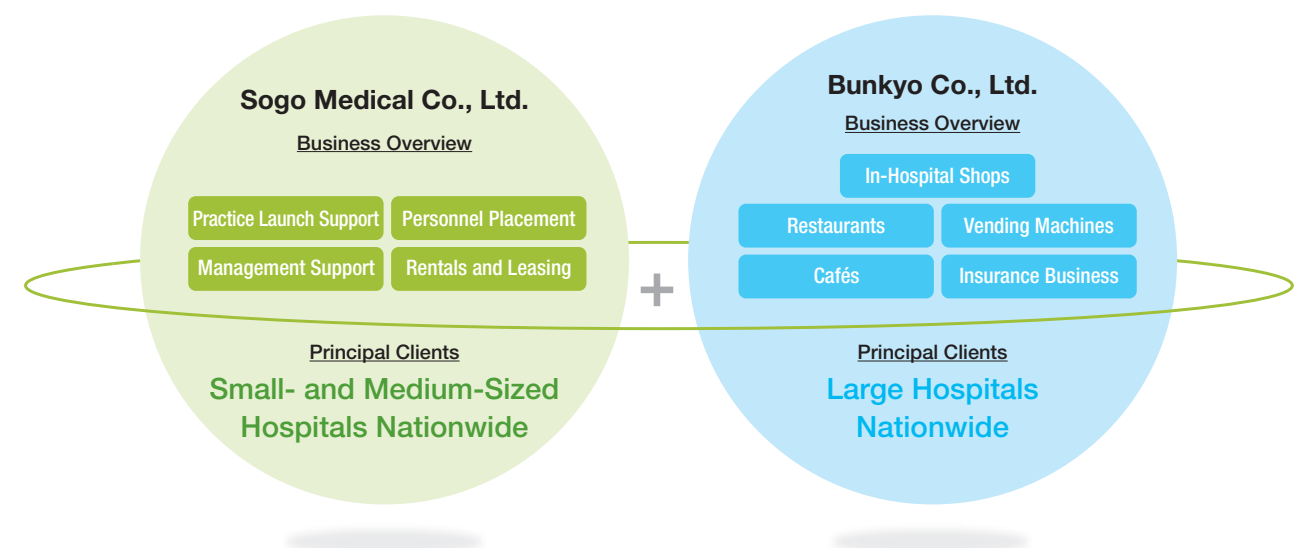
In April 2018, Sogo Medical acquired 100% of the shares of Bunkyo Co., Ltd., whose operations include in-hospital shops, convenience stores, restaurants, and television rentals in approximately 100 hospitals throughout Japan. Bunkyo is a leader in offering a wide range of integrated capabilities for enhancing hospital patient environments. More than half of its operating installations are located in large hospitals (400 or more beds), and its capabilities will generate synergy for achieving the goals of the medium-term management plan, which includes a focus on hospital management support. Acquisition of Bunkyo will also strengthen the Sogo Medical Group’s overall medical practice support business.

Moreover, in the areas of healthcare and prevention, as well as medical ICT, the important themes in activities to realize the goals of our Vision 2028, we initiated research from a wide range of international and domestic perspectives. For example, through research in the US, we were able to gather useful information regarding differences between the US and Japan in terms of pharmaceutical distribution and pharmacist practices, and how such differences might point the way to improvements in local medical practice in Japan.

Going forward, we will continue to promote these activities to leverage our expertise, and consider measures to deploy distinctive businesses.

Synergy with Bunkyo

Enhanced services for hospitals and an expanded network of hospitals nationwide will make it possible to offer new value to medical facilities.



Goals to Achieve by the Fiscal Year Ending March 31, 2020 and Anticipated Challenges in the Operating Environment

Objectives for the Fiscal Year Ending March 31, 2020

- 01 **Develop Healthcare Malls**
Social infrastructure acting as core facilities for medical treatment, nursing care, and support for daily life
Achieve 200 healthcare mall locations
- 02 **Support Hospital Management**
Support functional specialization and coordination to build an integrated community care system
Achieve 37 hospital management support cases
- 03 **Create High-Value Pharmacies**
Support an integrated community care system with pharmacies that serve as “general healthcare stations”
Organic growth*1 of 2.3 million prescriptions (a 20% increase)
- 04 **To Achieve Our Vision 2028**
Enhancement/strengthening of existing businesses and scope expansion of peripheral businesses
Exploiting new areas, leveraging bidirectional domestic/international expertise

Management Targets (Fiscal Year Ending March 31, 2020)

Cash Flow	Growth Investment	Financial Strategy	Total Shareholder Returns
Total Sales ¥160 billion (organic)	Facilities Investment ¥20 billion allocated over three years	Net Debt-to-Equity Ratio*3 Approx. 0.5 (times)	Dividend Payout Ratio Maintained at minimum 20%
EBITDA Margin*2 Over 9%	Aggressive use of M&A and coordination in separate categories	Where funding is required to support strategic growth, we will use mainly interest-bearing debt and limit the ratio to approximately 1.0	Maintaining stable, continuous dividend payouts

*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)/shareholders' equity
Interest-bearing debt includes lease obligations and installment purchase accounts payable that are included in the consolidated balance sheet

Anticipated Changes in Operating Environment

During the term of the medium-term management plan, we anticipate a variety of changes, including simultaneous revisions to treatment and care fees, new government 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 Vision 2028.

	Medium-Term Management Plan Term				
	FY2016	FY2017	FY2018	FY2019	FY2020
Revised Treatment Income	●		●		●
Revised Drug Income	●		●	●	●
Revised Long-Term Care Fee			●		
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		

Action Reports

22 Medical Practice Support Business

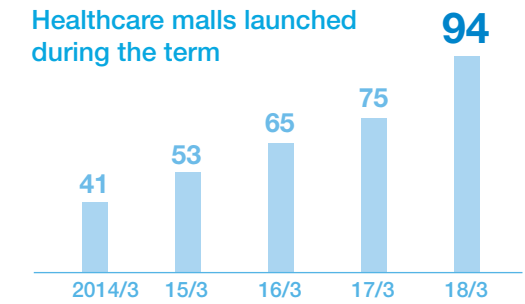
32 Pharmacy Business

36 Other Topics

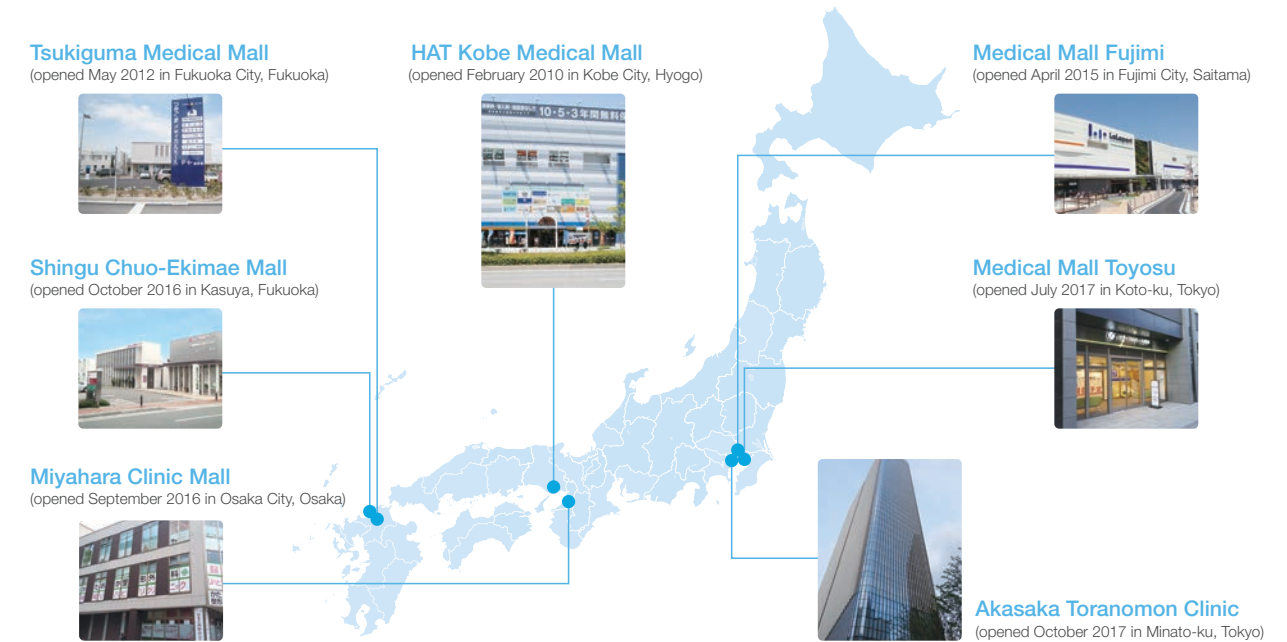
Development and Expansion of Healthcare Malls

We have developed 94 healthcare malls nationwide as centers for treatment and nursing care.

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 among medical personnel and other professions. We are maintaining our focus on healthcare mall development, and the number of healthcare malls totaled 94 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 Nationwide



Action Report

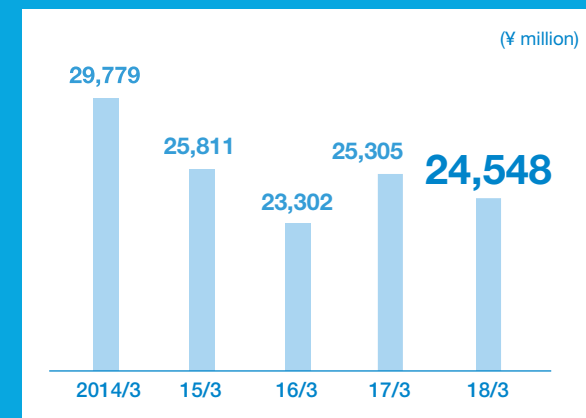
Medical Practice Support Business

Summary and 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.

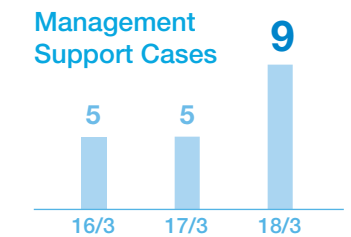
Medical Practice Support Business Total Sales



Hospital Management Support

We provided nine cases of management support to enable physicians to focus on treatment.

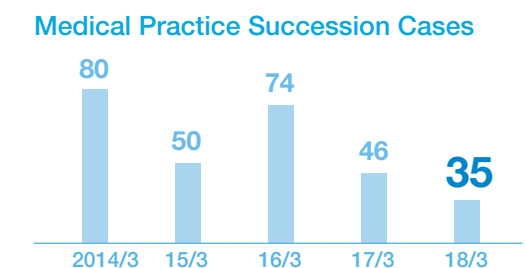
Hospitals are increasingly turning to Sogo Medical with consulting requests as they work to realize the Ministry of Health, Labour and Welfare's Integrated Community Care System. During the term, we provided nine hospitals with comprehensive management support, striving not only to improve their management situation, but to consider possible changes in their operating environment and meet the associated challenges proactively.

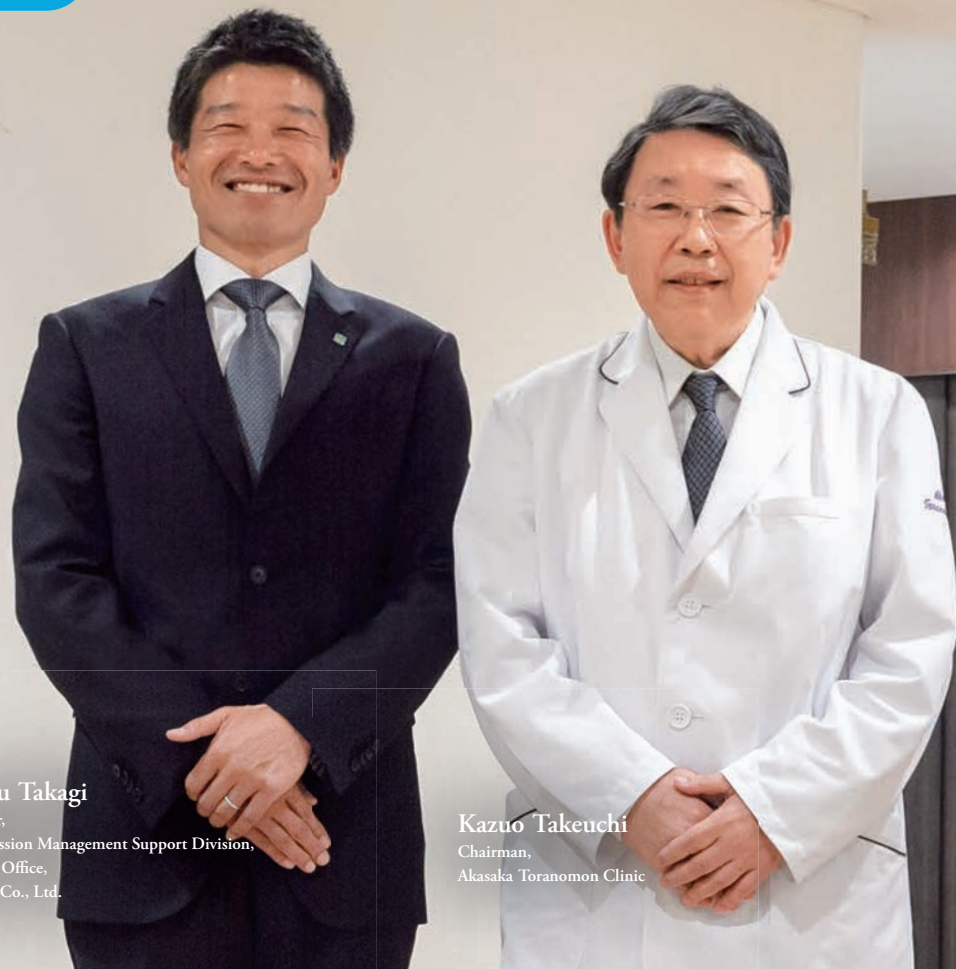


Promoting Support for Medical Practice Succession

Preserving local medical practices that support daily life. We supported 35 medical practice successions 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 to introduce physicians wishing to start their own practices to practice owners with no successors. During the term, we contributed to the stability and development of local medical care by providing support for 35 cases of medical practice succession.





Motoharu Takagi
Senior Adviser,
Medical Profession Management Support Division,
Higashinihon Office,
Sogo Medical Co., Ltd.

Kazuo Takeuchi
Chairman,
Akasaka Toranomom Clinic



Masahiro Monji
Senior Advisor,
Healthcare Mall Development Division,
Higashinihon Office,
Sogo Medical Co., Ltd.

Realization of Primary Care Medicine that Promotes Specialized, Coordinated Treatment

Action Report 1

Development and Management Support for Specialized Treatment Clinic-Type Healthcare Malls

Akasaka Toranomom Clinic

In October 2017, Akasaka Toranomom Clinic opened its doors to provide a wide range of medical diagnosis and treatment services on an equal basis and in coordination with the outpatient capabilities of Toranomom Hospital, an advanced acute care hospital. The clinic, which includes 11 clinical departments, is drawing attention for its innovative realization of functional specialization in coordination with a major medical facility.

The Increasing Importance of Coordination between Advanced Acute Care Hospitals and Clinics Capable of Treating Chronic- and Mild-Case Patients

“Toranomom Hospital provides advanced acute care, but also sees many chronic- and mild-case patients. This results in these patients often facing long waits before seeing a physician, and the number of patients is a challenge for physicians and medical staff, one that has been a source of concern for many years. To date we have tried a variety of ways to address this problem, including referring mild-case patients to other hospitals, but our outpatient waiting room remains crowded with people, and we decided to build a new clinic,” said Kazuo Takeuchi, then vice-director of Toranomom Hospital, who led the project and identified physicians who were interested in working at the new facility. As a result, 15 physicians in 11 medical special-

ties were assembled, it also provided some personnel who were on the eve of retirement with a new place to work. But as Dr. Takeuchi noted, the next challenge was determining how best to launch the clinic. “Management is an area where we lack experience. Preparing for the launch in parallel with our regular duties would not have been realistic. That’s why we turned to Sogo Medical, which has extensive expertise in supporting clinic launches.”

In September 2014, we began providing hospital launch support with a project team of five professionals.



Realizing Clinics Ideal for Physicians and Patients

“We first met with physicians individually to explore what they felt was most important in providing a medical service,” said Masahiro Monji of Sogo Medical’s Healthcare Mall Development Division of the Higashinihon Office. Monji had two principal objectives. The first was to achieve a service level equal to that of Toranomom Hospital while prioritizing physician requests. The second was to facilitate provision of efficient treatment with shorter patient waiting times. With limited available floor space, he helped select the required medical equipment, devised a layout with efficient flow lines, and worked to implement a system for sharing clinical data with Toranomom Hospital. He also coordinated the smooth execution of all legal procedures required to establish a new, large-scale medical corporation, where accurate management decisions must be made. His efforts helped realize the

aspirations of Dr. Takeuchi and the other physicians involved.

“We stayed in close contact with the physicians up to the launch, with face-to-face as well as telephone and email contact. We also worked to meet physicians’ goals of advanced treatment and comprehensive patient service through efforts including careful positioning of equipment in the endoscopic examination room so as to also allow its use for outpatient surgery and in-patient examination, and provided separate reception and payment areas to ensure seating for all waiting patients. Everyone on the team was committed to realizing the goals of this deeply significant project.”

Advance appointment reservations to transition patients from Toranomom Hospital to the new clinic began two months before the launch. This was followed by launch rehearsals, mock examinations and other preparations. In October 2017, Akasaka Toranomom Clinic opened its doors in an innovative coordination with an advanced



acute care hospital.

Dr. Takeuchi noted, “Approximately 80% of chronic- and mild-case patients at Toranomom Hospital willingly transferred to the clinic. Everyone is pleased with the high level of treatment and short waiting times. The warm reception and appropriate treatment toward patients that I aimed for has been achieved, and for this and the support I received from Sogo Medical, I am extremely grateful.”



Post-Launch Management Support Frees Physicians to Focus on Treatment

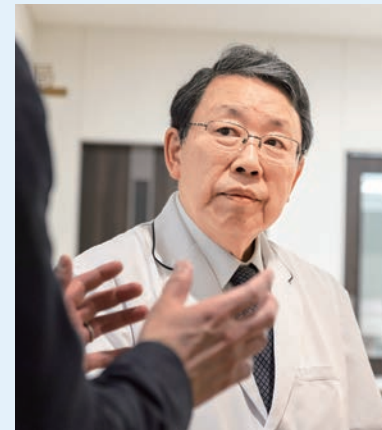
With the clinic launched, Sogo Medical began providing management consulting aimed at stable management and operation. Sogo Medical provided four on-site consultants who worked to create a management structure that would free the physicians to concentrate on treatment.

“For physicians to maintain a high level of motivation, it is important that they be able to focus on medical care. At management meetings, we shared information on the management situation, proposed actions to reduce operating expenses and how to attract a greater number of patients, and provided implementation support. In addition, during the period of acclimatization to the new environment, the consulting team made a concerted effort to communicate closely with Dr. Takeuchi and the medical staff to create a climate of smoothly-functioning coordination between everyone in the clinic,” noted Motoharu Takagi, of the Medical Profession Management Support Division of the Higashinihon Office.

Thanks to this close, continuous management support, the number of outpatients seen by the clinic in its first six months of operation exceeded 5,000. In addition to

existing chronic- and mild-case patients who had already transferred across, an increasing number of additional patients were referred by Toranomon Hospital. Management stabilization and medical service coordination are progressing steadily.

“It’s reassuring to have advice available whenever it is needed,” Dr. Takeuchi said. “Sogo Medical’s consultants are working closely with us, and in just six months we were able to establish a well-organized operating structure.”



Future Prospects for Akasaka Toranomon Clinic, which is Drawing Attention with its Innovative Approach

“Toranomon Hospital will complete construction of a new building in 2019, and we expect the number of outpatients to further increase,” said Dr. Takeuchi. “The role played by this clinic will likely become even more significant. Furthermore, there are very few clinics in Japan at this time with a direct coordinating relationship with an advanced acute care hospital, which makes this clinic an experiment. Our goal is to serve as a

model case for private hospitals. While patients from Toranomon Hospital will continue to be our focus, in the future we hope to provide advanced medical services to other local residents, including endoscopy-based cancer screening.”

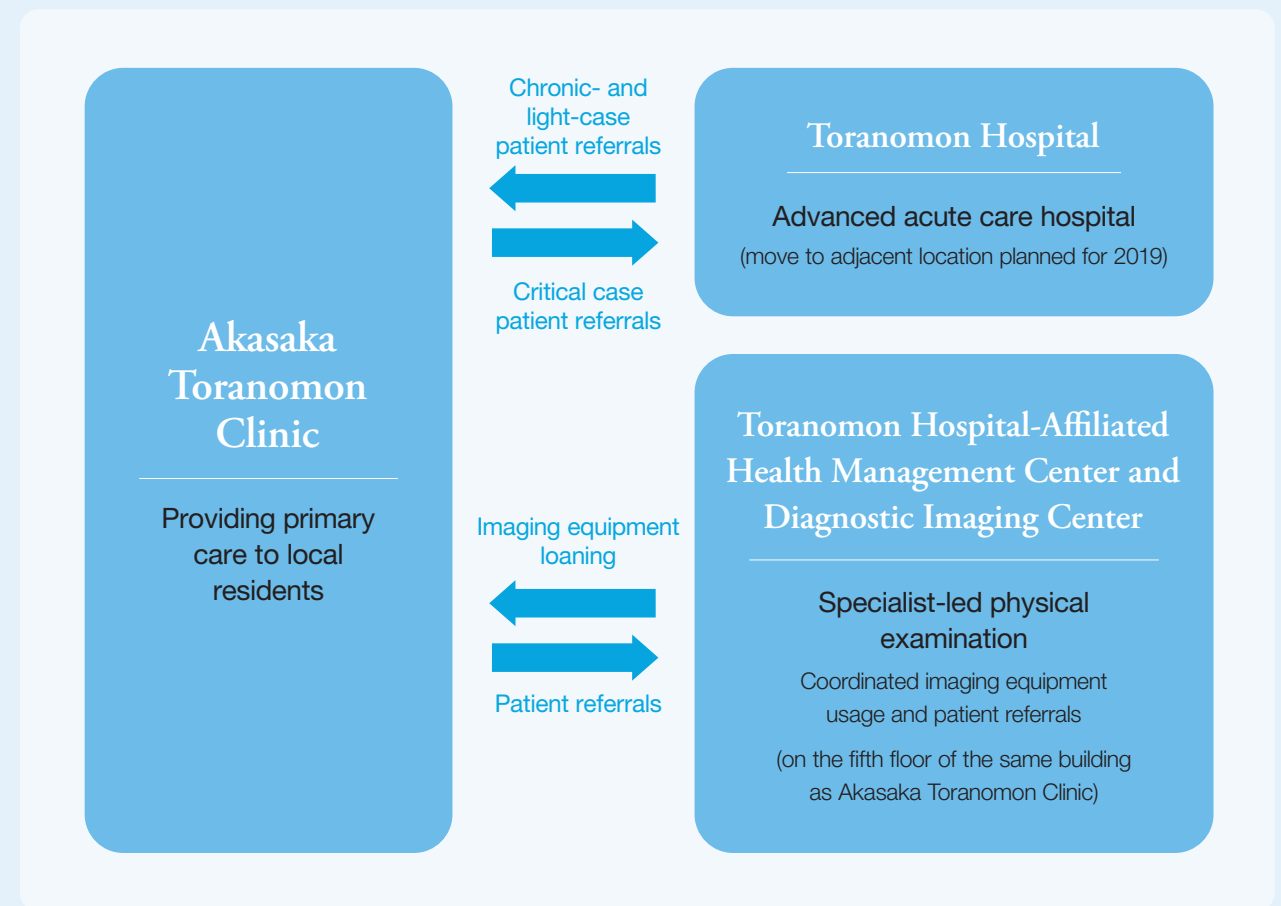
Sogo Medical’s support team also has great expectations for Akasaka Toranomon Clinic. “The presence of large clinics like this helps provide residents with peace of mind,” said Monji. “They are also a good way for young physicians to accumulate experience. We hope to strengthen our coordination with Toranomon Hospital, and create a structure that promotes interaction between physicians.”

“Patients place great trust in their physicians,” Takagi added. “They arrive at the clinic looking apprehensive, and leave looking relieved. I will recommend the clinic to my family and friends, and hope patients from all over the local area will take advantage of its services.”



Better medical services for even more patients: Akasaka Toranomon Clinic will move forward, providing advanced treatment that shapes the highest primary care standard, and brings patients peace of mind.

Akasaka Toranomon Clinic and Toranomon Hospital



Clinic interior



Medical Departments and Number of Specialist Physicians, Akasaka Toranomon Clinic

- General internal medicine..... 4
- Gastroenterology..... 2
- Gastroenterology (endoscopy)..... 1
- Pulmonology..... 1
- Cardiology..... 1
- Diabetes..... 2
- Dermatology..... 2
- Otorhinolaryngology..... 2
- Urology..... 1
- Obstetrics and gynecology..... 1
- Diencephalo-pituitary surgery..... 1



Ryo Hoshino
Leader,
Higashinihon Sales Division,
Higashinihon Office,
Sogo Medical Co., Ltd.

Keitaro Yonemura
Senior Consultant,
Medical Profession Management Support Division,
Higashinihon Office,
Sogo Medical Co., Ltd.

Kensuke Yasumura
Director,
Lake Town Hospital of Orthopaedics

Tomohiro Isayama
Senior Manager,
Medical Profession Management Support Division,
Higashinihon Office,
Sogo Medical Co., Ltd.

Offering advanced, individualized medical services throughout the patient's life

Action Report 2

Total Management Support for Hospitals with Admissions and Surgical Capabilities

Lake Town Hospital of Orthopaedics

Lake Town Hospital of Orthopaedics opened in April 2017 in Koshigaya, Saitama Prefecture.

Clinic director Dr. Kensuke Yasumura is a highly trained surgeon who wants patients from the local community to maintain ideal lifestyles. He is working actively to make his hospital indispensable to the community.

Offering Highly Satisfying Medical Service with Specialist Management



"Orthopedics can make important contributions to enhancing quality of life. For example, patients largely unable to walk can, thanks to surgery, regain the ability to walk for half an hour or more. This is why we strive to understand what kind of daily life patients desire, and select the appropriate treatment and surgery from the wide range of available options to realize those desires."

Dr. Yasumura asks patients to provide details about family composition and personal lifestyle, to propose the most appropriate treatment proposals for each individual. Sogo Medical began providing launch support in 2012 to realize Dr. Yasumura's treatment ideals, including facilitating approval of an operating license as a clinic with in-patient capabilities after transfer of medical corporate status, designing and constructing the facility building, and selecting equipment. On launch of the clinic in April 2017, three of our management consultants were placed on site, and provided comprehensive management and operational support for the clinic's first year of operation.

Sogo Medical's Tomohiro Isayama, as operations director, oversaw management, including managing funds, vendor contact, and outreach to other hospitals in the region, while Keitaro Yonemura served as assistant operations director, handling personnel admin-

istration and labor management, and promoting smooth internal communication. Ryo Hoshino managed medical equipment and consumables in the operating room. Their combined teamwork covered a wide range of tasks and freed Dr. Yasumura to focus on patient care.

Over the past year, the hospital has carried out about 370 surgical procedures. Dr. Yasumura brought many patients over from his previous practice, and many more are coming to the hospital through word of mouth and local referrals. Satisfaction levels are very high, with patients leaving positive remarks in the patient comment book, such as "I'm lucky I could meet Dr. Yasumura," or "I never dreamed I would regain my former state of health."

Dr. Yasumura's high-quality service and Sogo Medical's thorough support enabled Lake Town Hospital of Orthopaedics to reach out actively to the local community.

Facilitating Active Community Outreach

"We are now in an era where hospitals must compete for patients," says Dr. Yasumura. "Going forward, we will reach out to the local community to gain the trust of a larger number of residents." After the hospital was launched, Dr. Yasumura tasked Isayama and his team with realizing what he had been unable to achieve in his previous practice: to create a place for patients to gather, and to offer healthcare education to the community.

Dr. Yasumura explains, "If patients have opportunities to interact, they can obtain first-hand information on what surgical procedures involve, for instance. Community healthcare education can also give patients optimism with regard to their post-operative future." Isayama, who worked to make the surgeon's concept a reality, notes that "It was our task to create a superior treatment environment so that Dr. Yasumura, who provided the

essential skills and vision, could focus on patient care. I am convinced that the high levels of patient satisfaction and high expectations of the local community reflect the significance of our management support."

Going forward, Lake Town Hospital of Orthopaedics' goal is to become an even more integral part of the local community. It will continue to provide advanced treatment to a wide range of patients, so each member of the community may enjoy optimal health.



Action Report 3

Healthcare Mall Development

Medical Mall Toyosu



Support Areas

Launch consulting, leasing, merchandise sales, facilities rental, risk management, design/construction, pharmacy

Offering Patient-Centered Medical Service that Addresses Needs.

Medical Mall Toyosu opened in July 2017 in Tokyo's Koto-ku, in a waterfront area of high-rise condominiums and office towers. Numerous families reside in the area, and many child patients were anticipated. To treat kindergarten- and elementary school-age children's injuries and illnesses, the mall includes three clinics—which cover internal medicine, pediatrics, reconstructive surgery, dermatology and cosmetic surgery—as well as a pharmacy. Each clinic is fully equipped to make waiting time enjoyable and relaxing for young children.

Dr. Muramatsu, who as Director is in charge of reconstructive and cosmetic surgery as well as

dermatology, is a graduate of Showa University and a lecturer there. He also coordinates actively with Showa University Koto Toyosu Hospital. The pharmacy offers healthcare seminars and consultations as well as an in-home dispensing service, with the aim of contributing to better health for everyone in the local community.

The mall has also responded to the voice of the local community, for example by extending consultation hours and opening on Saturdays from April 2018. Medical Mall Toyosu will continue listening to residents and meeting their needs through patient-centered medical service.

Action Report 5

Hospital Management Support

Iris Psychiatric Clinic



Support Areas

Paid consulting, leasing and installment payments, risk management, design and construction supervision

Optimized Psychiatric Care Centered on Patients and Their Families.

Iris Psychiatric Clinic opened its doors in November 2017 in Fukuoka City, Fukuoka. The clinic's care structure embodies a new approach, encompassing entire families in addition to patients themselves. Dr. Masatoshi Ito, Chairman of Ebetsu Suzuran Hospital in Ebetsu City, Hokkaido, wanted to create a clinic in his hometown of Fukuoka for residents to consult specialists with peace of mind. Clinic director Dr. Keiko Yoshida was a colleague of Ito in the Department of Psychiatry, Kyushu University Hospital.

Dr. Yoshida is a pioneer in comprehensive psychiatric assessment of children and families throughout the lifecycle.

"Child developmental impairment and depression are often influenced by family relationships," says Dr. Yoshida. "I believe it is therefore useful to look at the family as a whole and offer treatment appropriate for that family."

In addition to Drs. Ito and Yoshida, the clinic's extensive staff includes a physician, clinical psychotherapists, licensed psychiatric social workers, and nurses ready to provide attentive consultations for patients of any age, from expectant and nursing mothers, babies, and children to adolescents and adults.

Action Report 4

Healthcare Mall Development

Matsuo Medical Square II



Support Areas

Launch consulting, leasing and installment sales, risk management

Healthcare Peace of Mind and Hope for People in the Local Community: a Second Building, with Expanded Treatment Quality and Scope.

In December 2017, Matsuo Medical Square II opened its doors. This was the second building at Matsuo Medical Square to be launched, following Matsuo Medical Square I in 2007. The latter includes departments of internal medicine, otolaryngology, and ophthalmology, while the new facility adds departments of orthopedics and dermatology. This healthcare mall is conveniently located a five-minute walk from Kami-katsura Station on the Hankyu Arashiyama Line, and offers parking for 41 vehicles. Coordination between specialist physicians in each department ensures healthcare peace of mind for patients and the community as a whole.

Matsuo Medical Square II was designed with patient convenience in mind. For example, the common area features a large elevator with capacity for 11 people, and the building incorporates a special exterior glass façade to reduce heat from the sun. The building, like the first, also complies with Kyoto landscape ordinances to harmonize with the surrounding environment.

Located in a residential area, Matsuo Medical Square II is an indispensable medical center for local residents, and is aiming to further enhance medical service quality.

Action Report 6

Bolstering Development

Healthcare Mall Website



We Established a Healthcare Mall Website to Share Achievements and Knowledge Toward Fulfillment of Our Medium-Term Management Plan Goals.

On September 13, 2017, Sogo Medical launched its DtoD Healthcare Mall website. This new website promotes the creation of ideal healthcare malls, and is designed as a resource for physicians seeking to open practices or work in clinics in such malls. It offers information on the merits of establishing practices, lists clinics seeking physicians, and profiles launch cases. The site also offers information on practice launch seminars, consultation events, and other useful content.

The growing role of healthcare malls reflects changes in society, with greater need for communication with local communities, and changes in the medical profession itself, with a need for greater physician specialization. To meet these

challenges, physicians with similar goals are combining their capabilities and applying advanced skills in their respective specialties to serve as primary care physicians for communities in a new style of medical service.

By giving broad exposure to its achievements to date and expertise relating to practice launch support, Sogo Medical is seeking to accelerate the pace of its healthcare mall development as well as its promotion efforts aimed at deepening physicians' understanding. To achieve our medium-term management plan goal of developing a total of 200 healthcare malls by the end of FY2019, we plan to promote a wide range of activities.

Action Report

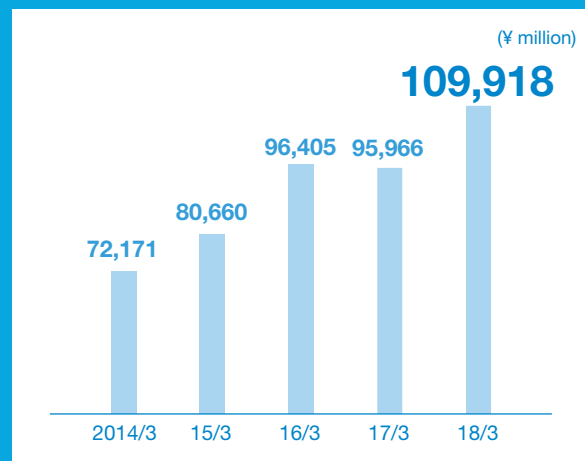
Pharmacy Business

Summary & Data

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

Sogo Medical is 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 our pharmacy business.

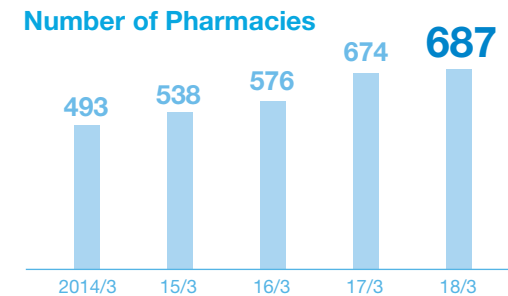
Pharmacy Business Total Sales



Creating High-Value Pharmacies

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

We are actively promoting the strengthening of pharmacy functions, for example by helping pharmacists acquire highly specialized capabilities and providing support for health improvement. By opening new, and acquiring existing, pharmacies, we expanded our network to 687 locations.



Expanding nationwide network

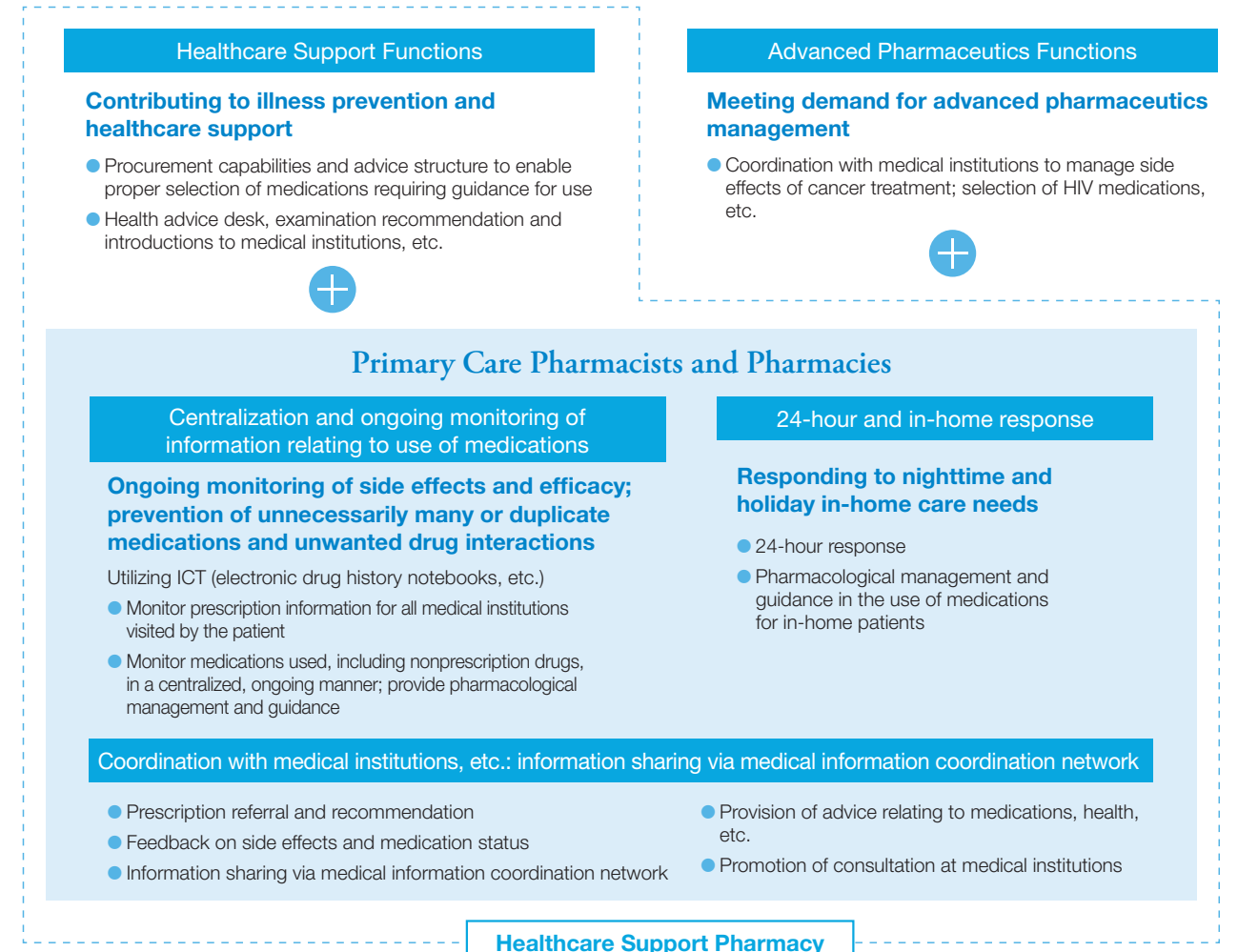


Sogo Medical's Goal for Pharmacists and Pharmacies

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

Sogo Medical has worked to expand the role of its pharmacies and pharmacists as “general healthcare stations.” In its “Vision for Patient-Centered Pharmacies,” the Ministry of Health, Labour and Welfare called for the need to serve 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 pursue this ideal further as we respond to changes in social needs and the regulatory environment.

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



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

Primary Care Pharmacist & Pharmacy Activities

Developing Specialist Pharmacists to Meet Local Needs



Cancer Conversation Café

To Enhance Treatment Quality, We are Developing Pharmacists with Highly Specialized Skills In-House.

Sogo Medical is a pioneer in specialist education and training for pharmacists. In 2011, we launched an internal certification program for specialist cancer and diabetes pharmacists. In 2016, we added a program for in-home care specialist pharmacists.

Our companywide certification program for specialist cancer and diabetes pharmacists includes systematic education relating to these diseases as well as patient psychology and care procedures.

To date, 36 pharmacists have achieved certification. In-home care specialist pharmacists achieve certification through training in patient care procedures matched to their daily lives and how their work relates to other medical professions, and to date 15 specialists are now active in the field, having been certified. By enhancing the specialist capabilities of our pharmacists, we are meeting a wide range of community needs.

Deploying In-Home Care Activities Nationwide



Sterile dispensing using clean bench

We are Sharing Internal Expertise to Enhance the Quality of In-Home Care Nationwide.

Miyonodai Pharmacy Group, which joined Sogo Medical Group in December 2016, is equipped with advanced expertise needed to address diverse in-home care needs, including in-home guidance in the use of medications, sterile preparations, and nighttime services. They are currently holding regular seminars and sharing case studies at Sogo pharmacies nationwide, enhancing the

in-home care capabilities of the Group as a whole. Thanks to these efforts, 86% of our pharmacies were offering in-home care services at the close of the term.

Sogo Medical representatives also engaged in other diverse in-home care-related activities, including a presentation entitled "Bedsore Assessment" at the 10th Annual Meeting of the Japanese Association of Home Care Pharmacies.

Active Promotion of Generic Drugs



Sogo Medical Promotes the Use of Generic Drugs to Reduce Healthcare Costs.

All Sogo Pharmacies display posters promoting the use of generic drugs. Thanks to these and related efforts, the utilization rate for generic pharmaceuticals was 77% at the close of the term. Higher utilization means lower pharmacy sales, but plays an essential role in reducing the cost burden on patients and the healthcare system in Japan. Over the coming term, we will continue to

promote the use of these drugs, with the goal of an 80% utilization rate by March 31, 2019.

At the same time, we will realize stable operation of our pharmacies by promoting enhanced specialization and the demonstration of professional capabilities on the part of our pharmacists, so that our pharmacies will be chosen by local residents.

Reinforcing Healthcare Support Functions

Original Development and Distribution of Cognitive Impairment Mitigation Tool



Brain Training (Q&A and advice example)

We Distributed Our Original Brain Stimulation Tool, Developed under the Supervision of Specialists, at All of Our Pharmacies. We are Bolstering our Support of Those with Cognitive Impairment and Promoting Health Preservation.

The number of individuals suffering from cognitive impairment in Japan is expected to reach seven million by 2025. This trend will require a comprehensive response that includes medical care, nursing care, housing, and daily life support, and pharmacists will be required to enhance their capacity to care for such patients.

Sogo Medical collaborated with group company Hokendohjinsha Inc. and medical specialists to

develop Brain Training, a brain stimulation tool, and began distributing it free at our pharmacies across the nation in March 2018. Going forward, we will utilize Brain Training as a tool for supporting those with cognitive impairment, raise awareness of the problem and act as another form of communication between patients and pharmacy staff to support health promotion.

Hosting Numerous Health Support Events



Cover makeup clinic (Sogo Pharmacy, Tenjin Chuo Store)

We Hold a Wide Range of Health Events to Enhance Disease Prevention and Healthcare as Well as Quality of Life.

To support independent health maintenance by community residents, Sogo Medical is promoting the registration of its locations as healthcare support pharmacies, and actively engaging in a wide range of health support activities.

For example, we are holding covering makeup clinics for women concerned about surgical scars or pigmentation resulting

from medical treatment. We are also hosting health support events and making contributions to enhancing not only prevention and healthcare, but quality of life. By offering unique health support, we aim to make our pharmacies "general healthcare stations" that are indispensable to the local community.

Frailty Syndrome* Education and Prevention



Diagnostic tool and grip strength meter

Health Recovery Before the Onset of Conditions Requiring Nursing Care is Essential. Our Group Pharmacies are Engaged in Education and Prevention Activities.

Since June 2017, pharmacists in 70 group pharmacies across the nation have been conducting frailty education efforts, and providing advice using a frailty checklist tool. Frailty is an aging-induced condition involving declining physical and mental capacity. It is a precursor stage to nursing care, and in many cases it is possible to reverse

the condition through improvements in diet, increased physical activity, and active participation in social activities.

Sogo Medical is working to educate the public regarding this condition, which is not widely recognized, and promote prevention support to help seniors continue to live healthy lives.

*A syndrome of weakened mental and physical capacity due to aging

Other Topics

Launch of EASY VIEW Bedside Arm-Mounted Monitor



EASY VIEW

In Response to Demand from Medical Facilities, We Developed the Nation's First Arm-Mounted Monitor Specifically for Use during Dialysis Procedures.

Japan's aging population means more patients undergoing artificial dialysis. As of December 31, 2016, approximately 330,000 patients were receiving dialysis treatment an average of three times weekly, with each treatment lasting around four hours.

During dialysis, patients must remain relatively immobile for an extended period. In response to requests from dialysis facilities for a television monitor for patient use, Sogo Medical developed EASY

VIEW, an arm-mounted monitor developed specifically to reduce patient stress. The position of the 13.3-inch, wide-screen monitor can be easily adjusted, and its high resolution makes for more enjoyable viewing.

EASY VIEW is the only product of its type currently available in Japan. With multiple mounting options and adaptability to a wide range of beds, demand is expected from dialysis facilities throughout Japan.

IT Management Award



Our Revamped Accounting System was Recognized with a Prestigious IT Award.

The IT Management Award is presented by the Japan Institute of Information Technology to enterprises, organizations, and individuals demonstrating particularly innovative use of information technology to enhance their business practices.

Sogo Medical Group received the award for the accounting system it introduced between June 2015 and October 2016 under the leadership of its IT Strategy Division, which identified requirements for rationalizing and stream-

lining operations through a new accounting system, evaluated and selected the system for implementation, and managed risk while acting as an early technology adopter.

Going forward, Sogo Medical will apply information technology effectively to its enterprise activities toward fulfillment of the medium-term management plan, through more efficient management and new business strategy formulation.

Corporate Governance

- 38 Sogo Medical from the Perspective of External Directors
- 40 Directors, Audit & Supervisory Board Members and Executive Officers
- 42 Corporate Governance
- 44 Internal Control System and Compliance System
- 45 CSR Management & Topics

Sogo Medical from the Perspective of External Directors

The year 2018 marks the 40th founding anniversary of Sogo Medical. As we transition to a holding company system, and with our eyes on expanding the scale of our operations, the question arises how to best reinforce corporate governance.



Committed to meeting our important responsibilities as a leading company. Building on 40 years of history, we are looking to ever stronger corporate governance.



Eiichi Seki Director (External Director)

The Company has, from an early stage, taken steps to strengthen corporate governance, specifically by increasing the number of external directors and external auditors. Moreover, by defining business management benchmarks, we have strengthened insight into the business management of group affiliates, and by establishing detailed reporting to the board of directors, reflected a strong focus on transparent management which I hold in high regard. More recently, the Company established an advisory committee while keeping up

efforts to reinforce corporate governance and have deliberated the adoption of a holding company system. However, in accordance with the concept of good medical practice through good management, the Company is called upon to continue contributing to society through the advancement and growth of its operations. I too will do my best to put my experience in banking and top-level business management to good use in support of these efforts.

Profile Prior positions held: Executive Officer and General Manager of the Fukuoka Branch at the Industrial Bank of Japan, Ltd.; Managing Executive Director at Mizuho Bank, Ltd.; President of Kokunai Shinpan Co., Ltd.; Chairman of Rakuten KC Co., Ltd. Currently, a Special Advisor to Polaris Capital Group Co., Ltd.; and an Auditor at Innova, Inc. Director at Sogo Medical since June 2016.



By intensifying the discussion at the board of directors, we will avoid the pitfalls of the 'big company disease' and enhance management transparency, soundness, and compliance.

Kiyotaka Watanabe Director (External Director)

I hold the Company's corporate governance in high regard. It is wonderful to feel that centering on executives and employees our corporate philosophy is being correctly appreciated and executed in a law-abiding spirit. Even so, our corporate governance will need further strengthening going forward, and in order to meet the expectations of our many stakeholders it is imperative for discussions at the board of directors to intensify. Large

corporations are at risk of falling victim to the 'big company disease' where problems get swept under the carpet. Sogo Medical's board of directors meetings have always been a place where doubts and concerns are discussed from the perspective of our shareholders in a purposefully frank and honest manner, and I, too, make a point of speaking my mind where necessary for the sake of a more in-depth discussion.

Profile Prior positions held: President & CEO of Mitsui & Co. (Canada) Ltd.; Executive Managing Officer and Chief Operating Officer, Iron & Steel Products Business Unit, Mitsui & Co. Ltd.; Senior Executive Officer and President of the Kyushu Branch at Kyushu Electric Power Co., Inc.; Overseas Business Division Advisor then Chairman at Mizoe Kensetsu Corporation; Director at Sogo Medical since June 2015.



In order to expand the organization going forward, it is imperative for us to promote human resources development at the management level and further strengthen the governance structure of the Company.

Takashi Kamite Director (External Director)

The Company has been practicing transparent, fair, and swift decision making and has created effective corporate governance systems. Going forward, we will be required to operate and rebuild governance systems appropriately in response to changes in industry trends and management environments. I see my role in offering objective opinions on the appropriateness of the Company's

business decisions from medium- and long-term perspectives using my 42 years of knowledge and experience in finance. Through the exchange of opinions with other directors, I will concern myself also with fostering management-level human resources and will do my best to contribute to strengthening the Company's governance systems with a view to the future growth of our organization.

Profile Prior positions held: Executive Officer at Tokyo Auto Leasing Co., Ltd.; Executive Officer and Managing Executive Director at Century Tokyo Leasing Corporation (now Tokyo Century Corporation). Currently, Managing Executive Director and Director of the Metro Tokyo Business Unit at Tokyo Century Corporation. Director at Sogo Medical since June 2017.

Directors, Audit & Supervisory Board Members and Executive Officers (As of June 22, 2018)

Directors



Kenji Sakamoto
Representative Director, President
and Chief Executive Officer



Shinya Mikita
Representative Director,
Executive Vice President



Makoto Kuroda
Director & Senior Executive
Managing Officer



Masatoshi Sadahisa
Director & Senior Executive
Managing Officer



Moritaka Nakashima
Director & Senior Executive
Managing Officer



Takao Nakashima
Director & Senior Executive
Managing Officer



Itsuo Tashiro
Director & Chairman



Kiyotaka Watanabe
Director (External Director)



Eiichi Seki
Director (External Director)



Takashi Kamite
Director (External Director)

Audit & Supervisory Board Members



Shoji Hirao
Full-time Audit & Supervisory
Board Member



Seio Yamakawa
Full-time External Audit &
Supervisory Board Member



Naomasa Mitsukado
External Audit & Supervisory
Board Member



Setsuko Gondo
External Audit & Supervisory
Board Member

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
General Manager of DtoD Strategy
Division

Kohichi Hashimoto
Executive Managing Officer
Manager of President's Office

Joji Haraguchi
Executive Managing Officer
Manager of Kyushu Branch Office

Yuriko Tanigawa
Executive Managing Officer
General Manager of Pharmacy Business
Division

Akihiro Shitozawa
Executive Managing Officer
General Manager of Sales Promotion
Division

Shigeyuki Nakano
Executive Managing Officer
General Manager of Development
Division

Takahide Terada
Senior Executive Officer
Assistant to Manager of Kyushu Office
Dispatched to HAMIQ

Genichi Shimmura
Senior Executive Officer
Deputy General Manager of DtoD
Strategy Division

Kazuya Watabe
Senior Executive Officer
General Manager of Administration
Division
Manager of General Affairs Department

Nobuo Fujii
Senior Executive Officer
Assistant to General Manager of
Development Division

Osamu Yamasaki
Senior Executive Officer
Manager of Nishinohon Branch Office

Katsuyuki Honda
Senior Executive Officer
General Manager of Personnel Division
Manager of Hiring Department

Toshikazu Matsuo
Executive Officer
Deputy General Manager of Pharmacy
Business Division

Masatomo Hara
Executive Officer
Deputy General Manager of Pharmacy
Business Division
Manager of Home Medical Care
Promotion Department

Tetsuro Irie
Executive Officer
General Manager of Consulting Division
Manager of Consulting Promotion
Department

Takeshi Togami
Executive Officer
General Manager of Management
Strategy Division

Tadahiro Dantsuka
Executive Officer
Deputy General Manager of Management
Strategy Division

Mitsuhiro Tateyama
Executive Officer
Manager of Higashinohon Branch Office

*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, 2018)

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 representative directors, working managing directors and full-time 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 project meetings attended by the vice president and division managers are held twice monthly as rule, which determine important matters other than matters to be referred to the managing directors' meeting and matters to be decided by the managing directors' meeting. Additionally, management meetings attended by executive officers

including the president deliberate on management-related issues and exchange information.

Sogo Medical has adopted an 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, 2018)

The audit and supervisory board comprises 4 auditors, of which 2 are full-time 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 full-time auditors also attend and offer opinions at managing directors' meetings, individual project meetings, and management meetings.

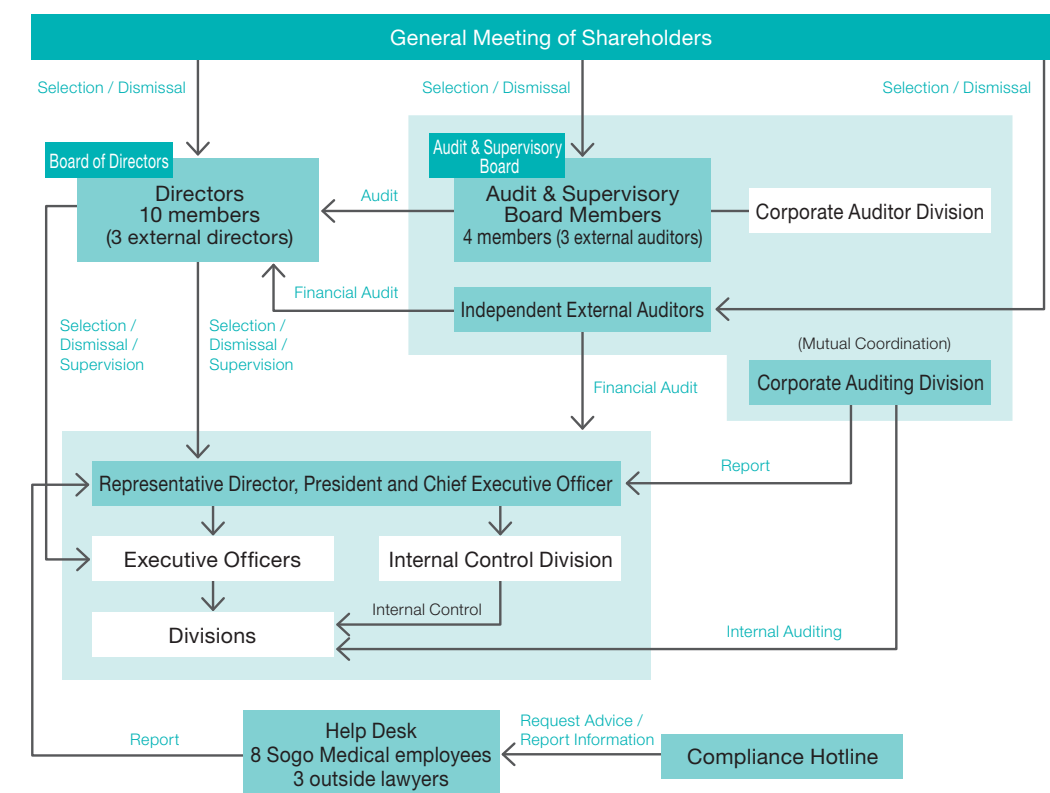
Auditors monitor the legality of operations based on financial standards, audit planning, and task divisions, as outlined by the audit and supervisory board.

Internal audits are held systematically by the corporate

auditing division, consisting of 9 members, auditing all divisions and reporting the results directly to the president. Audited divisions are given guidance on where they need to improve, with further reporting required on whether improvement has been made or not, ensuring an efficient audit process.

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

Governance Systems (As of June 22, 2018)



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, 2018

Officer category	Number of recipients	Total by form of remuneration (¥ million)			
		Total	Basic compensation	Stock options	Bonuses
Directors (not including external directors)	8	218	218	-	-
Audit & supervisory board members (not including external auditors)	1	12	12	-	-
Outside officers	8	37	37	-	-
Total	17	267	267	-	-

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 profit attributable to owners of the parent company 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.
6. At the meeting of the board of directors held May 21, 2015, it was decided to introduce a share-based remuneration system.

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 laws and 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 Female Employees' Activities

Job transfer system

In fiscal year 2013 the Company initiated a job transfer system envisioned to create a path from clerical positions to professional positions as managers. In the four years since the launch of the system, 23 female employees succeeded in achieving job transfers to professional positions.

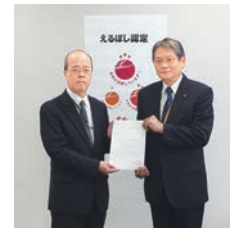
Leadership training program for female employees

This program fosters female personnel capable of exercising leadership by providing instruction in the mindset and skills required for leadership positions and in establishing clarity about personal life plans. From the training start in fiscal year 2015 until fiscal year 2017 the program had 45 participants.



"Eruboshi" certification as a promoter of women's participation in the workplace

On September 28, 2017, the Company received accreditation under the "Act on Promotion of Women's Participation and Advancement in the Workplace" (Women's Activities Promotion Act) (also known as "Eruboshi" Certification). This accreditation is awarded by the Minister of Health, Labour and Welfare to companies that have formulated and filed action plans for promoting women's participation in the workplace and whose implemented relevant measures have been noted for their excellence. Out of three available accreditation levels the Company received accreditation for the second.



Major Activity 2: Promoting Employment for Persons with Disabilities

Launching a corporate network to promote employment of persons with disabilities

In April 2017 the Company initiated a study and information exchange round-table to be shared with other companies on the creation of better environments for the employment and retention of job seekers with disabilities. The Company has been holding meetings with information exchanges and lectures by external presenters surrounding participating companies' case studies, issues, and initiatives.

Participating Enterprises

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



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 the Company received Ministry of Health, Labour and

Welfare accreditation as an enterprise that supports childrearing. Along with acquiring the "Kurumin Mark" which is given to companies that promote next-generation childcare support policies, the Company has further stepped up its efforts to create and encourage the application of internal regulations aligned with the life plans of female employees.

Examples of Systems to Support Diverse Work Styles

• Support for employees with non-work commitments

Introduction of childcare and nursing care systems that surpass legal requirements, as well as wider application of support leave

• Addressing the problem of long working hours

Promoting the taking of paid vacation and a weekly refreshment day, etc.

Topics

Telework on a trial basis

In June 2017 the Diversity Promotion Group, newly established in the personnel department in April 2017, launched a partial teleworking arrangement on a trial basis. Starting in January 2018, the teleworking arrangement has also been available company-wide on a trial basis to employees without family-related childcare or eldercare commitments.

Promotion of Healthcare Management

The good health of our employees is not only a source of pride, it is also a valuable asset of the Company. Based on this concept, the Company has been promoting health management at the workplace, such as raising the number of health checks above the statutory amount for all employees, including part-time staff members. Responsible for employee health promotion is the Health Support Office (the current Health Support Group), established in 2012. In April 2017, in recognition of the importance of proactive healthcare management for growth-supporting organization building, Sogo Medical declared itself a health-driven company to the Tokyo Pharmaceutical Industry Health Insurance Society. The Company will keep up its efforts to maintain and improve the health of all employees.

Examples of healthcare management measures

- Establishment of a consultation desk attended by a full-time public health nurse
- Establishment of a consultation desk attended by specialized external staff (open around the clock)
- Self-care training and mental healthcare training for managers with respect to subordinates
- Mandatory doctor interviews and guidance for those working long hours
- Annual stress checks (for all employees including part-time staff)
- Fully company-paid influenza vaccination
- Breast cancer and cervical cancer examination cost paid by the Company
- Discounts on user fees of affiliated sports clubs, etc.

Development of Human Resources

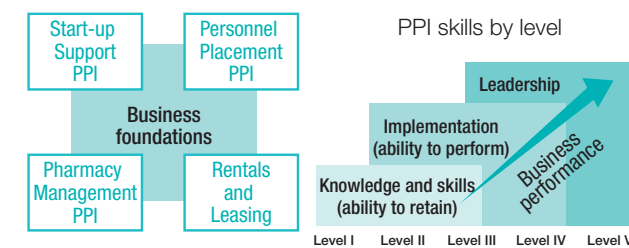
With the aim of ongoing human resource development, we are adopting and implementing a graded training structure corresponding to employees' growth and roles, including graded programs and executive development programs. Our

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

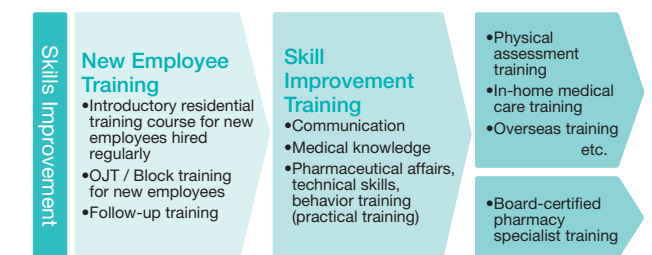
PPI is Sogo Medical's internal certification system for personnel working in the areas of start-up support, personnel placement, and pharmacy management.



(PPI: Practice Process Innovation)

• Gradable OJT Educational System (GOES) for Pharmacists

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



GOES Gradable OJT Educational System for Pharmacists

Financial Section

49 Five-Year Summary of Consolidated Financial Statements

50 Management's Discussion and Analysis

56 Risk Information

58 Consolidated Financial Statements

Five-Year Summary of Consolidated Financial Statements

Years Ended March 31		2014	2015	2016	2017	2018
Net sales	(¥ million)	103,318	107,945	120,776	122,216	135,431
Operating income	(¥ million)	5,014	5,017	6,087	6,248	7,189
Ordinary income	(¥ million)	5,068	5,227	6,196	6,440	7,228
Net income attributable to owners of the parent	(¥ million)	2,856	2,774	2,318	3,779	4,243
Total net assets	(¥ million)	23,934	26,521	29,646	32,880	36,526
Total assets	(¥ million)	66,982	69,811	74,621	86,760	89,748
Net assets per share	(yen)	827.87	912.07	983.57	1,089.23	1,210.69
Net income per share	(yen)	98.91	96.10	77.32	126.26	141.74
Cash dividends per share	(yen)	80.00	80.00	45.00	50.00	60.00
(Includes interim dividend)	(yen)	(40.00)	(40.00)	(22.50)	(25.00)	(27.50)
Dividend payout ratio	(%)	20.2	20.8	29.1	19.8	21.2
Capital adequacy ratio	(%)	35.7	37.7	39.5	37.6	40.4
Net income to shareholders' equity ratio (ROE)	(%)	12.6	11.0	8.3	12.2	12.3
Price-earnings ratio	(times)	10.5	17.6	24.7	16.6	21.3
Price-to-book ratio	(times)	1.2	1.8	1.9	1.9	2.8
Number of shares outstanding	(thousands of shares)	7,670	7,670	15,340	15,340	15,340
Cash flows from operating activities	(¥ million)	7,461	6,051	7,004	10,931	10,630
Cash flows from investing activities	(¥ million)	(5,335)	(5,296)	(4,981)	(9,933)	(2,963)
Cash flows from financing activities	(¥ million)	(1,370)	(1,637)	(635)	3,301	(3,871)
Cash and cash equivalents at end of period	(¥ million)	5,851	4,968	6,356	10,655	14,450
Number of regular employees	(people)	2,650	2,951	3,233	4,047	3,978
Number of part-time employees	(people)	1,064	1,190	1,208	1,132	1,383

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

Other Financial Data (Consolidated)

Years Ended March 31		2014	2015	2016	2017	2018
Operating income to net sales ratio	(%)	4.9	4.6	5.0	5.1	5.3
Ordinary income to net sales ratio	(%)	4.9	4.8	5.1	5.3	5.3
Net income to net sales ratio	(%)	2.8	2.6	1.9	3.1	3.1
Total assets turnover	(times)	1.5	1.5	1.6	1.4	1.5
Return on assets	(%)	8.2	7.6	8.6	8.0	8.2
Current ratio	(%)	122.0	121.5	125.5	135.4	143.8
Fixed assets to capitalization	(%)	81.7	83.7	81.7	78.0	73.8
Interest-bearing debt ratio	(%)	23.2	23.7	24.7	28.3	26.2
Net debt-to-equity ratio	(times)	0.40	0.44	0.41	0.42	0.25

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)/shareholders' equity.
 (Dated April 1, 2015, Sogo Medical instituted a 2-for-1 common stock split.
 Dated April 1, 2018, Sogo Medical instituted a 2-for-1 common stock split. Net assets and net income per share have been calculated assuming that the stock split was instituted at the start of FY2013.)

Management's Discussion and Analysis

1. Operation Results

Overview of Performance During the Year

Starting in April 2017, the Company launched its Action 2020 medium-term management plan, which covers a period of 3 years. In FY2017, the first year of the medium-term management plan, surrounding the theme of the realization of a Japanese healthcare business model, our efforts focused on healthcare mall development, management support for hospitals, and the creation of high-value pharmacies. And with a view to realizing our Vision 2028, that is, the completion of the Japanese healthcare business model, we worked on the supplementation and strengthening of the functions of existing businesses and on expanding business fields into medical peripheral businesses, and pushed ahead with creating the foundations of regional healthcare networks.

The Company's business results for the period under review reflect overall performance driven by strong sales at pharmacy operations, with net sales of ¥135,431 million (a year-on-year increase of 10.8%). Income showed a similar increase, with operating income totaling ¥7,189 million (a 15.1% increase), ordinary income of ¥7,228 million (a 12.2% increase), and ¥4,243 million (a 12.3% increase) in profit attributable to owners of the parent company.

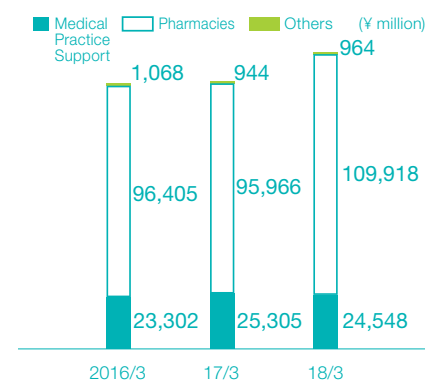
Change in Segment Classification Method

From this fiscal year, and in accordance with our medium-term management plan, we devised a segment classification strategy to implement segment activities founded on rapid decision-making, which involves a reconsideration of the organizational and management systems centered on the segments. Alongside this, we have reevaluated our segment classification method, changing the previous reporting segments from Higashinihon, Nishinihon and Kyushu, to Medical Practice Support, Pharmacies, and Others.

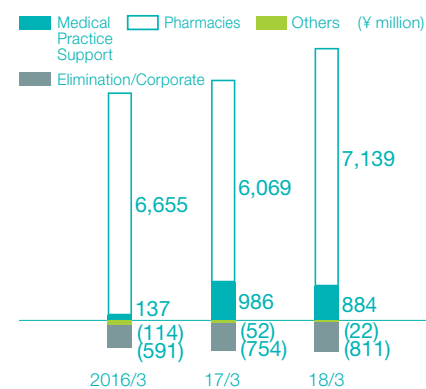
We have applied these new terms to segments for comparisons with previous years.

Years Ended March 31	2016	2017	2018
Net sales (¥ million)	120,776	122,216	135,431
Medical Practice Support	23,302	25,305	24,548
Consulting	1,894	2,035	2,247
Rental	5,465	6,836	5,676
Leasing and Installment	11,035	10,153	9,700
Others	4,905	6,280	6,923
Pharmacies	96,405	95,966	109,918
Others	1,068	944	964
Operating income (¥ million)	6,087	6,248	7,189
Medical Practice Support	137	986	884
Pharmacies	6,655	6,069	7,139
Others	(114)	(52)	(22)
Elimination/Corporate	(591)	(754)	(811)

Sales by Business



Operating Income by Business



By Business

Medical Practice Support

(1) Consulting

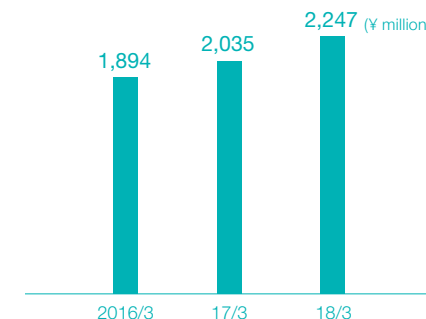
The DtoD (Doctor to Doctor) system, which offers support for the succession of medical practices, healthcare coordination, and practice transfers, saw the registration of 74,898 employed doctors wishing to transfer/start-up a practice by the end of the fiscal period (a year-on-year increase of 5,739).

As to healthcare mall development, aimed at creating community healthcare facilities that allow local residents to continue living comfortably in the accustomed environments of their cities, the number of healthcare malls at the end of the fiscal year stood at 94. With a view to attaining the target of 200 healthcare malls projected for the end of the fiscal year to March 2020 (the target under the medium-term management plan), we reinforced relevant frameworks by strengthening the healthcare mall division in the Tokyo metropolitan area and by newly establishing a healthcare mall division in the Kansai area. Moreover, we also established the healthcare mall start-up support website, "DtoD Healthcare Mall" (<https://www.clinic-mall.com/>). In addition, as part of our consultations to support doctors' diverse work styles, we held conventional start-up seminars, seminars under the banner of "doctors realizing their dreams," and seminars for female doctors. These seminars all support doctors in planning their ideal careers, and thus promote efforts to meet doctors' diverse needs.

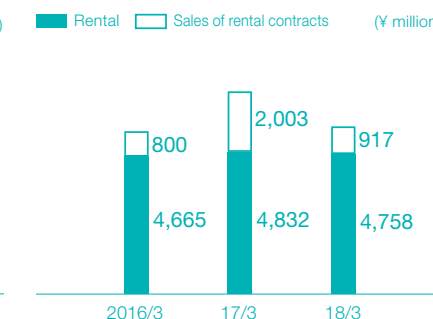
On October 2, 2017, the Akasaka Toranomon Clinic opened to the public as a specialized treatment healthcare mall with advanced acute care capabilities. The Company provided start-up and management support, and the clinic marks a pioneering endeavor for the Company.

Net sales revenues at consulting operations totaled ¥2,247 million (a year-on-year increase of 10.4%), reflecting higher revenues from business management support consulting, healthcare mall start-up consulting, and property rental revenues.

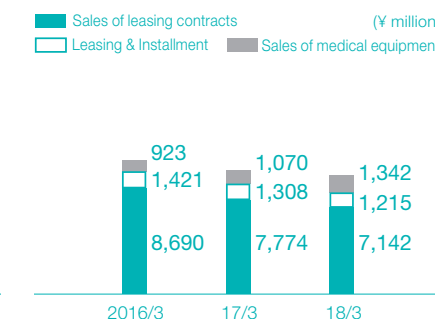
Consulting Sales



Rental Sales



Leasing and Installment Sales



(2) Rental

On the product development side, as a new initiative, on January 5, 2018, we released the EASY VIEW bedside arm-mounted monitor for dialysis patients, in response to requests. This product is based on the wishes voiced by dialysis facilities and patients, and as such represents an original product with innovative functions. It is the only TV set in Japan equipped with an integrated arm.

On the sales front, continuing from the previous fiscal year, we accommodated requests from rental-user medical institutions for contract renewals after the transition to digital terrestrial broadcasting. The extension of rental contracts and as a result of using recording revenue derived from rental contracts as stock to raise the capital ratio, the period under review saw a decline in reported income from product sales (re-rentals) that are our source of cash inflow, leaving net sales at ¥5,676 million (a year-on-year decrease of 17.0%).

(3) Leasing and Installment

Although the market environment continues to be severe due to the effects of the negative-interest regime, the Company's support operations predicated on our strengths in consulting worked to promote healthcare malls and start-up support as well as new medical equipment introductions and replacements associated with hospital rebuilding projects. As a result, the lease contract volume increased compared with the previous fiscal year. However, the result of recording revenue derived from lease contracts as stock to raise the capital ratio meant a decline in reported product sales (re-leasing), leaving net sales at ¥9,700 million (a year-on-year decrease of 4.5%).

(4) Others

Higher sales related to medical facility design and construction, among other factors, lifted net sales of operations incidental to medical practice support to ¥6,923 million (a year-on-year increase of 10.2%).

As a result of the foregoing, medical practice support net sales decreased to ¥24,548 million (a year-on-year decrease of 3.0%). Income, despite higher income from expanded sales at the consulting business, totaled ¥884 million (a year-on-year decrease of 10.3%) in operating income from medical practice support, reflecting the influence of recording revenue derived from rental and leasing contracts as stock to raise the capital ratio.

Management's Discussion and Analysis

Pharmacies

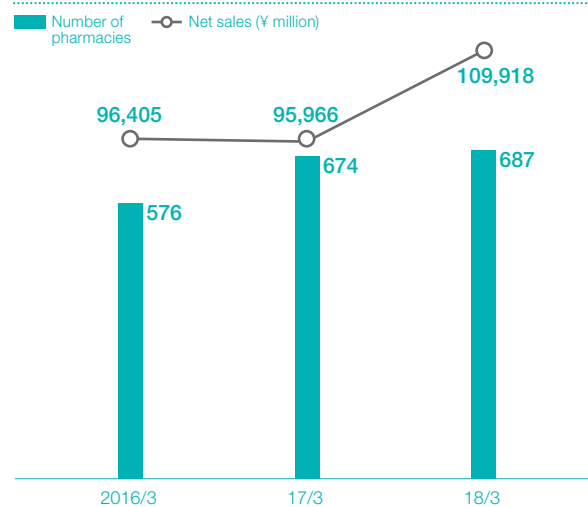
We have been promoting efforts to make our pharmacies "general healthcare stations" that local residents will choose.

This has included promoting efforts surrounding the primary care pharmacist and primary care pharmacy concepts set out in the Ministry of Health, Labour and Welfare's "Vision for Patient-Centered Pharmacies." At the same time, we worked to promote the training of specialist pharmacists and the role of healthcare support pharmacies in order to meet patients' advanced pharmaceutical management needs. As of the end of the fiscal year under review, the number of accredited healthcare support pharmacies came to 89, with healthcare support pharmacies belonging to Sogo Medical group accounting for around 10% of the nationwide total. Our work to further the healthcare support pharmacies concept also included health consultation events held on pharmacy premises and the distribution of health support leaflets.

The number of pharmacies reached 687, reflecting 18 new openings in the period under review (including 6 as a result of mergers and acquisitions).

In addition to our efforts detailed above regarding primary care pharmacists and primary care pharmacies, which have been centered on existing pharmacies, our sales have been boosted all year since our acquisition of the Miyonodai Pharmacy Group (of 91 pharmacies) in December 2016. As a result, net sales at the pharmacy business totaled ¥109,918 million (a year-on-year increase of 14.5%) with an operating income of ¥7,139 million (a 17.6% increase).

Number of Pharmacies / Pharmacy Sales



Others

Net sales totaled ¥964 million (a year-on-year increase of 2.1%) with an operating loss of ¥22 million (improved from an operating loss of ¥29 million in the previous fiscal year).

Forecast for the Fiscal Year Ending March 31, 2019

FY2018 will be the second year of our Action 2020 medium-term management plan. Based on the plan's theme of the realization of a Japanese healthcare business model, we will continue in our efforts surrounding healthcare mall development, management support for hospitals, and the creation of high-value pharmacies. Likewise, with a view to attaining our Vision 2028, we will keep up our efforts at the supplementation and strengthening of the functions of existing businesses and the expansion of business fields into medical peripheral businesses while proceeding with the formation of platforms for regional healthcare networks.

As to the outlook for FY2018, although the negative effects from the April 2018 revisions of dispensing fees and drug prices suggest a drop in revenues at pharmacy operations, expectations are for higher revenues at all divisions of the medical practice support business. This, and the performance prospects for Bunkyo Corporation, newly added to the Group by acquisition of the entity's entire share capital on April 26, 2018, will cover the decrease in the pharmacy business division. Projections for the fiscal year ending March 2019 are for net sales of ¥144,928 million (a year-on-year increase of 7.0%).

Income projections reflect the negative effects of the dispensing fee and drug price revisions on pharmacy operations, which could not be neutralized, calling for operating income of ¥5,762 million (a year-on-year decrease of 19.8%), with ordinary income of ¥5,800 million (a decrease of 19.8%), and ¥3,405 million (a decrease of 19.8%) in profit attributable to owners of the parent company.

Dated April 1, 2018, the Company instituted a share split at the ratio of 2 shares for 1 share of common stock. Consolidated net income per share was calculated assuming that the share split was instituted at the start of the previous fiscal year.

Furthermore, the board of directors at its meeting on March 22, 2018, resolved to initiate full-scale preparations for the transition to a holding company structure scheduled to be implemented on October 1, 2018.

Going forward, in order to attain at an early stage the goals of our Vision 2028 and in order to enhance the enterprise value of the Company and achieve sustained growth, it will be necessary to develop and expand our existing operations. Furthermore, via active deployment of merger and acquisition, as well as enhancement of our

alliances, we must enlarge our overall business scale while creating new businesses. For the realization of these prospects, the Company has judged it appropriate to transition to a holding company structure. Additionally, we believe that a holding company structure, which separates management supervisory functions from business executive functions, is appropriate also from the perspective of strengthening corporate governance.

Management's Discussion and Analysis

2. Financial Position

Assets

Total assets at the end of the period under review totaled ¥89,748 million reflecting a year-on-year increase of ¥2,988 million. Total current assets rose ¥3,300 million to ¥48,299 million. This was mainly due to a ¥3,707 million rise in cash and deposits. Total noncurrent assets decreased ¥311 million to ¥41,448 million mainly due to a ¥584 million reduction in goodwill.

Liabilities

Total liabilities at the end of the period under review was ¥53,221 million reflecting a year-on-year decrease of ¥657 million. Total current liabilities increased ¥369 million to ¥33,598 million. Total noncurrent liabilities fell ¥1,026 million to ¥19,623 million. This was mainly due to a ¥1,340 million decline in long-term loans payable. Interest-bearing debt (including lease obligations and installment purchase accounts payable) fell ¥1,060 million to ¥23,529 million year-on-year. The net debt-to-equity ratio (interest-bearing debt, less cash and deposits divided by shareholders' equity) decreased 0.17 points compared with the end of the previous fiscal year to 0.25 times.

Net Assets

Net assets totaled ¥36,526 million reflecting an increase of ¥3,645 million year-on-year. Main factors comprised a ¥785 million decrease caused by the payment of dividends and a ¥4,243 million increase due to the recognition of profit attributable to owners of the parent. As a result, the capital adequacy ratio increased 2.8 points to 40.4% from 37.6% at the end of the previous fiscal year.

Cash Flow

As of March 31, 2018, cash and cash equivalents totaled ¥14,450 million, a 35.6% increase of ¥3,795 million. The primary factors are described below.

Cash Flows from Operating Activities

Cash provided by operating activities increased by ¥10,630 million. The major cash increases were ¥7,105 million from income before taxes, ¥3,971 million from adjustment for depreciation and amortization, and ¥1,243 million from goodwill amortization. The major cash decrease was ¥2,778 million from income taxes paid.

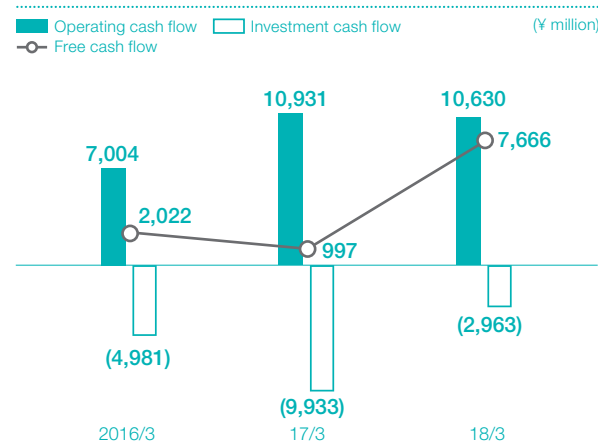
Cash Flows from Investing Activities

Cash used in investing activities was ¥2,963 million. Main factors were expenditures of ¥1,875 million for the purchase of own-use assets and ¥745 million for the purchase of property for lease.

Cash Flows from Financing Activities

Cash used in financing activities was ¥3,871 million. Main factors comprised ¥3,000 million in income from long-term loans payable, ¥4,614 million in expenditure for the repayment of long-term loans payable, and ¥1,266 million in expenditure for the repayment of installment payable.

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 18 new pharmacies (including 6 pharmacies from M&A transactions) in the fiscal year ended March 31, 2018 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, we also give thought to the appropriate level of debt leveraging.

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.

Returns to Shareholders

It has been a fundamental policy of the Company to disburse stable and sustained dividend payments to shareholders, through efforts to enhance the Company's capability to acquire revenues via effective management and strengthened business performance while taking into account the Company's corporate condition.

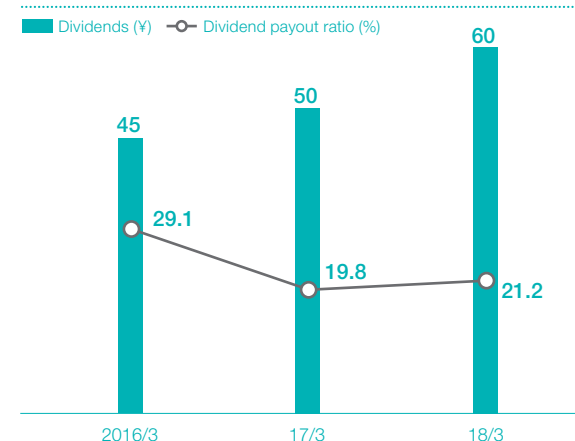
The Action 2020 medium-term management plan, which went into effect in April 2017, states a policy of maintaining the minimum dividend payout ratio at 20%. Based on this policy, the next annual dividend payment is expected to be ¥27.5 per share (interim and yearend dividends of ¥13.75).

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, 2018, we carried out a 2-for-1 split of common stock, and the dividend amount per share given for years prior to March 31, 2018 are the actual dividend amounts before the stock split was 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, 2018.

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. Segregation of drug prescription and dispensation as regards pharmacies

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 dispensing 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 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

(¥ million)

	2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)	2018 (Apr. 1, 2017– March 31, 2018)		2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)	2018 (Apr. 1, 2017– March 31, 2018)
Assets				Liabilities			
Current assets				Current liabilities			
Cash and deposits	6,376	10,830	14,538	Notes and accounts payable-trade	18,590	20,258	20,037
Notes and accounts receivable-trade	19,617	21,395	20,536	Short-term loans payable	610	415	490
Accounts receivable-installment sales	1,874	1,821	2,934	Current portion of long-term loans payable	4,046	4,607	4,429
Lease receivables and investment assets	1,403	911	1,098	Lease obligations	267	256	275
Inventories	6,583	6,557	5,787	Accrued expenses	2,972	2,629	2,842
Deferred tax assets	789	811	814	Income taxes payable	1,572	1,762	1,837
Other	2,566	2,710	2,643	Deferred profit on installment sales	182	187	251
Allowance for doubtful accounts	(20)	(38)	(53)	Other	2,994	3,112	3,433
Total current assets	39,189	44,999	48,299	Total current liabilities	31,237	33,228	33,598
Noncurrent assets				Noncurrent liabilities			
Property, plant and equipment				Long-term loans payable	9,204	15,171	13,831
Property for lease, net	5,177	4,823	5,483	Lease obligations	714	920	731
Buildings and structures, net	11,716	13,312	12,898	Long-term accounts payable-installment purchase	1,938	2,160	2,754
Land	4,109	4,720	4,707	Other	1,880	2,397	2,306
Other, net	2,539	2,216	2,351	Total noncurrent liabilities	13,737	20,650	19,623
Total property, plant and equipment	23,542	25,072	25,440	Total liabilities	44,975	53,879	53,221
Intangible assets				Net assets			
Goodwill	5,833	9,703	9,119	Shareholders' equity			
Other	1,201	1,537	1,383	Capital stock	3,513	3,513	3,513
Total intangible assets	7,034	11,241	10,502	Capital surplus	5,566	5,566	5,566
Investments and other assets				Retained earnings	20,944	24,012	27,470
Investment securities	1,134	1,327	1,465	Treasury stock	(920)	(920)	(920)
Deferred tax assets	507	445	361	Total shareholders' equity	29,104	32,172	35,629
Other	3,231	3,673	3,716	Accumulated other comprehensive income			
Allowance for doubtful accounts	(19)	(0)	(39)	Valuation difference on available-for-sale securities	338	432	611
Total investments and other assets	4,853	5,446	5,504	Total accumulated other comprehensive income	338	432	611
Total noncurrent assets	35,431	41,760	41,448	Non-controlling shareholders	203	275	285
Total assets	74,621	86,760	89,748	Total net assets	29,646	32,880	36,526
				Total liabilities and net assets	74,621	86,760	89,748

Consolidated Financial Statements

Consolidated Statements of Income

(¥ million)

	2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)	2018 (Apr. 1, 2017– March 31, 2018)
Net sales	120,776	122,216	135,431
Cost of sales	103,178	103,761	115,077
Gross profit	17,598	18,454	20,354
Selling, general and administrative expenses	11,511	12,206	13,164
Operating income	6,087	6,248	7,189
Non-operating income	287	447	409
Dividends income	22	25	26
Rent income	31	21	22
Insurance cancellation refunds	36	21	–
Gain on sales of investment securities	–	168	–
Other	196	209	360
Non-operating expenses	178	254	370
Interest expenses	75	81	103
Loss on valuation of investments securities	–	–	37
Provision of allowance for doubtful accounts	–	–	51
Loss on lease cancellation	–	35	–
Other	103	137	178
Ordinary income	6,196	6,440	7,228
Extraordinary loss	1,371	48	123
Impairment loss	1,014	48	123
Loss on sales of stocks of subsidiaries and affiliates	87	–	–
Loss on valuation of investment securities	270	–	–
Income before income taxes	4,824	6,391	7,105
Income taxes-current	2,569	2,452	2,859
Income taxes-deferred	(68)	87	(7)
Total income taxes	2,501	2,540	2,851
Net income	2,323	3,851	4,253
Net income attributable to non-controlling shareholders	4	71	10
Net income attributable to owners of the parent	2,318	3,779	4,243

Consolidated Statements of Comprehensive Income

(¥ million)

	2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)	2018 (Apr. 1, 2017– March 31, 2018)
Net income	2,323	3,851	4,253
Other comprehensive income			
Valuation difference on available-for-sale securities	(136)	94	178
Total other comprehensive income	(136)	94	178
Comprehensive income	2,186	3,945	4,432
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	2,181	3,873	4,421
Comprehensive income attributable to non-controlling shareholders	4	71	10

Consolidated Statements of Change in Net Assets

(¥ million)

	Shareholders' equity					Accumulated other comprehensive income		Net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Non-controlling shareholders	
Balance 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	–	–	–	–	–	–	–	–
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
Dividends from surplus	–	–	(785)	–	(785)	–	–	(785)
Net income attributable to owners of the parent	–	–	4,243	–	4,243	–	–	4,243
Purchase of treasury stock	–	–	–	(0)	(0)	–	–	(0)
Net changes of items other than shareholders' equity	–	–	–	–	–	178	10	189
Balance on March 31, 2018	3,513	5,566	27,470	(920)	35,629	611	285	36,526

Consolidated Financial Statements

Consolidated Statements of Cash Flows

(¥ million)

	2016 (Apr. 1, 2015– Mar. 31, 2016)	2017 (Apr. 1, 2016– Mar. 31, 2017)	2018 (Apr. 1, 2017– March 31, 2018)
Net cash provided by (used in) operating activities			
Income before income taxes	4,824	6,391	7,105
Depreciation and amortization	3,836	3,902	3,971
Goodwill amortization	1,021	987	1,243
Impairment loss	1,014	48	123
Interest and dividends income	(23)	(27)	(28)
Capital cost and interest expenses	112	105	118
Decrease (increase) in notes and accounts receivable-trade	(993)	1,127	1,016
Decrease (increase) in accounts receivable-installment sales	(75)	57	(1,048)
Net decrease (increase) in lease receivables and investment assets	298	491	(187)
Decrease (increase) in inventories	1,253	751	846
Increase (decrease) in notes and accounts payable-trade	(1,436)	(670)	(400)
Increase (decrease) in other assets/liabilities	(798)	(193)	310
Other, net	620	258	421
Subtotal	9,652	13,230	13,492
Interest and dividends income received	23	27	28
Interest expenses paid	(111)	(103)	(113)
Income taxes paid	(2,559)	(2,222)	(2,778)
Net cash provided by (used in) operating activities	7,004	10,931	10,630
Net cash provided by (used in) investing activities			
Purchase of own-used assets	(4,233)	(3,152)	(1,875)
Proceeds from sales of own-used assets	172	–	–
Purchase of property for lease	(876)	(264)	(745)
Purchase of investment securities	(11)	–	–
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(147)	(6,440)	(485)
Other, net	115	(76)	142
Net cash provided by (used in) investing activities	(4,981)	(9,933)	(2,963)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	64	(224)	71
Proceeds from long-term loans payable	6,485	10,933	3,000
Repayment of long-term loans payable	(3,001)	(4,446)	(4,614)
Repayments of lease obligations	(751)	(324)	(276)
Repayments of installment payables	(2,092)	(1,924)	(1,266)
Cash dividends paid	(629)	(710)	(785)
Purchase of treasury stock	(708)	–	–
Other	–	–	(0)
Net cash provided by (used in) financing activities	(635)	3,301	(3,871)
Net increase (decrease) in cash and cash equivalents	1,387	4,299	3,795
Cash and cash equivalents at beginning of period	4,968	6,356	10,655
Cash and cash equivalents at end of period	6,356	10,655	14,450

Change in the classification method of business segments

From this fiscal year, and in accordance with our medium-term management plan, we devised a segment classification strategy to implement segment activities founded on rapid decision-making, which involves a reconsideration of the organizational and management systems centered on the segments. Alongside this, we have reevaluated our segment classification method, changing the previous reporting segments from Higashinihon, Nishinihon and Kyushu, to Medical Practice Support, Pharmacies, and Others. We have applied these new terms to segments for comparisons with previous years.

Segment Information

(¥ million)

2017 Apr. 1, 2016 – Mar. 31, 2017	Reporting Segments				Reconciliations*1	Consolidated amounts*2
	Medical practice support	Pharmacies	Others	Total		
Sales						
Unaffiliated sales	25,305	95,966	944	122,216	–	122,216
Intersegment sales	6,278	370	–	6,649	(6,649)	–
Total	31,584	96,337	944	128,865	(6,649)	122,216
Segment profit	986	6,069	(52)	7,003	(754)	6,248
Segment assets	25,809	49,864	1,932	77,606	9,153	86,760
Other items						
Depreciation expenses	2,391	1,186	71	3,649	252	3,902
Goodwill amortization	77	909	0	987	–	987
Increase in total property, plant, and equipment and total intangible assets	3,711	6,712	62	10,486	433	10,920

Notes:

1. Reconciliations were as follows:

(1) Reconciliation for reportable segment loss (¥754 million) included elimination of intersegment sales (¥114 million) and overall corporate expenses (¥868 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 (¥9,153 million) included elimination investment against equity (¥17,598 million) and overall corporate assets (¥26,752 million). The overall corporate assets were mainly classified as parent company deposits and were not allocated to reportable segments.

(3) The ¥433 million adjustment amount to the increase in property, plant, and equipment and intangible assets reflects mainly internal system purchases at head office.

2. Reportable segment profits were reconciled with the operating income of the consolidated income statement.

2018 Apr. 1, 2017 – Mar. 31, 2018	Reporting Segments				Reconciliations*1	Consolidated amounts*2
	Medical practice support	Pharmacies	Others	Total		
Sales						
Unaffiliated sales	24,548	109,918	964	135,431	–	135,431
Intersegment sales	7,144	411	12	7,567	(7,567)	–
Total	31,693	110,329	976	142,999	(7,567)	135,431
Segment profit	884	7,139	(22)	8,001	(811)	7,189
Segment assets	27,080	48,809	1,818	77,709	12,039	89,748
Other items						
Depreciation expenses	2,313	1,305	71	3,690	281	3,971
Goodwill amortization	77	1,166	0	1,243	–	1,243
Increase in total property, plant, and equipment and total intangible assets	2,739	2,295	57	5,091	110	5,201

Notes:

1. Reconciliations were as follows:

(1) Reconciliation for reportable segment loss (¥811 million) included elimination of intersegment sales (¥37 million) and overall corporate expenses (¥849 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 (¥12,039 million) included elimination investment against equity (¥18,195 million) and overall corporate assets (¥30,234 million). The overall corporate assets were mainly classified as parent company deposits and were not allocated to reportable segments.

(3) The ¥110 million adjustment amount to the increase in property, plant, and equipment and intangible assets reflects mainly internal system purchases at head office.

2. Reportable segment profits were reconciled with the operating income of the consolidated income statement.

Corporate Information (As of June 1, 2018)

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 Nishi-Nippon City Bank, Ltd., The Miyazaki Bank, Ltd., The Miyazaki Taiyo Bank, Ltd., The Oita Bank, Ltd., The Bank of Saga, Ltd., The Eighteenth Bank, Ltd., The Higo Bank, Ltd., The Chikuho Bank, Ltd., The Kagoshima Bank, Ltd., Sumitomo Mitsui Banking Corp., Sumitomo Mitsui Trust Bank, Limited, MUFG Bank, Ltd., Development Bank of Japan Inc., The Norinchukin Bank, etc.
Group Companies (32)	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. (residential-type nursing homes) Sun Villa Co., Ltd. (nursing home with care for seniors) Hokendohjinsha Inc. (healthcare information service) GM Co., Ltd. (interior finishing of hospitals and clinics) Bunkyo Co., Ltd. (hospital stores and restaurants)
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., Kitano Dispensing Pharmacy Co., Ltd., KSmecine Dispensing Co., Ltd., Trust Co., Ltd., Triadplus Co., Ltd., K&K Pharmacy Co., Ltd.
Bases	852 (3 offices, 23 branches, 4 sales offices, 1 satellite office, 691 pharmacies, 80 in-hospital shops and convenience stores, 46 in-hospital restaurants and cafes, 3 residential-type nursing homes, 1 nursing home with care for seniors)
Employees	7,138 (4,612 full-time workers, 2,526 part-time workers)

Corporate Timeline

Jun. 1978	Established Sogo Medical Leasing Co., Ltd. with a capitalization of ¥20 million, for business purposes of leasing medical equipment and consulting for medical institutions.	Jun. 2010	Acquired all outstanding shares of Aoba Pharmacy Co., Ltd., a pharmacy.
Oct. 1987	Started real estate agency and practice inheritance businesses.	Jan. 2011	Started wholesale marketing of medical and pharmaceutical products.
Nov. 1987	Started the TV rental business for patients.	Oct. 2011	Acquired all outstanding shares of Maeda Pharmacy Co., Ltd., a pharmacy.
May 1988	Established the first Sogo Pharmacy.	Nov. 2011	Started long-term care service businesses, such as residential homes for the elderly.
Oct. 1989	Changed name to Sogo Medical Co., Ltd.	Jun. 2012	Acquired all outstanding shares of Sun Villa Co., Ltd., a fee-based residential home for the elderly.
Nov. 1989	Started the "Green Members" (now "Succeed Members") member system targeted to medical personnel.	Nov. 2012	Acquired all outstanding shares of Yataya Pharmacy Co., Ltd., a pharmacy.
Oct. 1994	Started the planning, design, and construction of medical facilities.	Aug. 2013	Acquired all outstanding shares of pharmacies Taikodo Yakkyoku Honten Co., Ltd. and TM Yakkyoku Co., Ltd.
Aug. 2000	Listed on Second Section of Tokyo Stock Exchange.	Oct. 2014	Absorption-type merger with pharmacies Taikodo YakkyokuHonten 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.	Mar. 2015	Acquired 61.6% of shares of Hokendohjinsha Inc., a healthcare information service company.
Sep. 2001	Listed on First Section of Tokyo Stock Exchange.	Jun. 2015	Acquired all outstanding shares of Shokando Co., Ltd.
Oct. 2001	Started the DtoD system.	Aug. 2015	Transferred all shares of Sogo Media Supply 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.	Feb. 2016	Acquired 75% of shares of GM Co., Ltd., a company that performs interior construction at medical facilities.
Dec. 2003	Started temporary introduction and placement service of other medical staff.	Dec. 2016	Acquired shares of Miyonodai Pharmacy Group.
Apr. 2005	Started hospital operational management contracting.	Apr. 2018	Acquired all outstanding shares of Bunkyo Corporation, a company with in-hospital shops and convenience stores, etc.
Aug. 2007	Formed business alliance with Mitsui and Co., Ltd.		
Sep. 2007	Conducted allocation to third party to Mitsui & Co., Ltd.		

Stock Information (As of March 31, 2018)

Shareholder Composition

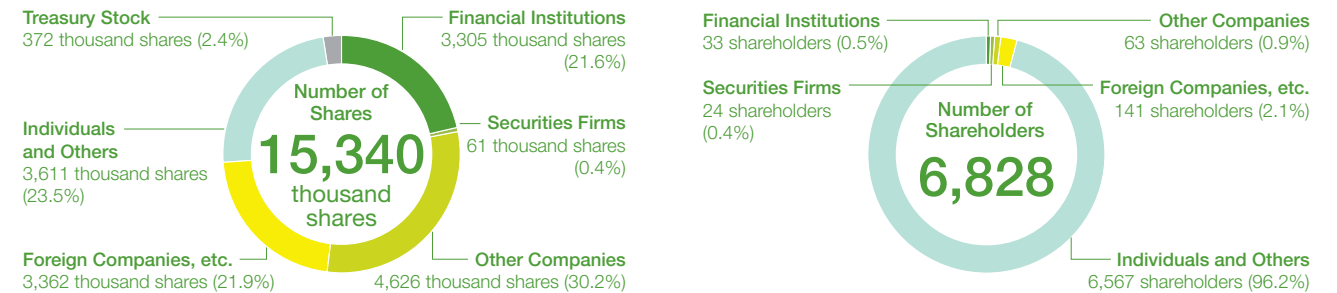
Total Number of Issued Shares	15,340,156 shares
Number of Shareholders	6,828 shareholders
Number of Unit Shareholders	6,005 shareholders

Major Shareholders (Top 10 Largest Shareholders)

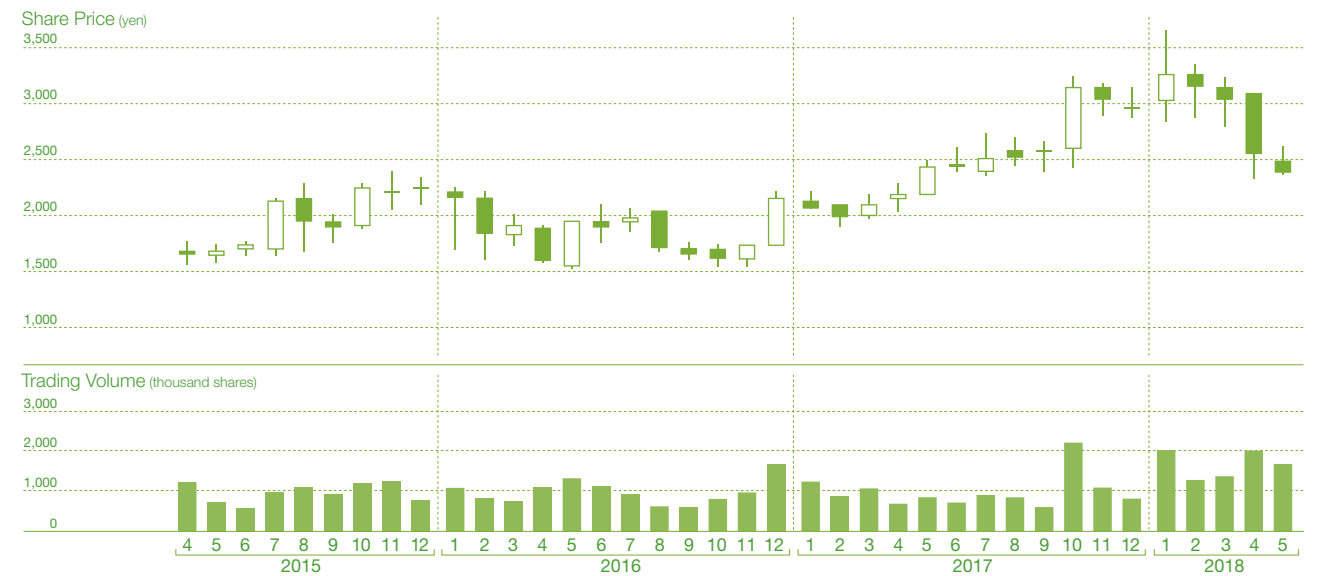
Name of Shareholder	Number of Shares Held (thousands of shares)	Shareholding Ratio
MITSUI & CO., LTD.	3,819	25.51%
THE SFP VALUE REALIZATION MASTER FUND LIMITED (Standing proxy: Citibank, N.A., Tokyo Branch)	932	6.22%
Tokyo Century Corporation	722	4.82%
The Bank of Fukuoka, Ltd.	615	4.10%
Japan Trustee Services Bank, Ltd. (trust account)	528	3.52%
Hirosada Oyamada	453	3.03%
The Kitakyushu Bank, Ltd.	404	2.69%
The Master Trust Bank of Japan, Ltd. (trust account)	293	1.95%
THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL OMNIBUS SECS LENDING ACCOUNT (Standing proxy: Mizuho Bank, Ltd.)	262	1.75%
Employees Shareholders' Association of Sogo Medical	220	1.47%

(Notes)
1. Treasury stock (372 thousand shares) is not listed under major shareholders above.
2. Ratios of controlling shares are calculated excluding treasury stock.
3. On April 1, 2018, we carried out a 2-for-1 split of common stock.
For the shareholder composition as of March 31, 2018, listed above, share figures listed are those prior to the stock split.

Breakdown of Shares by Type of Shareholder



Share Price and Trading Volume



(On April 1, 2018, 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 ended March 31, 2018 were calculated assuming that the stock split had been performed.)

For further inquiries, please contact: Sogo Medical Co., Ltd., Public and Investor Relations Division
TEL: +81-92-713-9181 E-mail: ir@sogo-medical.co.jp <http://www.sogo-medical.co.jp/english/>



SOGO MEDICAL

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

