



Annual Report 2019

From April 1, 2018 to March 31, 2019

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The following information is available on the website of Sogo Medical Holdings Co., Ltd.

○Corporate Governance

<https://www.sogo-medical-hd.co.jp/en/ir/management-policy/governance.html>

○Directors & Officers

<https://www.sogo-medical-hd.co.jp/en/profile/officer.html>

○Earnings Announcement

<https://www.sogo-medical-hd.co.jp/en/ir/report/presentation.html>

○Business Risks

<https://www.sogo-medical-hd.co.jp/en/ir/management-policy/risk.html>

- Our History and Strategy



Good Medical Practice through Good Management



Our History



Our Business and Strengths



Medical Institution Operating Environment and Our Growth Strategy

- Good Medical Practice through Good Management

Medical institutions such as hospitals and clinics need good management to provide high-quality medical care. Providing good medical care from the outset, however, also results in good management. Good medical care and good management are therefore both essential to the provision of efficient, high-quality healthcare. Physicians must have pride and a sense of mission to do everything in their power for their patients, and it is our mission to provide the institutional support that enables them to focus on their work.

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)

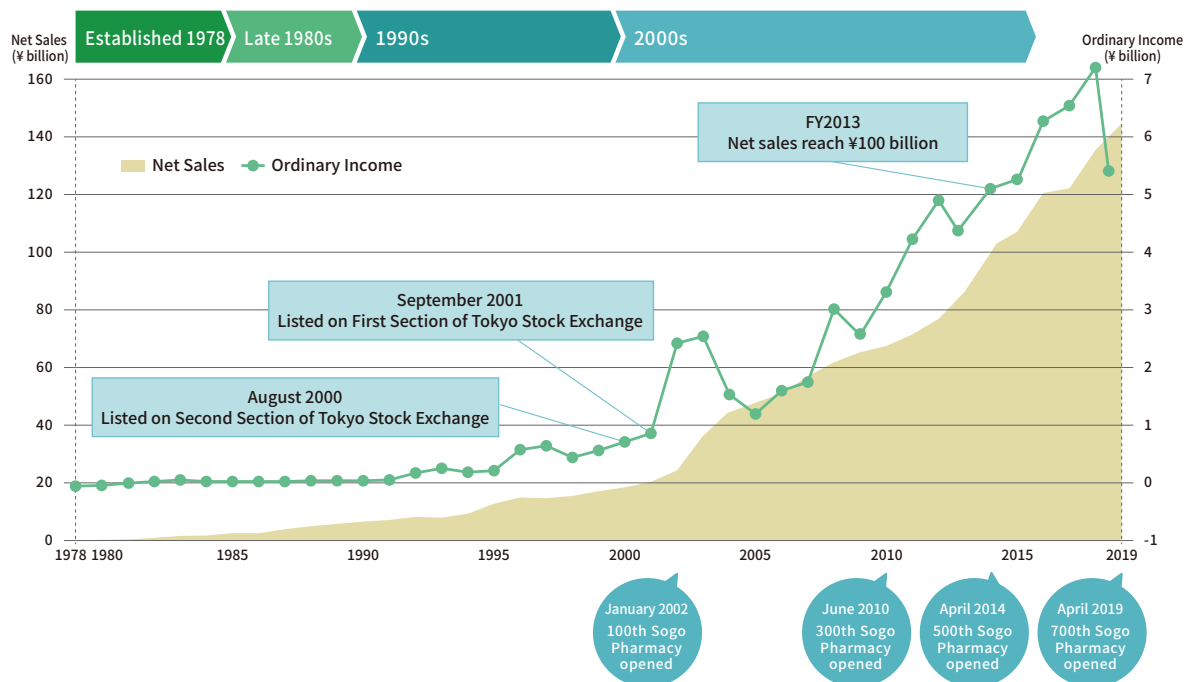


This combination of intelligence, passion and conduct forms the basis for action at our company with our emphasis on management consulting.

- Our History

A Good Partner for Medical Institutions

The Sogo Medical Group was founded as a medical equipment specialized leasing company. Over the years, the Group has diversified and grown its business by addressing the needs of physicians and by helping medical institutions tackle issues in their business.



Established 1978 | Founded as a medical equipment leasing business

June 1978 Established as Sogo Medical Leasing Co., Ltd., specializing in leasing medical equipment

Late 1980s | Business diversification and reinforcing the leasing business

October 1987 Started real estate agency and medical practice succession businesses
 November 1987 Launched TV rental business for hospital patients
 May 1988 Launched dispensing pharmacy business with opening of the first Sogo Pharmacy
 October 1989 Company name changed from Sogo Medical Leasing Co., Ltd. to Sogo Medical Co., Ltd.
 November 1989 Started the "Green Members" (now "Succeed Members") membership system for medical professionals

Late 1990s | Shift in focus from clinic start-up support to comprehensive consulting services

July 1994 Sogo Pharmacies start providing in-home medication guidance
 October 1994 Established Somtech Co., Ltd. to plan, design and build medical facilities

2000s | Accelerate business expansion through M&A

April 2001 Acquired all outstanding shares of Orix Media Supply Co., Ltd., a TV rental business serving hospitals and hotels
 October 2001 Started the DtoD system – support for medical practice succession, healthcare coordination and physicians seeking to change practices
 April 2005 Launched hospital management outsourcing services
 June 2005 Launched clinic mall startup and operation support services
 August 2007 Formed business alliance with Mitsui & Co., Ltd.
 November 2011 Established Sogo Care Network Co., Ltd. as a wholly owned Group company to operate fee-based residential nursing homes
 June 2012 Acquired shares of Sun Villa Co., Ltd., a fee-based residential nursing home with long-term care (all outstanding shares acquired in May 2014)
 March 2015 Acquired shares of Hokendohjinsha Inc., a healthcare information service company
 2016 February: Acquired shares of GM Co., Ltd., a company that carries out medical facility interior construction work
 December: Acquired shares of Miyonodai Pharmacy Group
 April 2018 Acquired all outstanding shares of Bunkyo Corporation, a company that operates in-hospital shops and convenience stores
 October 2018 Established Sogo Medical Holdings Co., Ltd. and moved to a holding company system

- Our Business and Strengths

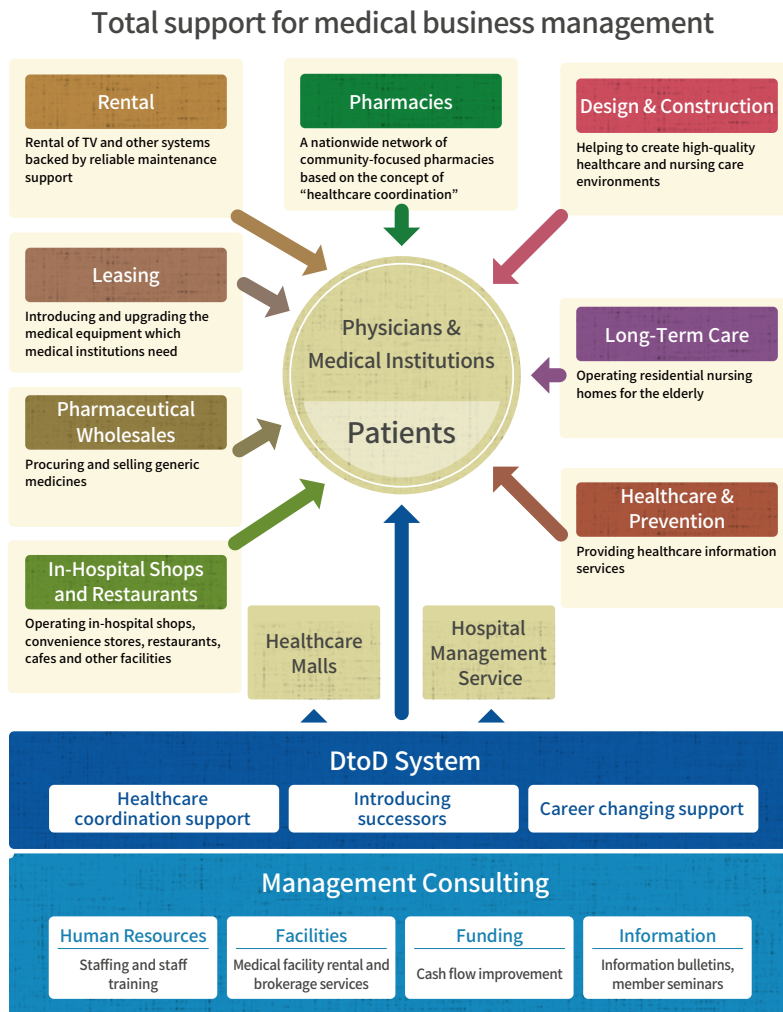
Consulting-based total management support for medical businesses

Using a consulting-based approach, Sogo Medical provides total management support for medical businesses to help hospitals and clinics deliver efficient, high-quality healthcare.

We operate a range of businesses that support good medical practice. Our DtoD system helps stimulate local healthcare through physician referrals, support for medical practice succession and healthcare coordination. We also develop and operate healthcare malls that address issues in local healthcare provision, establish primary care pharmacies with strong links to local communities, and lease medical equipment to improve patient convenience.

Opening the path to future healthcare

Expertise in linking and supporting healthcare providers

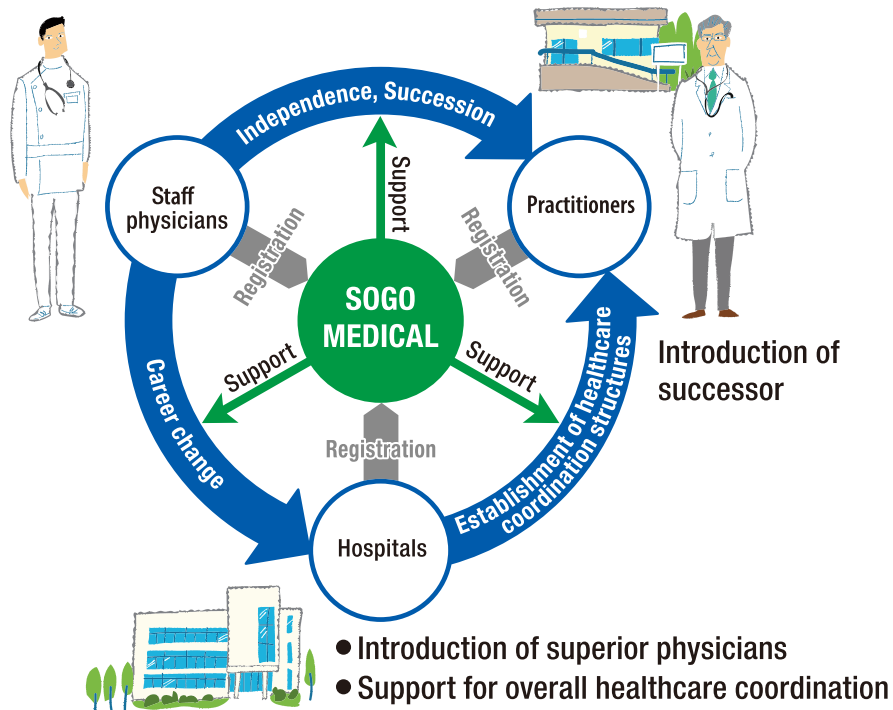


Doctor to Doctor (DtoD) system – the driving force of the Group’s business

DtoD supports regional medical care by linking the will among physicians

The DtoD system provides comprehensive support for staff physicians, practitioners and hospitals that face issues in their operations. The system meets a wide range of needs, such as helping staff physicians change their career identifying physicians who can take over medical practices that have no successors, referring high-quality physicians to hospitals, and coordinating in new medical practices with practitioners.

Career change, support to launch independent practice



- Medical Institution Operation Environment and Our Growth Strategy

Medical Institution Operation Environment

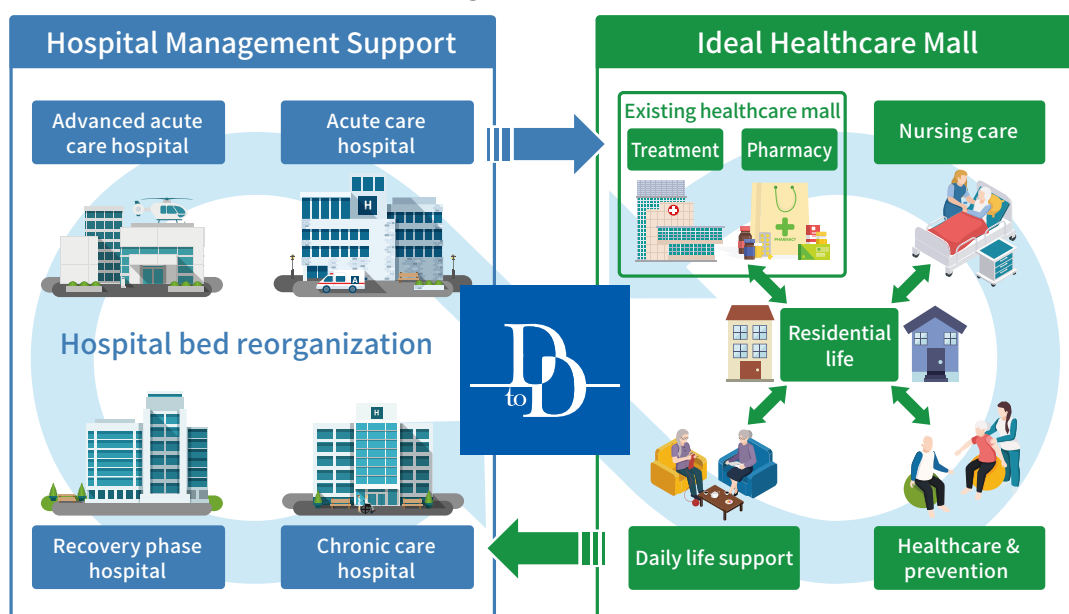
With Japan's society aging at an unparalleled pace worldwide, the Japanese government is aiming to build a framework that provides integrated support and services for the elderly in their local communities (integrated community care system) by 2025. The goal is to maintain the dignity and support the autonomy of elderly people by ensuring they continue to live out their lives as independently as possible in environments familiar to them.

Vision 2028: Completing our original healthcare business model

Under the Group's Vision 2028* long-term strategy, we aim to complete our Japanese healthcare business model, which supports the creation of healthcare systems that enable the public to efficiently access high-quality healthcare. The Sogo Medical Group aims to create a healthcare network that maximize the capabilities of each area of healthcare provision, by coordinating the services of advanced acute phase hospitals, acute phase hospitals, recovery phase hospitals, and chronic phase hospitals, as well as healthcare malls that provide localized healthcare services, and by working with other companies. Developing ideal healthcare malls and providing management support to hospitals are key elements of that approach. We aim to complete our original healthcare business model by supporting the functional specialization of hospitals, coordinating with those hospitals, and developing healthcare malls that provide nursing care, healthcare & prevention and support for daily life.

*We have taken the "Vision 2028" name from the Medium-Term Management Plan (April 2017 – March 2020) that was formulated by Sogo Medical Co., Ltd. before Sogo Medical Holdings Co., Ltd. was established.

Completing our Original Healthcare Business Model to Support an Integrated Community Care System



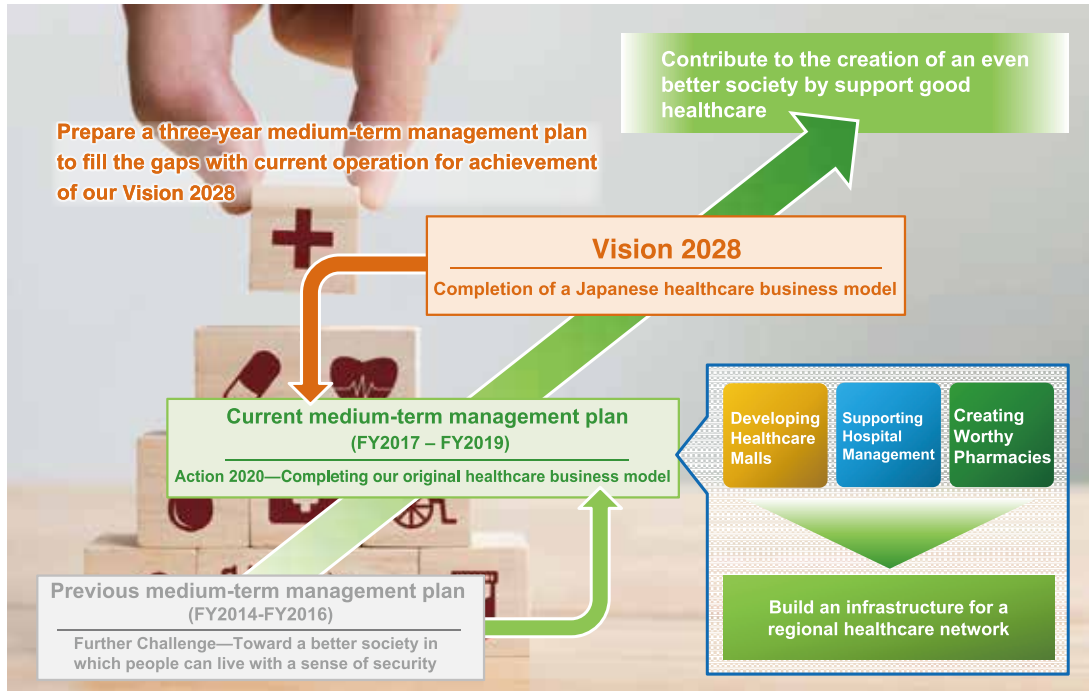
(Source) Prepared by the Sogo Medical Group based on data from the Ministry of Health, Labour and Welfare

Medium-Term Management Plan: Action 2020

Action 2020, our current three-year business plan ending in FY2019, is designed to close the gap with the objectives of Vision 2028, our long-term strategy ending in FY2027.

Completing our original healthcare business model is the key theme of Action 2020.

Position of the Medium-term business plan and “Completing”



Objectives for the Fiscal Year Ending March 31, 2020

1. Development of Healthcare Malls

Social infrastructure as core facilities for medical treatment, nursing care, and support for daily life

▶ **Aiming for 200 Locations**

2. Hospital Management Support

Support functional specialization and coordination to build an integrated community care system

▶ **Aiming for 37 Hospital Management Support Contracts**

3. Create High-Value Pharmacies

Support an integrated community care system with pharmacies that serve as general healthcare stations

▶ **Organic Growth*1 of 2.3 Million Prescriptions (20%)**

4. To Achieve Vision 2028

Enhance/strengthen existing businesses and increase scope of health-related businesses

▶ **Exploit New Areas, Leverage Sharing Domestic/International Expertise**

Management targets for FY2019, ending March 2020 (final year of Medium-Term Management Plan)

Cash flow	Net sales ¥160 billion (organic) EBITDA margin* ² 9% or higher
Investment in growth	¥20 billion allocated for capex over plan's three years Active use of separate budget for M&A and business tie-ups
Financial strategy	Net D/E ratio*³ of approximately 0.5x If needed, interest-bearing debt will be used to fund the Group's growth strategy, and the net D/E ratio will be set at roughly 1.0x
Total Shareholder Returns	Dividend Payout Ratio Maintained at minimum 20% Maintaining stable, continuous dividend payouts

*1 Organic growth: Internal growth not dependent on M&A activity

*2 EBITDA: Earnings Before Taxes, Depreciation and Amortization of goodwill; EBITDA margin: EBITDA ÷ net sales

*3 Net debt/equity ratio: Net interest-bearing debt (interest-bearing debt – cash and deposits) ÷ shareholders' equity; interest-bearing debt is debt recorded on the balance sheet including lease obligations and accounts payable – installment purchase

- 2019 highlights

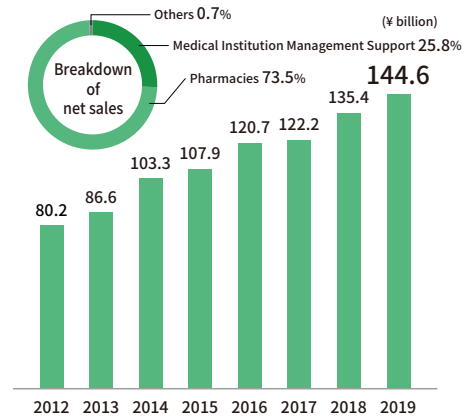
Financial highlights

| Net Sales

¥144.6 billion

Up 6.8% YoY

Net sales totaled ¥144.6 billion, up 6.8% year on year, supported by sales from Bunkyo Co., Ltd. which became a Group company, and by higher sales from the consulting, rental and leasing and installment sales businesses in the Medical Institution Management Support Segment.



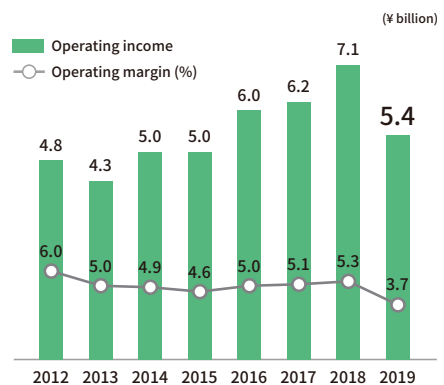
| Operating Income

¥5.4 billion

Operating margin 3.7%

Down 24.7% YoY

Revisions to drug prices and dispensing fees in April 2018 had a negative impact on the Group and its chain of pharmacies. The Group worked to find savings in selling, general and administrative expenses by improving business efficiency and optimizing costs, but that was insufficient to fully offset the impact of the revisions, leading to a decline in operating income year on year.

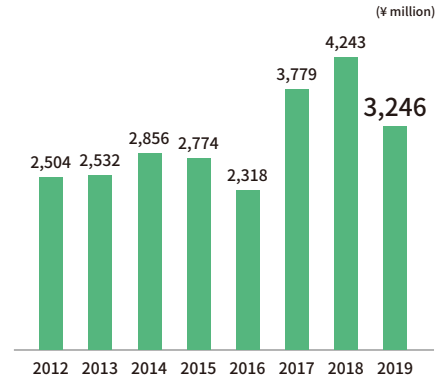


Net Income Attributable to Owners of the Parent

¥3,246 million

Down 23.5% YoY

FY2018 net income attributable to owners of the parent declined year on year, as the Group was unable to offset the negative impact of revisions to drug prices and dispensing fees in the Pharmacies segment.



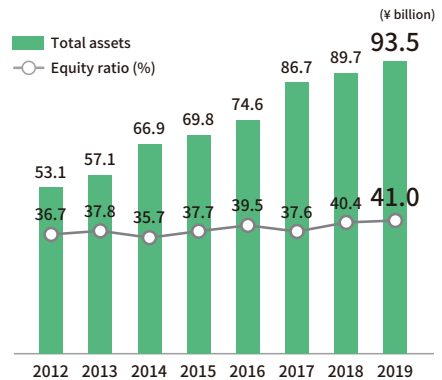
Total Assets

¥93.5 billion

Equity ratio 41.0%

Up 4.2% YoY

The equity ratio continues to trend near the 40% level.



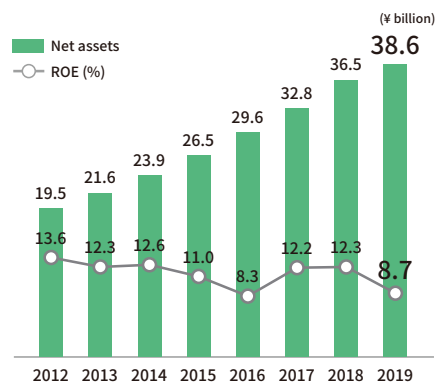
Net Assets

¥38.6 billion

Up 5.9% YoY

ROE 8.7%

Net assets continue to increase steadily, supported by stable profit growth. Return on equity (ROE) has trended near 12% in recent years, but dropped to 8.7% in FY2018.

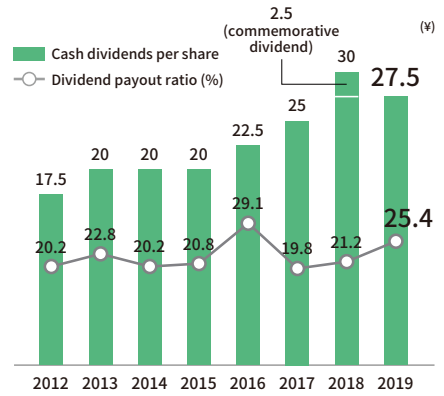


Cash Dividends per Share

¥27.5

Dividend Payout Ratio 25.4%

The Group's basic policy on shareholder returns is to maintain the dividend payout ratio at 20%. We recognize the need to raise the dividend payout ratio further, but as the Group is still in a growth phase, we intend to prioritize funds for investment in growth to expand the business, while also maintaining sufficient internal reserves to ensure a robust financial base. We believe investing in growth will increase the Group's corporate value, benefiting shareholders in the form of a higher share price.



*The Company conducted a 2-for-1 stock split on April 1, 2015 and a 2-for-1 stock split on April 1, 2018. Per-share data has been adjusted retroactively to reflect the stock splits.

*The annual dividend for FY2017 includes a year-end commemorative dividend of ¥5.00 (¥2.50 after stock split).

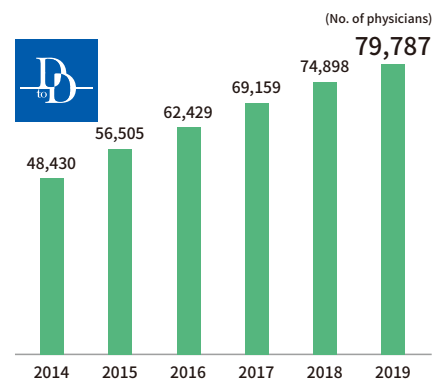


Non- Financial highlights

| DtoD Participating Physicians (physicians seeking to change careers)

79,787 (up from 74,898 in FY2017)

DtoD is a proprietary system provided via 28 Sogo Medical offices nationwide that creates ideal matches between outstanding personnel and medical institutions. The system meets a wide range of needs, such as helping staff physicians transfer or open a practice, identifying physicians to take over medical practices that have no successors, referring high-quality physicians to hospitals, and coordinating healthcare provision with independent medical practices. Our aim is to support sustainable, vibrant regional medical care provision by harnessing personnel and social resources.



| Succeed Members

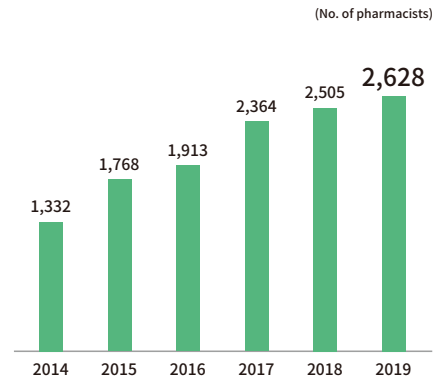
1,728 (up from 1,680 in FY2017)

Signing up as a Succeed Member gives medical institutions reliable access to the latest information in the industry. By providing support for hospital and medical practice management from various angles, including human resources, facilities, funding and information, we aim to develop new services and win new orders for consulting services to expand the customer base.

| Pharmacists

2,628 (up from 2,505 in FY2017)

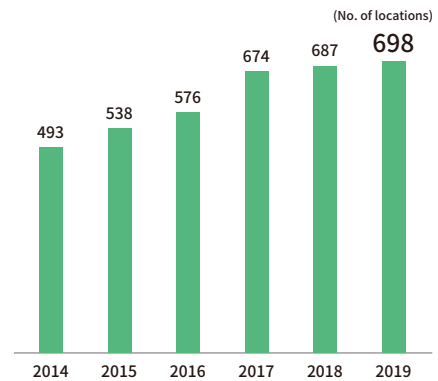
Attracting and training pharmacists is extremely important to support the development of healthcare malls and increase the number of pharmacies. The Group continues to run an internship program for pharmacy students and provide a wide range of training systems to attract and train pharmacists, while also working to raise the skills of its pharmacists to address needs for advanced pharmaceutical management.



| Pharmacies

698 locations (up from 687 in FY2017)

We have worked to develop our network of pharmacies as “general healthcare stations” with strong links to local communities. We have actively enhanced the capabilities of pharmacies by helping our pharmacists acquire specialist skills and by providing support for healthy lifestyles.



| Health Support Pharmacies

128 locations (up from 89 in FY2017)

With Health Support Pharmacies, our goal is to create locations that meet certain criteria set by the Minister of Health, Labour and Welfare for pharmacist qualifications, internal facilities and accessible opening times. The number of the Group’s Healthcare Support Pharmacies is growing steadily, reflecting our efforts to create pharmacies with strong links to local communities and to improve capabilities of family pharmacies.

| Trace Reports Providing Feedback to Physicians

126,564 (up from 117,000 in FY2017)

The Group’s pharmacies share trace reports with medical institutions to provide feedback from patients, such as medication information. Our aim is to improve the quality of patient care through cooperation with medical institutions.

| Registered Users of HealthCare Note® (Electronic Medicine Scheduler)

121,627 (up from 82,523 in FY2017)

HealthCare Note® is a smartphone-based electronic medicine scheduling system. The Group is encouraging patients to install the app, as it improves convenience by reducing wait times and offering other benefits for patients, while also allowing pharmacists to check medication histories beforehand to improve prescription accuracy.

*HealthCare Note® is a registered trademark of PHC Holdings Corporation.

- President's Message



- Starting Sogo Medical Holdings

The Group moved to a holding company structure on October 1, 2018 with the establishment of Sogo Medical Holdings Co., Ltd. We believe a holding company structure provides the best framework for Sogo Medical Co., Ltd., which marked its 40th anniversary last year, to rapidly achieve the goals in Vision 2028 and increase corporate value, as well as generate sustained growth by expanding existing businesses and creating new ones.

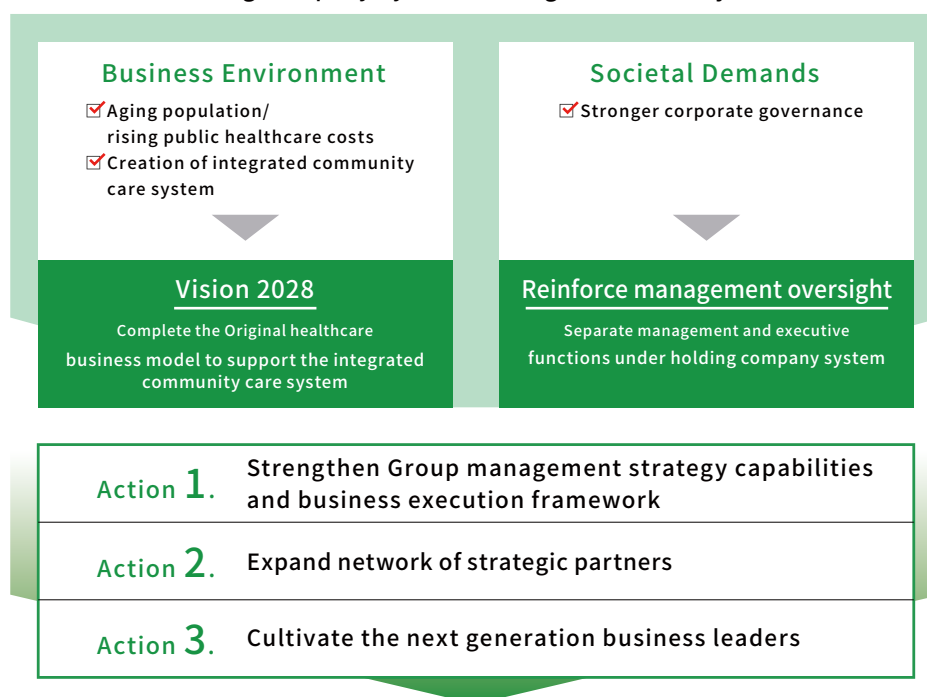
Japan’s rapidly aging society with a low birthrate and rising healthcare costs mean the healthcare sector is under growing pressure to provide highly efficient services. Against that backdrop, medical institutions are seeing dramatic changes in their operating environment amid efforts to create an integrated community care system*, including measures to promote medical function specialization, improvement and coordination, and moves to upgrade in-home health care provision.

“Good medical practice through good management” has been our motto since the Group was founded. Guided by that approach, we have provided consulting services that have improved the management of medical institutions. That expertise and our network of physicians and medical institutions are the Sogo Medical Group’s unique strengths. Supported by the new corporate structure, we will accelerate efforts to develop and enhance existing businesses and actively utilize M&A and alliances in order to expand our operations and create new businesses.

Going forward, we will continue to optimally allocate management resources to maximize synergies and seek out new challenges to increase the corporate value of the whole Group.

*Integrated community care system: An integrated system providing housing, healthcare, nursing care, prevention, and support for daily life to help the elderly live out their lives as independently as possible in environments familiar to them, even if they become heavily dependent on nursing care. The Ministry of Health, Labour and Welfare (MHLW) aims to complete the system by 2025, when Japan’s baby boomers become 75 or older, by promoting specialization and coordination in regional healthcare and by improving home healthcare.

Transition to Holding Company System – Background and Objectives



Transition to holding company system will **maximize corporate value** and **generate sustained growth**



- Progress with the Medium-Term Management Plan

In FY2018, the second year of our Action 2020 Medium-Term Management Plan, we continued to focus on four priority initiatives: development of healthcare malls, hospital management support, create high-value pharmacies, and achieve our Vision 2028 by enhancing and strengthening existing businesses and by expanding into health-related businesses.

By drawing on the capabilities of all our employees, we aim to achieve the objectives for the fiscal year ending March 31, 2020 in the plan's final year.

- See the Action Reports on the following pages for details about concrete initiatives in FY2018.

(1) Development of healthcare malls

The Group is developing healthcare malls to provide reliable, high-value-added functions and services to medical institutions and patients. Another goal is to use the malls to maximize the Group's "stock income" (continuous income stream) centered on pharmacies, by attracting as many clinics as possible and providing a location for integrated medical services. Developing healthcare malls is positioned as the priority initiative in our Medium-Term Management Plan.

In the previous fiscal year, we opened the Akasaka Toranomon Clinic in Tokyo to support specialization and coordination of medical treatment provided by an advanced acute care medical facility.

In the fiscal year under review (November 2018), we opened MEDICAL MALL MACHINOMA OMORI in the Machinoma retail facility, the first in a series of mid-size suburban shopping centers that Mitsubishi Corporation Urban Development, Inc. plans to develop. MEDICAL MALL MACHINOMA OMORI is a "community-based healthcare mall" that brings together a conventional supermarket, nursing care consultation office, fitness center, childcare center and community space in a single location.

Going forward, we will draw on the Group's strengths – our DtoD system, synergies with pharmacies and our expertise in supporting the startup of new clinics – to develop healthcare malls that contribute to the creation of an integrated community care system.

(2) Hospital Management Support

In 2018, the Japanese government launched its 7th Treatment Plan in conjunction with simultaneous revisions to healthcare and welfare systems. The government has positioned the plan as a key part of efforts to realize its healthcare model by 2025. Prior to that, we responded to the government's hospital bed function reporting system, launched in 2014 as a preliminary step to the 7th Treatment Plan, and provided consulting services – one of our strengths – to specialize and coordinate the hospital function considering the difference in medical condition each community has, and generated synergies with existing businesses.

In FY2018, we secured five new clients for our hospital management support services, taking the total number of clients to 14.

We also helped medical institutions to accommodate the function as a medical institution positioned in the integrated community care system, and converted a facility to where elderly patients can receive medical care and support over a long time (kaigoiryoin).

We expect the reorganization of hospital beds to support continued demand for our consulting services. We will therefore continue to focus on attracting high-quality personnel and on cultivating management consultants.

(3) Create high-value pharmacies

Revisions to dispensing fees and drug prices in 2018 had a negative impact on the Group's pharmacies. However, we responded to revisions to dispensing technical fees by working to secure prescription demand from a wider area, offering in-home prescription services and strategically redeploying staff. During FY2018, the number of prescriptions filled by Group pharmacies totaled 12,487,000, up 1.9% year on year, and the number of pharmacies as of March 31, 2019 was 698, including 17 newly opened locations. Going forward, we plan to expand our pharmacy network in conjunction with healthcare mall development, hospital management support, medical practice succession and the separation of drug prescribing and dispensing functions. We will also actively enhance the quality of our pharmacies in line with MHLW's "vision for patient-centered pharmacies" by introducing healthcare support functions and advanced pharmaceutical management functions, along with other initiatives such as cafés for dementia sufferers and remote medication consultation services. Our goal is to upgrade the functions of our pharmacies to create "general healthcare stations" that support the integrated community care system.

(4) To achieve our Vision 2028

Enhance and strengthen existing businesses and expand into health-related businesses

To realize the objectives of Vision 2028, we are looking closely at business opportunities overseas. Specifically, we are conducting research and development with a view to overseas expansion and studying from leading case examples which are drawing attention in the overseas markets. In the fiscal year under review, we researched and studied the healthcare environment in China, which followed a fact-finding trip to the US last year. In China, where the market for healthcare services continues to grow, we launched our Japanese clinic startup business model in May 2019, backed by our DtoD system and our track record of providing support for the opening of more than 3,000 medical practices in Japan.

Going forward, we will continue to look for opportunities to deploy our unique businesses in overseas markets.

Helping to build a better society through good medical practice

Since Sogo Medical was founded, our consulting-based business activities have been aimed at helping medical institutions overcome management challenges and resolving social issues related to local healthcare provision, guided by our motto, "good medical practice through good management."

Motivated by pride and a strong sense of mission, every Sogo Medical Group employee will work highly efficiently to rapidly achieve the objectives of our Action 2020 Medium-Term Management Plan and Vision 2028 long-term strategy. By helping to build a better society through good medical practice, we aim to become a valued company that is trusted by all stakeholders and that never lets them down.

- Action Reports



Developing healthcare malls



Supporting hospital management



Creating high-value pharmacies



To achieve our Vision 2028

- Developing healthcare malls

Our vision: Develop multi-service healthcare malls that act as public infrastructure, providing key services such as medical treatment, nursing care and support for daily life.

Sogo Medical Holding is actively developing healthcare malls across Japan to support the development of communities through healthcare. Under our Action 2020 Medium-Term Management Plan, the development of healthcare malls is also part of our efforts to build a platform for regional healthcare networks. To address its aging society, Japan is aiming to build an integrated community care system (see below for more details). Our ideal healthcare malls are designed to support hospital management and help the government realize its vision for an integrated community care system.

| Japan's vision for an integrated community care system

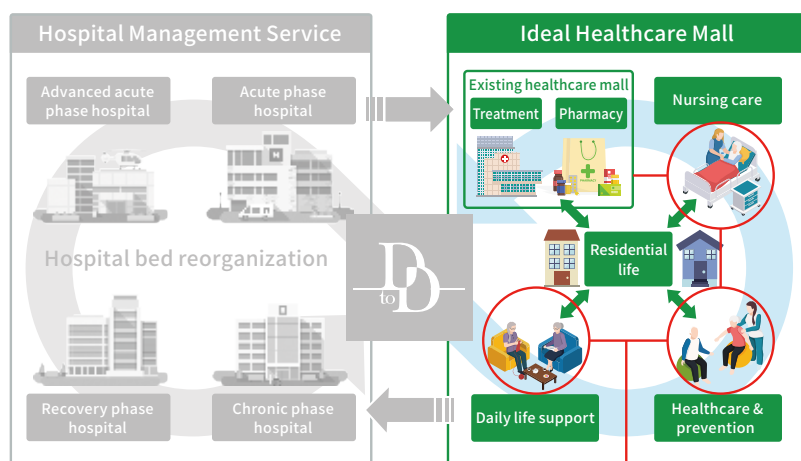
Japan is building an integrated system that provides housing, healthcare, nursing care, prevention, and support for daily life to help the elderly live out their lives as independently as possible in environments familiar to them, even if they become heavily dependent on nursing care. MHLW aims to complete the system by 2025, when Japan's baby boomers are 75 or older. Municipal and prefectural governments, which are responsible for the local public health insurance system, need to create community care systems tailored to conditions in their respective areas based on autonomy and independence.

Aiming to create healthcare malls as public infrastructure

MHLW's vision for an integrated community care system is based on the assumption that patients should be able to access the services they need within 30 minutes in the areas where they live (MHLW uses junior high school catchment areas).

Based on those criteria, Sogo Medical aims to develop healthcare malls that provide multiple services such as housing, healthcare, nursing care, prevention and support for daily life, as well as traditional hospital and pharmacy services, for people living in local areas.

Completing our Original Healthcare Business Model
to Support an Integrated Community Care System



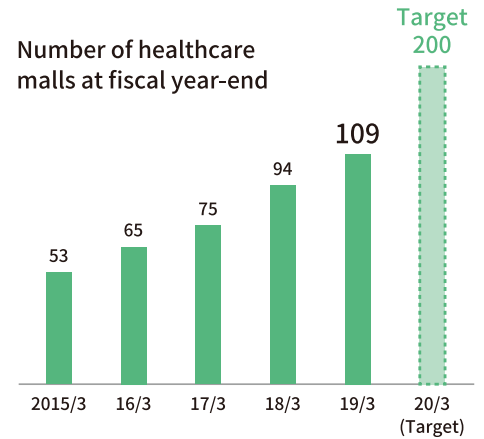
(Source) Prepared by the Sogo Medical Group based on data from the Ministry of Health, Labour and Welfare

Many existing healthcare malls have only hospital and pharmacy functions. Our ideal healthcare mall acts as public infrastructure, providing a broad range of services such as nursing care and support for daily life.

Progress: Initiatives in FY2018

We have developed a total of 109 healthcare malls nationwide as centers for healthcare and nursing care services.

Healthcare malls not only increase convenience for patients, they also increase the efficiency of healthcare provision by linking up physicians and support the provision of home healthcare by bringing together different medical professions. Sogo Medical continues to develop healthcare malls. As of March 31, 2019, the Group had opened a total of 109 locations. We plan to continue actively developing healthcare malls as centers providing healthcare and nursing care services.



Healthcare malls throughout Japan

Sogo Medical has opened **109** malls in Japan (as of March 31, 2019)

Imafuku-Tsurumi Clinic Mall
(Opened September 2017, Osaka, Osaka Prefecture)



Matsuo Medical Square II
(Opened December 2017, Kyoto, Kyoto Prefecture)



Kita-Konosu Clinic Mall
(Opened January 2019, Konosu, Saitama Prefecture)



MEDICAL MALL MACHINOMA OMORI
(Opened November 2018, Ota Ward, Tokyo)



Tsukiguma Medical Mall
(Opened May 2012, Fukuoka, Fukuoka Prefecture)



Hirakata Nagao Healthcare Mall
(Opened May 2018, Hirakata, Osaka Prefecture)



Akasaka Toranomon Clinic
(Opened October 2017, Minato Ward, Tokyo)



Medical Mall Toyosu
(Opened June 2017, Koto Ward, Tokyo)



Case study (1)

MEDICAL MALL MACHINOMA OMORI

In November 2018, we opened MEDICAL MALL MACHINOMA OMORI inside Machinoma Omori, a retail facility developed by Mitsubishi Corporation Urban Development, Inc. (MCUD) in Ota Ward, Tokyo. The mall is close to a university hospital, so there is access to acute care if required. However, we decided to develop the mall due to a high need for a clinic with close links to local residents and that coordinates treatment with the university hospital.

Machinoma Omori is a retail facility focused on local residents. It provides everyday convenience with access to shopping and services, facilitates community building through an event space for joint events with Ota Ward, a supermarket and childcare facility, and offers health and prevention functions with a fitness club. Sogo Medical has opened internal medicine, pediatric and ear, nose and throat clinics and a Sogo Pharmacy in the shopping center. The facility also has an office providing healthcare advice and support for in-home nursing care, making MEDICAL MALL MACHINOMA OMORI our first-ever “community healthcare mall” with the ability to provide the full-range of healthcare, nursing care, and health and prevention services.



Case study (2)

Akasaka Toranomom Clinic

The Akasaka Toranomom Clinic has helped a local hospital specialize its medical treatment services.

Toranomon Hospital provides advanced acute care, but it also served many patients with chronic and mild conditions, which led to overcrowding in outpatient waiting rooms. To address that issue, Sogo Medical opened Akasaka Toranomom Clinic next to the hospital to provide localized healthcare services for patients with non-urgent conditions. The clinic has 11 medical departments staffed by roughly 10 highly experienced physicians who stepped down from positions at Toranomom Hospital. The clinic works closely with the hospital and is attracting attention as a rare example of how hospitals can successfully achieve functional specialization.

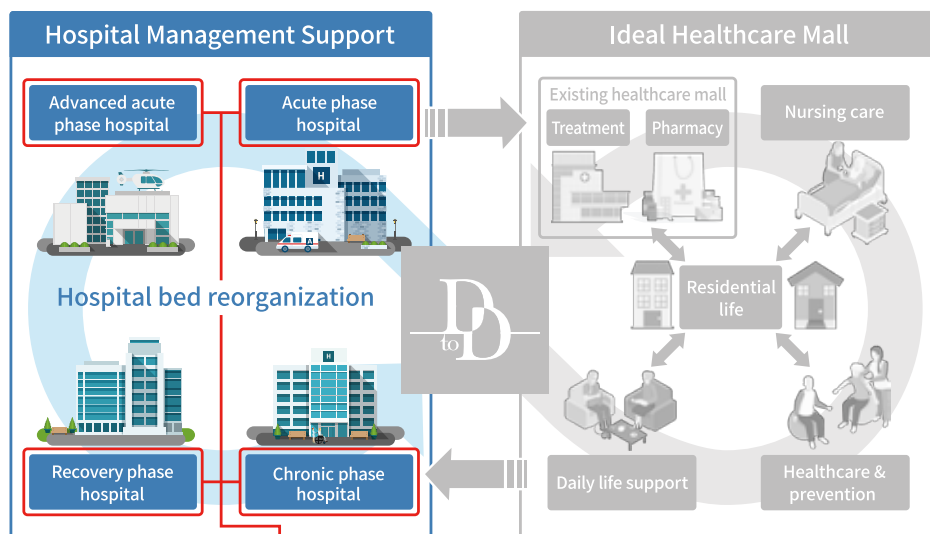


- Supporting hospital management

Our vision: Support hospital specialization and coordination as part of an integrated community care system

There is growing demand from hospitals for consulting services to help them realize the MHLW's integrated community care system. In the fiscal year under review, we started providing management support to five hospitals. We provide a comprehensive package of support, which includes exploring the role hospitals will need to play amid expected changes in their local healthcare environment and helping them overcome any issues that stand in the way of that role, as well as providing support to improve hospital operations.

Completing our original Healthcare Business Model to Support an Integrated Community Care System



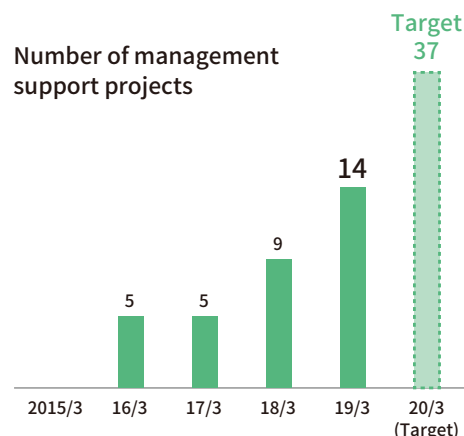
(Source) Prepared by the Sogo Medical Group based on data from the Ministry of Health, Labour and Welfare

Hospitals in Japan can be broadly divided into four categories along functional lines. In some regions, healthcare provision needs to be realigned with demand, as there is an oversupply of beds at acute phase hospitals due to depopulation and other factors, but a shortage of beds at Recovery phase hospitals and chronic phase hospitals.

Progress: Initiatives in FY2018

Providing management support to 14 hospitals so physicians can focus on patients

We are seeing rising demand from hospitals for consulting services to help them realize the MHLW's vision for an integrated community care system. As of March 31, 2019, we were providing management support to 14 hospitals. We provide a comprehensive package of support, which includes exploring the role hospitals will need to play amid expected changes in their local health-care environment and helping them overcome any issues that stand in the way of that role, as well as providing support to improve hospital operations.



| Case Study (1)

Clinic A

Opening a new pharmacy led to a project to provide comprehensive management support

Working with the clinic to develop a future business plan that includes risk management

We have been providing management support to clinic A since opening a pharmacy next to the clinic. Following recent revisions to medical treatment fees, we are reviewing the management company's entire earnings structure and developing a future business plan. Our support package covers a wide range of areas, such as management consulting (contracted management by seconded staffs), internal construction work on the clinic, equipment leasing and rental, and facility leasing.

| Case Study (2)

Hospital B (rehabilitation and accommodation facility for the elderly)

Supporting the hospital's switch to a facility providing long-term care and accommodation for the elderly to meet high demand

Providing full support - from hospital bed realignment costing to internal construction work

Japan's aging society means there is now an oversupply of acute care beds but an increasingly serious shortage of chronic care and rehabilitation beds. Hospital B has made the decision to become a rehabilitation and accommodation facility for the elderly (kaigoiryoin) to provide long-term care and accommodation. We provided comprehensive support by costing the business model, negotiating with local authorities, repurposing the facility and procuring the necessary equipment.



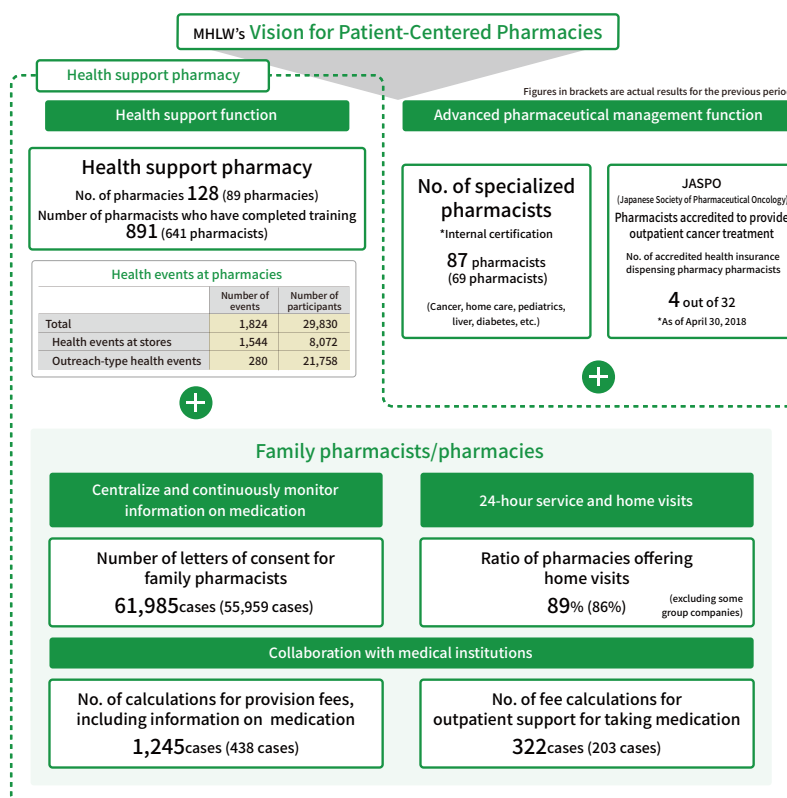
- Creating high-value pharmacies

Our vision: Support the integrated community care system by upgrading the functions of our pharmacies to create “general healthcare stations”

For some time, we have been enhancing the role of our pharmacists and pharmacies to create “general healthcare stations.” We have created a nationwide network of pharmacies with close links to local communities, aiming to provide support for all people seeking to lead healthy lives, in addition to conventional dispensing services. Our vision for pharmacists and pharmacies to support “general healthcare stations” also aligns with MHLW’s concept of primary care pharmacists and pharmacies with healthcare support functions and advanced pharmaceutical management functions, as set out in its “vision for patient-centered pharmacies.” In the future, we see our “general healthcare station” pharmacies becoming key components in MHLW’s integrated community care system by delivering comprehensive support for housing, healthcare, nursing care, prevention and daily life.

| MHLW’s “vision for patient-centered pharmacies”

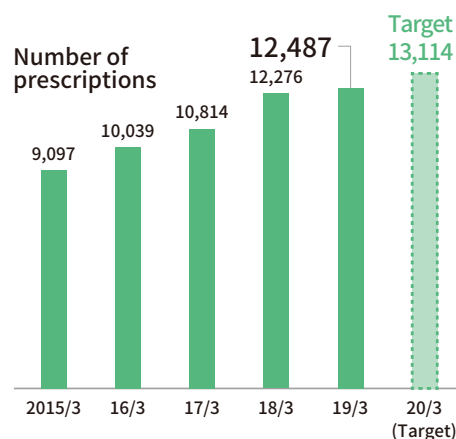
In 2015, the Ministry of Health, Labour and Welfare (MHLW) released its “vision for patient-centered pharmacies,” aiming to spur a shift to “family pharmacists and pharmacies.” The vision was developed in response to a range of issues, such as over-prescription of some medications and sharply rising national healthcare expenses, which was related to widespread use of dispensing pharmacies located near hospitals. The main objective of MHLW’s vision is to improve safety and convenience for patients and control healthcare expenses.



Progress: Initiatives in FY2018

Creating a nationwide network of pharmacies with close links to local communities based on medical care coordination.

The Group and its chain of pharmacies continued to face a tough operating environment in FY2018 after revisions to dispensing fees and drug prices in April 2018 that cut basic dispensing fees at pharmacies located near hospitals. Those pharmacies tend to receive a high ratio of prescriptions from the particular hospital. Against that backdrop, we pushed ahead with measures to create “general healthcare station” pharmacies with close links to local communities, leading to steady growth in prescription volume.



| Case Study

1. Initiatives to increase prescription volume

- **Healthcare mall development** : Open highly profitable pharmacies as part of healthcare mall development
- **Support for medical practice succession and startups** : Open pharmacies that help to sustain regional medical care
- **Management support for hospitals** : Open large pharmacies in collaboration with client hospitals
- **Medical care coordination** : Open pharmacies as part of the shift away from in-hospital drug dispensing (separation of prescribing and dispensing functions)

2. Advanced initiative (1): Joint project with Leifras Co., Ltd. (METI-backed project)

Project to drive fun community-based health programs that are not dependent on public insurance

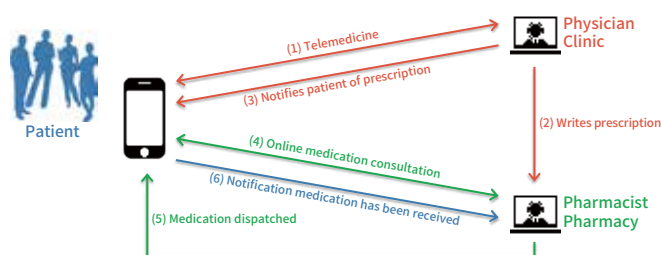
Sogo Medical has teamed up with Leifras to roll out health programs for the elderly (aged 65-74). The programs, which are run by local pharmacists, nutritionists and fitness instructors, are designed to help the elderly lead healthy lives without relying on public insurance by giving them a sustainable and enjoyable way of staying fit and eating properly.

3. Advanced initiative (2): Remote medication consultation services

Business project is based in the Fukuoka City national strategic special zone

Regulations in Japan stipulate that medication consultation services must be provided face-to-face between the pharmacist and patient. However, in national strategic special zones, patients are allowed to remotely receive medical examinations from physicians and medication guidance from pharmacists, and receive deliveries of medication at home, provided certain conditions are met.

In March 2019, Sogo Medical launched its first remote medication consultation service in the Fukuoka City national strategic special zone. Through the project, we plan to strengthen our in-home healthcare system and improve convenience for users, as well as provide new value through a platform and service menu that allows users to stay in the comfort and familiar surroundings of their own homes while receiving medical care.



4. Cafés for dementia sufferers

In December 2018, we opened Smile Café @ Sogo at dispensing pharmacies in Fukuoka City to support dementia sufferers and their families, raise awareness of dementia among the local community and contribute to a rapid response to people diagnosed with the condition. We are developing the cafés with Fukuoka City's dementia café startup support team, part of its "Dementia-friendly City Project," as the only pharmacy company participating in the project.



Staff speak to visitors at the first dementia café session (Sogo Pharmacy Tenjin chuo shop)

5. Working with LOTTE Co., Ltd. to tackle the issue of oral frailty

On August 6, 2018, with support from LOTTE Co., Ltd., we started efforts to raise awareness of oral frailty and promote preventative measures via 37 locations in Kyushu, including Sogo Pharmacies. Drawing on LOTTE's expertise and knowledge from research into mastication, our pharmacists explain the condition and provide advice using testing tools. We plan to gradually roll out the program nationwide.



Mastication testing gum

6. Sogo Medical joins Osaka Prefecture project to create healthy lifestyle support platform

Sogo Medical is participating in Osaka Prefecture's model project to create a platform for healthy lifestyles, called "Osaka Kenkatsu Mileage A-smile," which launched on January 21, 2019. Our pharmacists provide health consultations as part of the project. Osaka Prefecture's goal is to extend healthy life expectancy and control healthcare expenses through the A-smile smartphone app, which is designed to increase understanding of health issues and keep users motivated to lead healthy lives.

- To achieve our Vision 2028

Our vision: Enhance and strengthen existing businesses and expand into health-related businesses”

To achieve the objectives of Vision 2028 in FY2027, which marks the Group’s 50th anniversary, and to complete our original healthcare business model to support the integrated community care system, we need to build the foundations for regional healthcare networks. Specifically, we will have to strengthen and add new functions to existing businesses and expand our reach into health-related businesses.

Progress: Initiatives in FY2018

Expanding our reach into health-related businesses

In FY2018, Bunkyo Co., Ltd. became a Group subsidiary, increasing the scale of our business transactions with mid-size hospitals (at least 400 beds), which is a major market for health-related businesses. Going forward, we plan to allocate the Group’s business resources to strategic fields, provide added value to healthcare malls and expand our role in areas not covered by the public healthcare insurance system.



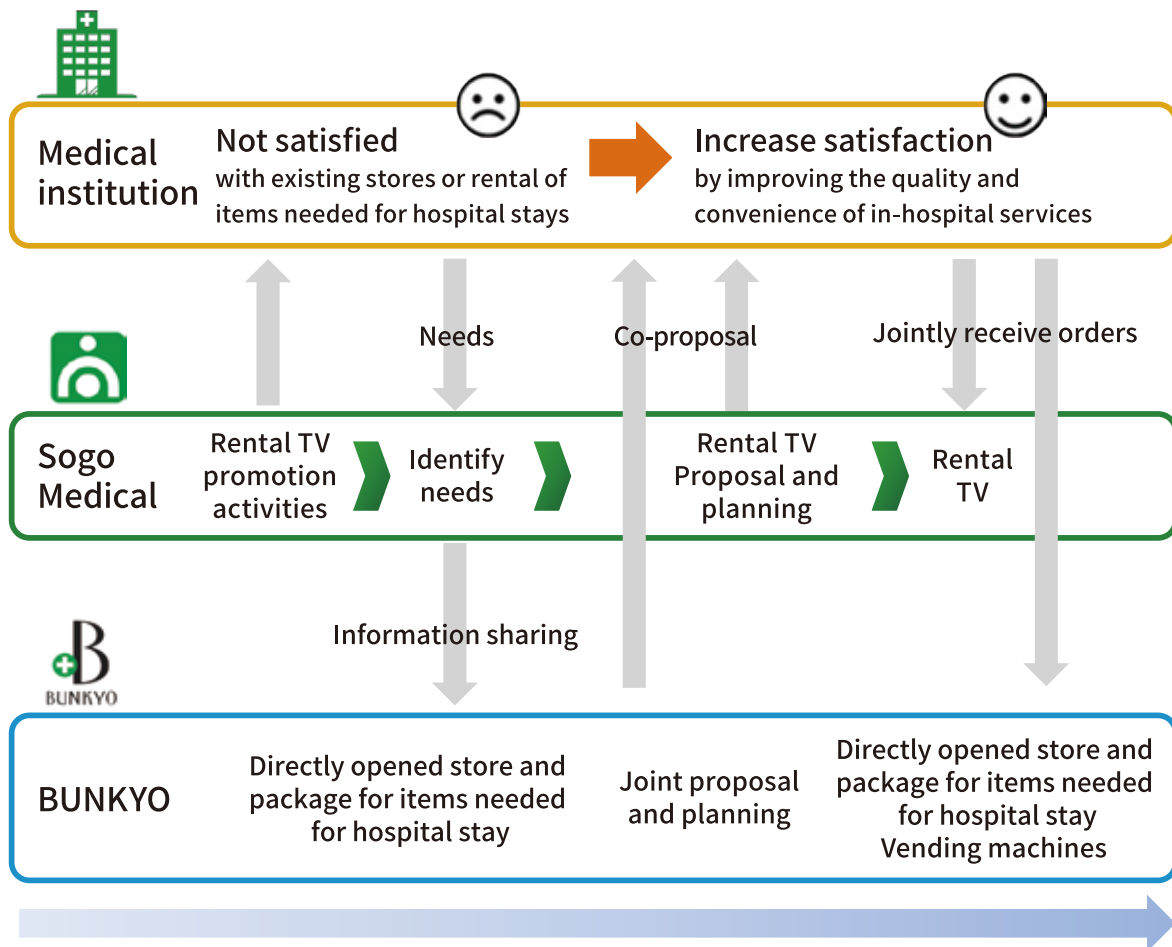
| Case Study

Examples of synergies with Bunkyo

Packaged service contracts that improve satisfaction and eliminate shortages in hospitals

Bunkyo Co., Ltd. operates in-hospital kiosk, convenience store, restaurant and TV rental businesses at roughly 100 hospitals. Bunkyo is a leading company providing a package of services that improve the quality of hospital stays.

In one case, Sogo Medical was providing rental TV services to a hospital in Bunkyo's market. We learned that the hospital was not satisfied with the quality of its onsite kiosks. Acting on that information, we developed a joint business proposal for a package of services including TV rental, kiosks, rental service of necessary items for hospital stay and onsite vending machines. The packaged service contract helped the hospital to improve satisfaction and eliminate shortages.



- CSR Management & Topics

Our CSR activities have the same aim 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 from their work.
4. As a corporate member of society, we shall be committed to compliance and earn the trust of customers and other stakeholders.

The Sogo Medical Group's CSR activities have the same aim as its business activities—to build a better society through good medical practice. Our job is to support good medical practice, which is connected to the development of society and improving the lives of as many people as possible.

By supporting good medical practice in the future, we aim to fulfill our social mission as a company.

CSR: Corporate Social Responsibility



- Human Resources Development

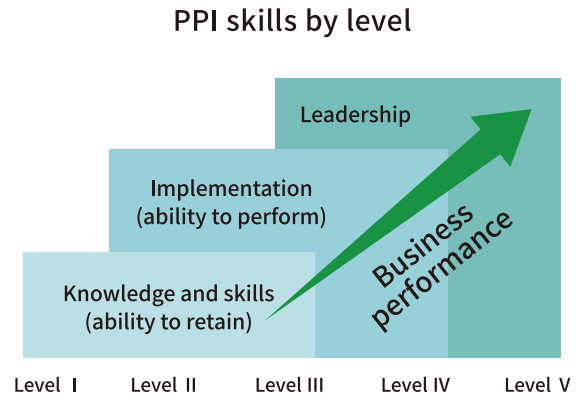
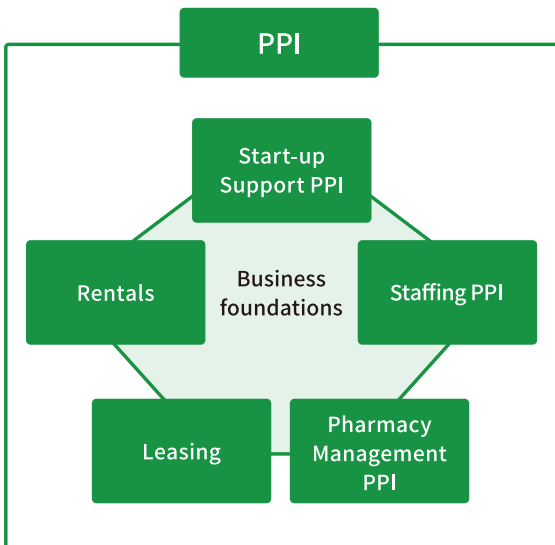
Targeting continuous development of human resources, we are adopting and implementing a graded training structure tailored to employees' growth and roles, including graded programs and executive development programs. Our management principles are the foundation of every training program, and through these programs we are working to realize the characteristics that are needed in each employee.

1. PPI Internal Certification

PPI* is an internal certification system designed to gradually raise the capabilities of human resources in areas such as clinic start-up support, staffing pharmacy management, and equipment lease and rental.

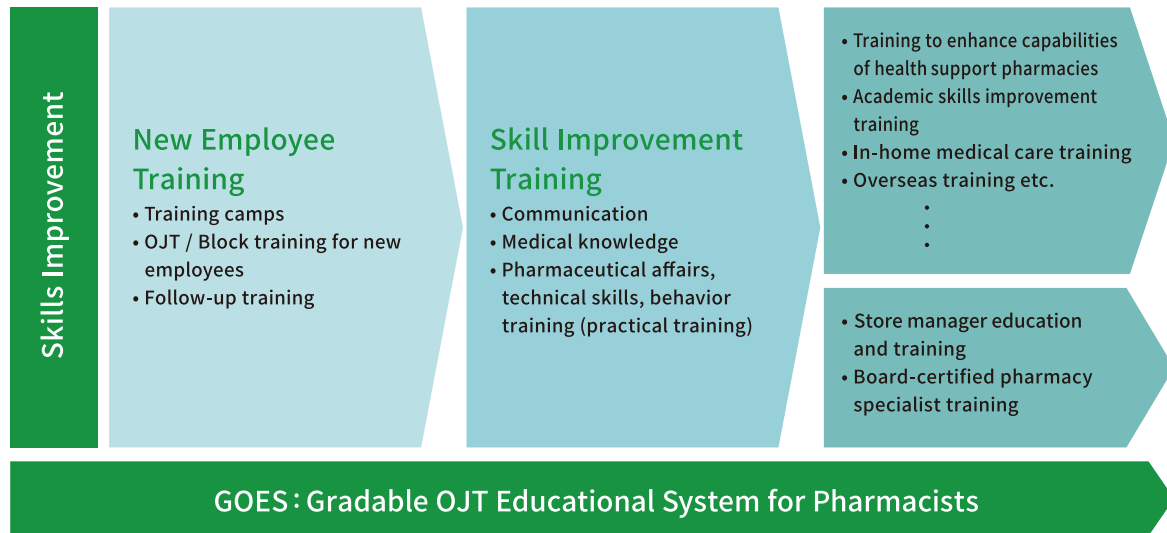
For example, in healthcare mall development, one of the key strategies of the current Medium-Term Management Plan, we are aiming to upgrade the Group's capabilities by raising the Start-up Support PPI skill level of each employee.

*PPI: Practice Process Innovation



2. Gradable OJT Educational System (GOES) for Pharmacists

As part of MHLW’s “vision for patient-centered pharmacies,” pharmacists will need the ability to address needs for advanced pharmaceutical management and provide in-home care services. The Sogo Medical Group has established an independent on-the-job training system to help pharmacists fully utilize their skills.



(GOES: Gradable OJT Educational System)

| Developing instructors and specialist pharmacists

Sogo Medical is a pioneer in specialist education and training for pharmacists. In 2011, we launched an internal program to certify pharmacists specialized in cancer and diabetes, and in 2016 we added a program for pharmacists specialized in home care. We aim to meet a wide range of community needs by enhancing the specialist capabilities of our pharmacists.



(As of March 31, 2019)

- Promoting diversity

The purpose of the Group's efforts to promote diversity is to realize its Mission Statement through teamwork, supported by employees working together to fulfill their potential while actively utilizing personnel systems to achieve their personal career visions, within the context of Our Pledge, which is the Group's corporate philosophy, and our Mission Statement and Corporate Credo.

We have established the Diversity Promotion Group in the Group Personnel Division to lead efforts to promote diversity across the Group. In addition to efforts to empower female employees and reform work practices, the Group is rapidly implementing a broad range of measures to harness the skills of diverse human resources, including people with disabilities and senior citizens.

Key diversity promotion measures

| Empowering female employees

Sogo Medical awarded highest grade of "Eruboshi" certification

On June 29, 2018, Group company Sogo Medical Co., Ltd. received grade 3 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. Grade 3 is the highest level of accreditation.

Eruboshi 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 that also demonstrate excellence in implementing related measures.

The company previously received grade 2 certification on September 28, 2017.



Initiatives to empower women in the workplace

●Job transfer system

In FY2013, we launched an annual job transfer system that enables female employees to convert from clerical positions to managerial positions, where there are more opportunities to advance their careers. Since FY2013, the system has been implemented six times.

Number of employees converting roles: 32 (including 29 women)

●Leadership training program for female employees

This annual program was launched in FY2015 to foster potential female leaders by helping them acquire the necessary mindset and skills for leadership positions and to support the development of clear life plans. Since FY2015, the program has been run four times.

Total number of participants: 58



●**Seminar on women’s participation and advancement in the workplace**
 Launched in 2016, this annual seminar aims to deepen understanding about efforts to promote diversity by encouraging people managerial positions to think about and actively support women’s participation in the workplace in order to develop clear career paths for female employees. The seminar has been held three times since 2016.

Total number of participants: 125



●**Smile☆Kids Temporary nursery for employees taking in-house exams**

In 2018, to ensure equal opportunities for female employees seeking promotion and in-house accreditation, we opened a temporary nursery called Smile Kids to make it easier for employees raising children to participate in internal training courses and exams.



| Promoting job opportunities for people with disabilities

The Group aims to be “a valued organization that welcomes all people.” Guiding by that thinking, we are creating workplaces where everybody, including people with disabilities, can maximize their strengths and potential. Sogo Medical Co., Ltd. has established a specialist Operational Support Group that coordinates with other areas of the Sogo Medical Group to actively hire people with disabilities.

Corporate network (SKC Network) to create job opportunities for people with disabilities

In April 2017, we launched SKC Network as an organization for companies to learn and share information about initiatives to hire and retain people with disabilities in their local communities.



Work duties tailored to levels of disability

- Medication notebooks (attaching covers)
- Production of ID cards, business cards, official seals and other items for Group employees
- Cleaning duties at head office, adjacent pharmacies and the “Kakeru” training center
- Head office mail sorting, document printing and binding, delivery to internal and external recipients, etc.

Other internal and external initiatives and third-party evaluation

- Contract to run the Fukuoka Labor Bureau model program to promote recruitment of people with intellectual disabilities (from 2014)
- Awarded the FY2015 Prize of Excellence in Improving Workplace Conditions for the Disabled (presented by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers)



- Promoting work-life balance

Creating workplaces where employees can flourish and grow

We are helping employees to balance their work and life commitments, because we believe that as employees grow, the Group grows with them. In 2017, senior management announced its commitment to promote diversity and normalize working hours. That was followed by another commitment in March 2019 to drive continued improvements in the way Group employees work and take time off. Those public statements underline our ongoing efforts to create workplaces where employees can further flourish and grow.

| Examples of systems that support diverse work styles

● Supporting work-life balance

Introduction of childcare and nursing care systems that surpass legal requirements, increased entitlements for support leave, promoting uptake of paternity leave, introduction of Group Long-Term Disability (GLTD) insurance, introduction of leave system for employees receiving cancer treatment*1

● Continued improvements in how employees work and take time off

Promoting annual paid leave entitlements (employees encouraged to take holidays in Aug-Oct), weekly refreshment day

● Support for flexible work practices

Promoting the use of annual paid leave in hourly increments, promoting the use of existing work systems such as staggered office hours, and introduction of telework system*2

*1: From April 2019

*2: Introduced in April 2019 after trial period from January 2018

- Promoting health management

We believe healthy employees are a source of pride for the Group, as well as a valuable asset. Based on that thinking, we are creating safe and healthy workplaces that motivate all our employees. We have positioned health management as a key part of our efforts to build an organization that supports growth. To drive the planning and operation of related initiatives, we established the Health Support Group in the Group Personnel Division as a specialist team to promote health management.

■Recognized for Excellence in Health and Productivity Management 2019-White 500

On February 21, 2019, three Group companies were recognized under the 2019 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500) in the large enterprises category, which is run by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi to highlight outstanding companies implementing health and productivity management.

Three companies that received certification

Sogo Medical Holdings Co., Ltd. (first time)

Sogo Medical Co., Ltd. (first time)

Hokendohjinsha Inc. (second consecutive year)



Examples of health management initiatives

Shared initiatives at the three companies

- Improvements to workplace conditions through work practice reforms, such as encouraging employees to take paid leave and normalizing working hours
- Health advice desk attended by a full-time public health nurse
- Health advice desk attended by specialist external staff
- Self-care training and management line training for mental health
- Internal announcements providing health information
- Seminars to promote healthy lifestyles
- Specific health guidance for employees in cooperation with health insurance society and medical institution providing health checkups

Initiatives at Sogo Medical Holdings and Sogo Medical

- Breast and cervical cancer screening paid in full by the company (women aged 30 or older)
- Prostate cancer screening paid in full by the company (men aged 50 or older)

*From April 2019

Hokendohjinsha

- Companywide projects to encourage communication
- Participation in National Federation of Health Insurance Societies' trial projects to incentivize community work

- Compliance efforts and stance

Compliance is generally thought of in the sense of “regulatory compliance,” or compliance 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 actively 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 of 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.



