Financial Results for the Year Ended March 31, 2013 (J-GAAP)

May 14, 2013

Name of listed company: Nichii Gakkan Company — Listed on: Tokyo Stock Exchange 1st Section
Securities code: 9792 — URL: http://www.nichiigakkan.co.jp
Representative: Masatoshi Saito, President and Representative Director
Contact: Koichi Terada, Director, Manager of Accounting and Finance Division — TEL: 03-3291-2121
Scheduled date to hold the ordinary general meeting of shareholders: June 26, 2013
Scheduled date to start dividends distribution: June 27, 2013
Scheduled date of filing annual securities report: June 27, 2013
Supplementary materials prepared: Yes
Results information meeting held: Yes (for institutional investors and financial analysts)

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the year ended March 31, 2013 (April 1, 2012 – March 31, 2013)

(1) Consolidated operating results

(Percentage figures represent changes from the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2013	267,191	3.8	8,741	(25.1)	8,326	(34.3)	4,383	(25.7)
Year ended March 31, 2012	257,340	6.9	11,672	48.3	12,674	31.2	5,897	69.5

(Note) Comprehensive income: Year ended March 31, 2013: ¥4,678 million yen (-21.1%); Year ended March 31, 2012: ¥5,933 million yen (75.8%)

	Net Income per Share	Diluted Net Income per Share	Return on Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
Year ended March 31, 2013	62.95	—	7.4	5.1	3.3
Year ended March 31, 2012	85.27	—	10.8	8.9	4.5

Reference: Equity-method investment profit (loss): Year ended March 31, 2013: ¥ million; Year ended March 31, 2012: ¥ million

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Million yen	Million yen	%	Yen
As of March 31, 2013	166,619	61,255	36.6	872.17
As of March 31, 2012	157,816	57,442	36.2	823.21

Reference: Shareholders' equity: As of March 31, 2013: ¥60,952 million; As of March 31, 2012: ¥57,166 million

(3) Consolidated cash flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Year
	Million yen	Million yen	Million yen	Million yen
Year ended March 31, 2013	12,847	(9,534)	(4,146)	8,028
Year ended March 31, 2012	16,128	(14,217)	3,077	8,741

2. Dividends

	Annual dividends					Total Dividends Paid (annual)	Payout Ratio (consolidated)	Dividends to Net Assets (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended March 31, 2012	—	8.00	—	8.00	16.00	1,108	18.8	2.0
Year ended March 31, 2013	—	9.00	—	9.00	18.00	1,253	28.6	2.1
Year ending March 31, 2014 (forecast)	—	10.00	—	10.00	20.00		31.1	

3. Forecast of consolidated financial results for the year ending March 31, 2014 (April 1, 2013 – March 31, 2014)

(Percentage figures represent changes from previous year for full year figures and from same period of previous year for interim period figures.)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First six months	137,400	4.0	3,600	(7.8)	3,200	(8.4)	1,500	4.7	21.46
Full year	277,600	3.9	9,000	3.0	8,000	(3.9)	4,500	2.7	64.39

* Notes

(1) Changes in subsidiaries during the fiscal year (Changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Changes in accounting policies, changes of accounting estimates and restatement

1) Changes in accounting policies due to revisions of accounting standards, etc.: None
2) Changes in accounting policies due to reasons other than those stated in 1): Yes
3) Changes in accounting estimates: Yes
4) Restatement: None

(Note) The changes are changes in accounting policies that are difficult to distinguish from changes in accounting estimates specified under Article 14-7 of the Rules for the Terminology, Form, and Preparation Method of Consolidated Financial Statements. For details, please refer to 4. Consolidated financial statements, (5) Notes to Consolidated Financial Statements (Changes in Accounting Policies) on page 23 of the Attached Document.

(3) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)
   As of March 31, 2013: 73,017,952 As of March 31, 2012: 73,017,952
2) Number of treasury stock at
   As of March 31, 2013: 3,131,669 As of March 31, 2012: 3,574,673
3) Average number of shares issued and outstanding in each period
   As of March 31, 2013: 69,626,622 As of March 31, 2012: 69,156,306

(Reference) Overview of the non-consolidated business results

1. Non-consolidated financial results for the year ended March 31, 2013 (April 1, 2012 – March 31, 2013)

(1) Non-consolidated operating results (Percentage figures represent changes from previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2013	236,272	2.8	6,648	(39.7)	6,708	(45.9)	3,418	(45.6)
Year ended March 31, 2012	229,889	3.3	11,031	30.0	12,395	18.0	6,288	31.2

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Year ended March 31, 2013	49.10	—
Year ended March 31, 2012	90.93	—

(2) Non-consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Million yen	Million yen	%	Yen
As of March 31, 2013	145,216	63,103	43.5	902.95
As of March 31, 2012	142,610	60,453	42.4	870.54

Reference: Shareholders' equity: As of March 31, 2013: ¥63,103 million yen; As of March 31, 2012: ¥60,453 million

2. Forecast of non-consolidated financial results for the year ending March 31, 2014 (April 1, 2013 – March 31, 2014)

(Percentage figures represent changes from previous year for full year figures and from same period of previous year for interim period figures.)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First six months	120,500	2.8	2,700	(10.0)	2,400	(15.2)	1,200	(7.3)	17.17
Full year	242,800	2.8	6,100	(8.2)	5,600	(16.5)	2,800	(18.1)	40.07

* Implementation status of audit procedures

The audit procedure based on the Financial Instruments and Exchange Act does not apply to this Financial Report, and the audit procedure based on the Financial Instruments and Exchange Act is in operation as of the release of this Financial Report.

* Explanation concerning the appropriate use of financial result forecasts and other special notes

(Forward looking statements)

The above forecasts are based on information available as of time of this announcement. Actual results may differ due to various factors. Please refer to page 4 of the attached materials for the forecasts.

○ Table of Contents for the Attached Document

1. Analysis of business results and financial position

(1) Analysis of business results

1) Overview of business results

During the fiscal year under review, the Japanese economy remained sluggish and uncertain due to a strong yen, persistent deflation, and financial issues in Europe and the United States. However, expectations heightened for the monetary policy, fiscal policy, and growth strategy of the new Japanese government, which are designed to overcome the deflation.

In June the government is expected to put together a growth strategy that will position the fields of medicine and welfare as growth fields. This strategy, with new policies that include an easing of regulations and employment measures, is attracting attention. The government's policies also include promoting international economic partnerships, cultivating human resources capable of working in the international arena, and encouraging the globalization of Japan's educational institutions. Demand for language learning is expected to increase among people of all generations.

To achieve stable, long-term growth in earnings, the Nichii Gakkan Group launched a medium-term management strategy in April 2012 and is reforming its business structure by strengthening its operating base and expanding its scope of operations.

To strengthen its operating base, the Group streamlined its operations, building an optimal organizational structure in accordance with its management strategy and consolidating the Group's worker dispatching operations for long-term care facilities.

In expanding the scope of its operations, the Group is aiming to move clear of risks associated with social systems and labor-intensive businesses and focus on developing the language education business in the Education Business, expanding its management assistance services in the Medical Support Business, and providing services not covered by the long-term care insurance in the Health Care Business.

In the language education business, the Group launched COCO Juku English conversation schools in April 2012 and established language education facilities nationwide. Pursuing synergies among its businesses, the Group started to provide English conversation lessons at day-care centers. To contribute to cultivating Japanese human resources that will work in the international arena, the Group launched a COCO Juku Junior project and made preparations for providing an integrated education program for students ranging from preschool children to students preparing for studying abroad.

As a consequence of these initiatives, the Group achieved record sales. In the Health Care Business, sales increased for the sixth consecutive fiscal year, with the adverse effect of a revision of compensation for long-term care more than offset by an increase in the number of users of long-term care services. Sales in the Education Business rose sharply, reflecting an increase in the number of students of Home Helper Level 2 training and the full-year contribution of GABA Corporation. Income declined from a year ago due to strategic investments in new schools and aggressive promotions to expand the language education business. However, profitability increased in the Medical Support Business, Health Care Business, and the pre-existing operations in the Education Business thanks to improvements in operational efficiency and operating rates at business locations.

The Group posted net sales of 267,191 million yen in the fiscal year under review (257,340 million yen in the previous fiscal year), operating income of 8,741 million yen (11,672 million yen), and ordinary income of 8,326 million yen (12,674 million yen). Net income was 4,383 million yen (5,897 million yen).

Results by business segment are as follows:

<Medical Support Business>

The Group focused on concluding new contracts with hospitals to which it had not provided services and raising sales per customer by expanding the scope of operations at hospitals with which it had already concluded contracts. As a result, sales rose from a year ago. Income declined due to an increase in selling, general and administrative expenses. However, work efficiency improved steadily at hospitals that were already customers due to the improved skills of our staff.

The Group expanded its management support services. On October 1, the Company concluded an operational tie-up agreement with Microsoft Japan Co., Ltd. to develop new services, combining the Company's expertise and human resources in the medical field and Microsoft's IT. Based on the tie-up, the Company launched OPECT, a contactless image operating system for operating rooms, in October and Medicloud, cloud groupware for medical institution, in

December. The Group also developed and provided high value-added services, including an international medical exchange support service, PFI projects, and services using its operating base in the long-term care business.
As a result, sales in this segment stood at 104,106 million yen (compared with 103,299 million yen in the previous fiscal year), and operating income was 8,301 million yen (8,547 million yen).

<Health Care Business>

The Group focused on operating new long-term care facilities and attracting new users. As a result, the number of users continued to increase steadily both in services at home and services at health care facilities. The number of users of services at facilities exceeded 10,000 as at the end of March. Thanks to the increase in the number of users, operational efficiency at facilities improved, and the adverse effects of the revision to long-term care compensation in April 2012 were offset by the improvement in efficiency. Consequently both sales and income continued to rise.
To strengthen collaboration between medical services and long-term care, the Group opened new home nursing care facilities. The Group is developing its facilities to provide local medical services and long-term care services seamlessly, having home nursing care facilities and long-term care facilities cooperate with each other.
In the field of services not covered by long-term care insurance, the number of users of welfare services for the disabled remained favorable. Meanwhile, the Group focused on developing private brand products and developing and providing services in response to customers' needs. In collaboration with Secom Co., Ltd., the Company made preparations for launching (24-hour) emergency elderly care services for Secom's customers at their request.
During the fiscal year under review, the Group opened 37 care plan facilities (bringing the total to 774), 39 home-visit care facilities (1,101; including home-visit bathing facilities), 27 day-care facilities (353), and 36 home-nursing care facilities (59) for home-care services. For facility-care services, the Group opened six Nichii no Hohoemi facilities (bringing the total to 247), nine Nichii no Kirameki facilities (52), and two Nichii Home pay nursing homes (52).
As a result, sales in this segment came to 141,033 million yen (compared with 138,275 million yen in the previous fiscal year), and operating income was 11,183 million yen (10,142 million yen).

<Education Business>

Of existing education courses, enrolment in the Medical Office Administration Course declined due to a decrease in demand for the qualification. However, enrolment in the Home Helper Level 2 Course increased from the second quarter, before the Home Helper Level 2 Course is replaced by the beginning staff's training in April 2013, and rose sharply year on year.
To change its business portfolio to one that will be less affected by business fluctuations and changes in the government's policies, the Group is making strategic investments in the language education business, where demand is increasing with the globalization of society. The Group launched COCO Juku in April 2012 and has opened 73 schools in the fiscal year under review. While laying nationwide foundations for the language education business, the Group sought synergies between this business and other businesses and started English conversation lessons at day-care centers in collaboration with the child care business. The Group is pursuing initiatives to attract students, developing courses to meet students' diverse needs, reviewing its marketing system, and considering more appealing advertising.
Earnings in this segment for the fiscal year under review were as we expected in consideration of strategic investments in aggressive promotions and for the opening of new schools. Thanks to the investments, however, the number of students and the degree of recognition rose.
The segment posted net sales of 21,721 million yen (compared with 15,450 million yen in the previous fiscal year), and an operating loss of 3,338 million yen (operating income of 715 million yen).

<Other Businesses>

Nichii Green Farm Company sought to raise the recognition of our therapeutic dogs and increase sales at Lakewoods Garden Himeharu no Sato, in Mobara, Chiba Prefecture, while working to make the facility's operations more efficient.
As a result, sales in this segment stood at 330 million yen (compared with 314 million yen in the previous fiscal year), and operating income was 128 million yen (an operating loss of 334 million yen).

2) Outlook for the year ending March 31, 2014

The key words in the government's growth strategy are challenge, overseas expansion, and creation. The government appears to be pursuing globalization in growth fields, including the medical field, based on healthy longevity and striving to create jobs by increasing the mobility of employment. To create an environment conducive to the social advancement of women, the government is expected to lay the foundations for daily living assistance services, including child care, housekeeping services, and long-term care.

In the fiscal year ending March 2014, the second year of the medium-term management strategy, the Group is aiming to achieve stable growth in earnings by expanding its core businesses, the Medical Support Business and Long-Term Care Business.

Meanwhile, the Group will seek to create new businesses in response to globalization and the aging society. We will develop our nationwide language education business efficiently and effectively, creating synergies with other businesses.

In April 2013, the Group launched COCO Juku Junior schools. We will start the operation of the New York University School of Continuing and Professional Studies American Language Institute (ALI) Tokyo Center, which will open in October 2013.

In July, we will open a clinic in Singapore. We will develop expertise in managing medical institutions and will use that expertise in international medical exchange support and management assistance services.

In the field of daily living assistance services, the Group will expand housekeeping services in the Health Care Business and will develop meal home delivery and private brand sanitary products. Considering policies for eliminating waiting lists for day-care facilities, we will develop different types of day-care centers.

On the assumption of an increase in the number of medical institutions that are customers of the Group in the Medical Support Business, a rise in the number of users of long-term care services in the Health Care Business, and a climb in the number of students in the language education business, the Group expects to achieve an increase in sales for the sixth consecutive fiscal year. In our earnings forecast, we take strategic investments in the language education business into consideration. As a consequence, in the fiscal year ending March 31, 2014, we forecast that the Group will post net sales of 277,600 million yen (compared with 267,191 million yen in the fiscal year under review), operating income of 9,000 million yen (8,741 million yen), ordinary income of 8,000 million yen (8,326 million yen), and net income of 4,500 million yen (4,383 million yen).

(2) Analysis of financial position

1) Overview of financial position

During the fiscal year under review, cash and cash equivalents ("cash") declined 713 million yen year on year, to 8,028 million yen. Cash flows from each category of activities and their main factors are described below.

[Cash flows from operating activities]

Cash provided by operating activities stood at 12,847 million yen.

The main factors were income before income taxes and depreciation and amortization.

[Cash flows from investing activities]

Cash used in investing activities came to 9,534 million yen.

This was primarily the result of the acquisition of tangible fixed assets, including facilities, and the purchase of short-term investment securities.

[Cash flows from financing activities]

Cash used in financing activities was 4,146 million yen.

This was chiefly due to repayments for long-term loans.

Trends in cash flow indicators for the Group can be seen below.

	Year ended March 31, 2012	Year ended March 31, 2013
Equity ratio (%)	36.2	36.6
Equity ratio based on present value (%)	48.8	35.1
Debt redemption (years)	2.9	4.0
Interest coverage ratio (times)	15.0	7.2

Notes: Equity ratio: Shareholders’ equity/total assets
Equity ratio based on present value: Total present value of stock/total assets
Debt redemption: Interest-bearing liabilities/operating cash flow
Interest coverage ratio: Operating cash flow/interest payments

1. Each indicator was calculated from consolidated financial results.
2. Total present value of stock is the product of closing stock price at the end of period and the total number of outstanding shares at the end of period (after deducting treasury stock).
3. Operating cash flow is equal to the cash flows from operating activities in the consolidated statements of cash flow.
   Interest-bearing liabilities are all the liabilities on which interest is paid, out of the liabilities in the consolidated balance sheet.
   Interest payments are the interest payments as shown in the consolidated statements of cash flow.

(3) Basic principles of profit distribution and dividends for the fiscal year under review and next fiscal years

Our basic policy is to provide our shareholders with stable and continuous profit distributions. Considering business performance trends from a mid- to long-term standpoint, we formulated a consolidated dividend policy.

For the year ended March 31, 2013, we are planning to pay a year-end dividend of 9 yen per share.

(Yen)

	Cash Dividends per Share		
(Record date)	2Q-end	Year-end	Annual
Year ended March 31, 2013	9.00 (Actual)	9.00 (Forecast)	18.00 (Forecast)
Year ending March 31, 2014	10.00 (Forecast)	10.00 (Forecast)	20.00 (Forecast)

(4) Business and other risks

Potential risks to the operations of each business of the Nichii Group are described below. The Group strives to mitigate these risks by enhancing its business portfolio, focusing on developing and providing high value-added services that are not dependent on the medical insurance and long-term care insurance systems. However, under unexpected circumstances, these risks could have serious implications for the Group’s business performance and financial position.

The Company identified the following risks at the end of the fiscal year under review, but risks associated with investments in shares in the Company are not limited to those described below.

1) Business risks

As social security benefit payments are increasing with the aging population, the government is promoting integrated tax and social security reform to build a sustainable social security system. The Act on Promotion of Reform of the Social Security System came into force in August 2012, and a reform plan is scheduled to be prepared by the National Council on Social Security System Reform by August 2013.

Since the Company’s core businesses are closely associated with the medical insurance system and the long-term care insurance system, the reform plan could affect the Company’s performance.

Consumption tax increases are due in 2014 and 2015. Medical service fees and compensation for long-term care, which are sources of revenue of medical institutions and long-term care businesses, are exempt from consumption tax, but consumption tax does apply to investments in and purchases of healthcare equipment. The consumption tax hikes could therefore have adverse effects on the Group’s performance.

[Medical Support Business]

The Nichii Group's Medical Support Business provides, among other services, medical services other than medical practice by medical institutions, medical-related services, and medical practice management consulting.

Medical institutions will see major fluctuations in revenues due to biennial revisions of the medical service fees and medical insurance system reform.

The Group provides services to medical institutions, and the integrated tax and social security reform, percentage changes in medical service fees, or advances in information technology could affect the Group's contracts, including contract fees.

[Health Care Business]

The Nichii Group's Health Care Business principally provides services regulated under the Long-Term Care Insurance Law and other relevant laws. Income from these services could be impacted by the revisions to the long-term care insurance system made every five years or by the revisions to compensation for long-term care made every three years. The Company strives to diversify risks by providing services that are not covered by long-term care insurance and by expanding its service offerings. Nevertheless, these efforts may not be sufficient to offset a decrease in income that could be caused by a reduction in compensation for long-term care and other factors, which could have a significant adverse effect on earnings.

The long-term care facilities (including group homes, pay nursing homes, and day-care facilities) operated by the Group offer community-based services under lease agreements. The term of most of these lease agreements is 20 years, and declines in occupancy rates caused by decreases in resident numbers and falls in market rates for residents could have adverse effects on earnings in the Health Care Business.

[Education Business]

The Company's medical and social welfare courses, including the Medical Office Administration course and beginning staff's training, are qualification courses for enhancing career opportunities, and enrolments change significantly in response to changes in the employment situation, which in turn could affect the Group's results.

2) Risks due to the internal management system

The Nichii Group is working to strengthen its self-enforcing operational control structure and internal check functions to prevent human error and fraudulent activities. However, problems in operational control could cause a loss of stakeholder trust and could affect the Group's performance.

[Risks due to personal information]

Each business segment of the Group handles personal information specified in the Act on the Protection of Personal Information. The Group recognizes the protection of personal information as an extremely important business issue and has established the Personal Information Protection Committee to ensure the appropriate acquisition and handling of information. In addition, the Group takes preventive steps to block leaks of personal information, including the establishment of regulations and in-house education and training.

However, personal information leaks could cause a loss of confidence in society and claims for compensation, among other things, which in turn could affect the Group's results.

3) Official license and legal regulation in personnel business

To provide worker dispatching services in the Medical Support Business and Health Care Business, the Group has already obtained a license for the general worker dispatching business under the Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers (Worker Dispatching Law). Under the Worker Dispatching Law, if a business engaged in a worker dispatching business meets any of the conditions for disqualification or commits illegal acts, its license could be canceled, or it could be ordered to suspend its business.

The Nichii Group strives to enhance compliance, but if the Group violates laws and regulations, its performance could be adversely affected.

4) Risks due to natural disasters and accidents

The Nichii Group’s businesses provide services at medical institutions with which the Group has contractual relations, long-term care facilities, schools, and other facilities across the country. If natural disasters, including earthquakes and tsunamis, occur, or if infectious diseases, including new types of influenza, spread, the Group’s staff and facilities could not work in the affected areas. In that case, the Group will strive to maintain its system for providing services by endeavoring to promptly restore the functions of the affected facilities and dispatching support staff. However, if the Group cannot provide services, its results and financial position could be adversely affected.

Considering the effects of the Great East Japan Earthquake on March 11, 2011, each branch and facility of the Group is reviewing all its countermeasures against risks related to business continuity in emergencies and is seeking to strengthen its crisis management system, putting priority on the safety of customers.

5) Risks related to the application of impairment accounting

The Company uses its own buildings for providing day care services in the Health Care Business and has posted goodwill associated with the succession of facility-care services. If profitability at the facilities for these services declines significantly, the Company will need to post an impairment loss, and earnings in the Health Care Business could be adversely affected.

If IFRS is adopted, goodwill will become a non-amortizable asset. If in an impairment test, which will be conducted at least once a year, the recoverable value proves to be lower than the book value, an impairment loss could be posted.

2. Overview of Nichii Group

The Nichii Group consists of Nichii Gakkan Company and its 22 subsidiaries and two affiliates, and is engaged in four businesses (Medical Support Business, Health Care Business, Education Business, and Other Businesses). In the Medical Support Business, the Group provides contract administration services to medical institutions and pharmacies, sells medical equipment to them, and disinfects and sterilizes equipment in medical institutions. The Group's services also include medical business consulting and the operation of childcare centers in hospitals.

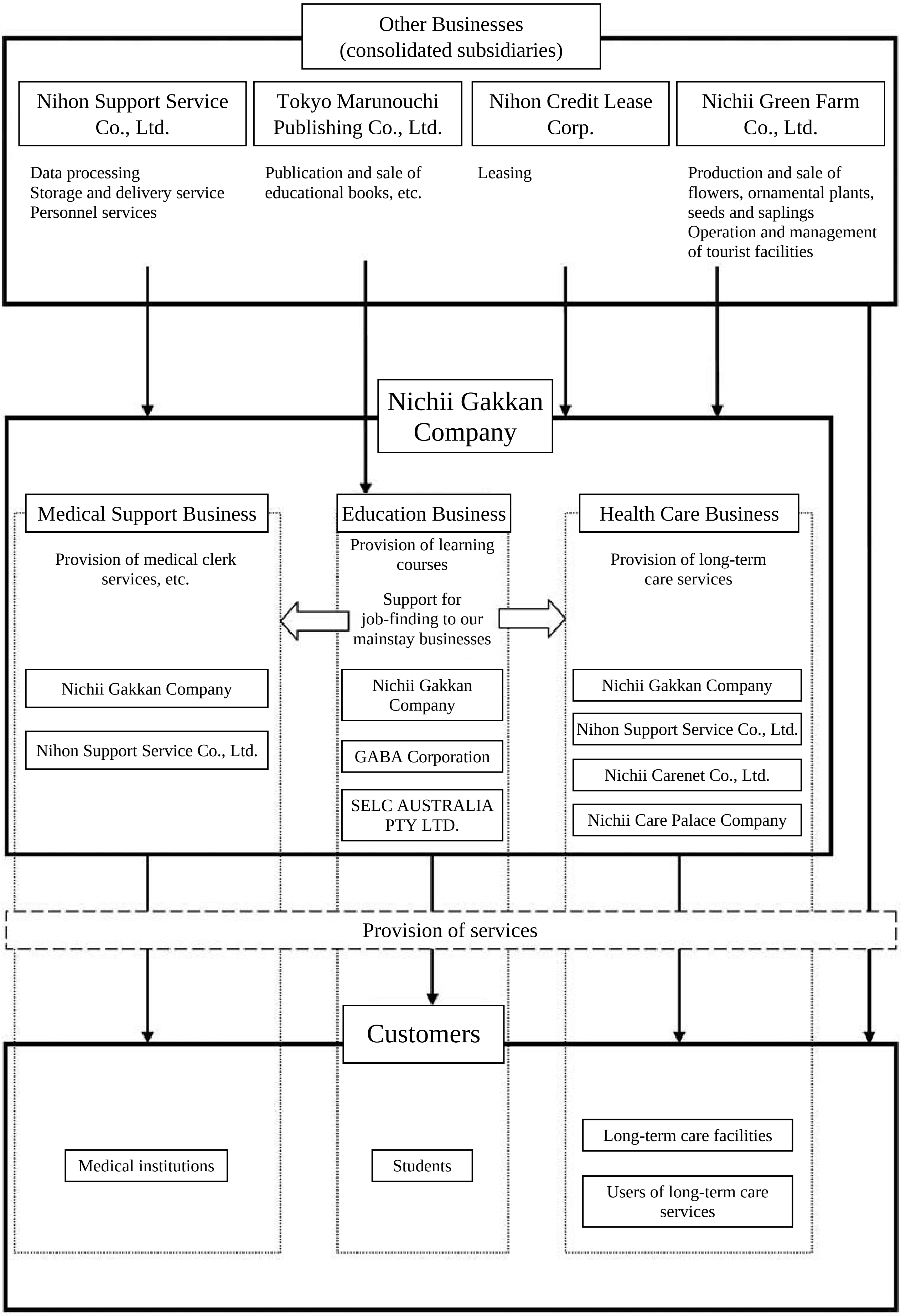
The Health Care Business provides services under the long-term care insurance system. These services include home-care services (including home-care support, home-visit care, home-visit bathing, home-visit nursing care, and day care services) and facility-care services (including care for residents in specific facilities and care for group home residents with dementia). In this business, the Group sells and leases welfare equipment and provides meal home delivery, welfare services for the disabled, and care staff dispatching service. The Group also directly manages childcare centers and operates childcare centers in companies. Nichii Carenet Company established Riyi Fuli Qiju Maoyi (Shanghai) Co., Ltd. in China, which has started the wholesale of welfare equipment.

The Education Business develops courses primarily for training medical office workers and care staff and operates Web College, an e-learning website providing a range of courses for personal development and hobbies. The Group is aggressively developing its language education business. GABA Corporation offers one-on-one English conversation lessons. In April 2012, the Group launched COCO Juku schools, which offer group English lessons.

In Other Businesses, the Group, primarily subsidiaries, offers data processing, stores and delivers goods, publishes and sells books, produces and sells flowers, plants, seeds, and seedlings, and engages in leasing and worker dispatching services. The Group also operates Lakewoods Garden Himeharu no Sato, a theme park, in Mobara, Chiba and breeds and sells pet dogs.

The table below shows the main services and products in each business category of the Group and the main companies that provide those services and products. These business categories are roughly the same as business segments.

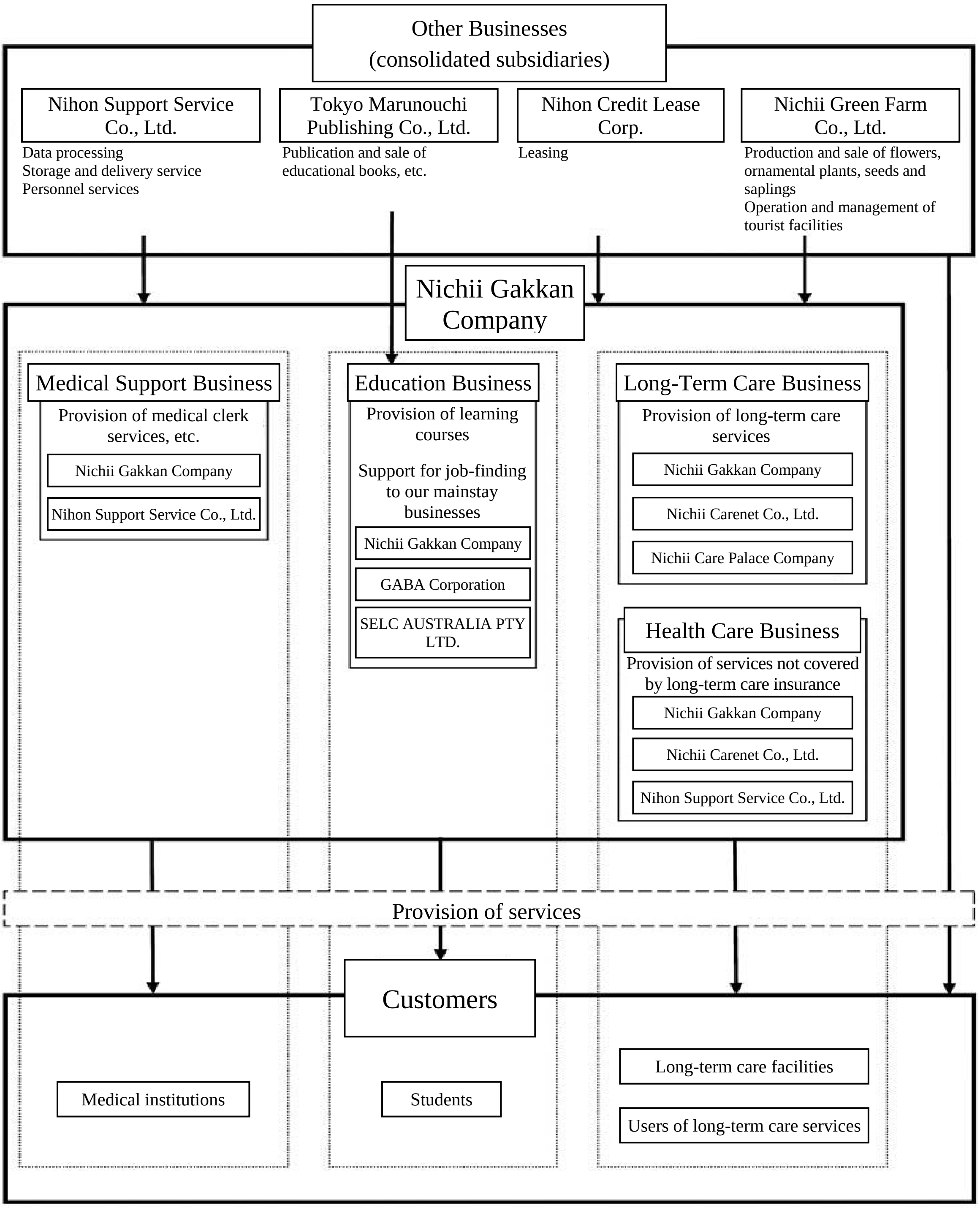
Business Category	Principal Businesses/Products	Principal Companies
Medical Support Business	Medical practice services such as reception, medical fee claims, accounting, computer operations, and medical record management; sale, disinfection and sterilization services (inside the hospital) for medical equipment; medical affairs consulting; operation of in-hospital childcare centers	Nichii Gakkan Company Nihon Support Service Co., Ltd.
Health Care Business	Home-care support (creation of care plan), home-visit care, home-visit bathing, home-visit nursing care, day care, care service for specified facility residents, care for group home residents with dementia, sale and rental of welfare equipment, catering, welfare services for the handicapped, care staff dispatching service, operation of in-company childcare centers, direct management of childcare centers	Nichii Gakkan Company Nichii Carenet Co., Ltd. Nihon Support Service Co., Ltd. Nichii Care Palace Co., Ltd.
Education Business	Courses for medical office work, Home Helper Level 2 Course (beginning staff's training from April 2012), babysitter training, clerk course of medical doctors and English conversation schools	Nichii Gakkan Company GABA Corporation SELC AUSTRALIA PTY LTD.
Other Businesses	Data processing, storage and delivery service, publication and sale of books, production and sale of flowers, ornamental plants, seeds and saplings, leasing, personnel service and operation and management of tourist facilities, breeding and sales of pet dogs	Nihon Support Service Co., Ltd. Tokyo Marunouchi Publishing Co., Ltd. Nichii Green Farm Co., Ltd. Nihon Credit Lease Corp.


Other Businesses
(consolidated subsidiaries)
Nihon Support Service Co., Ltd.
Data processing
Storage and delivery service
Personnel services
Tokyo Marunouchi Publishing Co., Ltd.
Publication and sale of educational books, etc.
Nihon Credit Lease Corp.
Leasing
Nichii Green Farm Co., Ltd.
Production and sale of flowers, ornamental plants, seeds and saplings
Operation and management of tourist facilities
Nichii Gakkan Company
Medical Support Business
Provision of medical clerk services, etc.
Nichii Gakkan Company
Nihon Support Service Co., Ltd.
Education Business
Provision of learning courses
Support for job-finding to our mainstay businesses
Nichii Gakkan Company
GABA Corporation
SELC AUSTRALIA PTY LTD.
Health Care Business
Provision of long-term care services
Nichii Gakkan Company
Nihon Support Service Co., Ltd.
Nichii Carenet Co., Ltd.
Nichii Care Palace Company
Provision of services
Customers
Medical institutions
Students
Long-term care facilities
Users of long-term care services

(For reference)

The Health Care Business will be divided into the Long-Term Care Business and the Health Care Business (not covered by long-term care insurance) from FY2014 for further development. The table below shows the main services and products in each business category and the main companies that will provide those services and products.

Business Category	Principal Businesses/Products	Principal Companies
Long-Term Care Business	Home-care support (creation of care plan), home-visit care, home-visit bathing, home-visit nursing care, day care, care service for specified facility residents, care for group home residents with dementia, sale and rental of welfare equipment, welfare services for the handicapped, operation of in-company childcare centers, direct management of childcare centers	Nichii Gakkan Company Nichii Carenet Co., Ltd. Nichii Care Palace Co., Ltd.
Health Care Business	Catering, care staff dispatching service, sales of health care products	Nichii Gakkan Company Nichii Carenet Co., Ltd. Nihon Support Service Co., Ltd.



3. Management principles

(1) Basic principles of management

Based on its management philosophy of "Contributing to the enhancement of human life through the development of our business," the Nichii Group has developed a "Target Five Stars" management strategy that aims to make it the industry leader in net sales, earnings, product strength, employee compensation, and corporate ethics. We aim to expand sales and earnings by enhancing our human resources and providing high value-added services and products that meet social needs. We will grow to become the company of choice in society by providing high-quality services that will increase customer satisfaction.

(2) Management goals

The Group aims to achieve the following three management indicators:

1) Year-on-year sales growth: double-digit growth

2) Operating margin: 7% or more

3) ROE: 15% or more

(3) Mid- to long-term strategies and issued to be addressed

The Nichii Group has been executing its medium-term management strategy from April 2012 and is aiming to achieve stable earnings growth over the long term by restructuring its business portfolio through the expansion of its business fields and the strengthening of its operating base.

The Group will seek to achieve stable earnings growth over the long term, solving challenges that it is facing, through the following initiatives.

<u>Restructuring the business portfolio</u>

Although the Medical Support Business and the Health Care Business are growth fields, they could be significantly affected by changes in social systems, including revisions of medical fees and compensation for long-term care and consumption tax hikes. We need to develop services that are less susceptible to social systems. In the Education Business, our challenge is developing services that will be able to flexibly respond to changes in the needs for qualifications associated with changes in the employment situation and in qualification systems.

To resolve these challenges and to achieve stable earnings growth over the long term, we are restructuring our business portfolio by developing new businesses to break away from the risk of system changes and to add value to our services.

Specifically, in April this year, we divided the Health Care Business into the Long-Term Care Business and the Health Care Business (not covered by long-term care insurance) for further development. In collaboration with Riyi Fuli Qiju Maoyi (Shanghai) Co., Ltd., a Group company in China, we plan to expand into Beijing to start a long-term care business in October this year. Meanwhile, we are developing our language education business as a new pillar of the Education Business. As part of the development, we entered into a collaboration agreement with the New York University School of Continuing and Professional Studies to open the American Language Institute (ALI) Tokyo Center in October this year. YORK Global Study Center will start operations in July this year.

We will change the balance between new and existing businesses and will develop our operations, using synergies, to achieve stable growth.

Strengthening the operating base

To bolster our existing businesses and expand new businesses in the restructuring of the business portfolio under the medium-term management plan, we need to secure medical office and care staff in the existing businesses and language teachers and childcare staff in new businesses. We will strive to secure human resources and improve the quality of our services in the Education Business by promoting the development and supply of human resources and enhancing recruitment and training. Meanwhile, we will reform our marketing and Group structure to strengthen our organizational strength to execute our strategy.

To provide secure, safe, and high-quality services and become the company of choice for our customers, we will enhance compliance, will install safety equipment at our facilities, while improving our staff training. We will also work to build a system for providing safe services in accordance with contingency planning regulations and manuals. In addition, we will enhance our call center function.

(4) Other significant matters for management

There are no applicable matters.

4. Consolidated financial statements

(1) Consolidated balance sheets

(Thousand yen)

	FY2012 (As of March 31, 2012)	Fiscal 2013 (As of March 31, 2013)
Assets		
Current assets		
Cash and deposits	8,699,654	8,686,050
Notes and accounts receivable—trade	*3 31,802,791	*3 32,200,612
Short-term investment securities	1,599,880	2,398,857
Merchandise and finished goods	599,236	589,186
Work in progress	5,810	31,546
Raw materials and supplies	333,724	394,759
Deferred tax assets	2,721,057	2,975,096
Other	8,378,019	8,972,555
Less: allowance for doubtful accounts	(38,293)	(45,765)
Total current assets	54,101,880	56,202,899
Fixed assets		
Property, plant and equipment		
Buildings and structures	*2 46,573,130	*2 51,115,544
Accumulated depreciation	(19,576,751)	(21,446,223)
Buildings and structures—net	26,996,379	29,669,321
Machinery, equipment and vehicles	90,064	86,870
Accumulated depreciation	(84,132)	(82,055)
Machinery, equipment and vehicles—net	5,931	4,815
Tools, furniture and fixtures	*2 3,693,465	*2 4,142,095
Accumulated depreciation	(3,087,984)	(3,170,860)
Tools, furniture and fixtures—net	605,480	971,235
Land	8,142,343	8,142,343
Lease assets	17,434,209	22,725,759
Accumulated depreciation	(1,893,256)	(2,439,267)
Lease assets—net	15,540,953	20,286,491
Construction in progress	878,952	455,061
Total property, plant and equipment	52,170,041	59,529,268
Intangible assets		
Goodwill	21,918,063	20,311,644
Software	3,183,700	2,755,690
Software in progress	610,315	469,855
Lease assets	905,340	620,555
Other	201,080	229,836
Total intangible assets	26,818,501	24,387,582
Investments and other assets		
Investments securities	*1 1,758,191	*1 2,861,472
Long-term loans receivable	6,561,118	6,113,941
Long-term prepaid expenses	2,602,576	2,612,846
Guarantee deposits	11,353,637	12,276,280
Deferred tax assets	2,060,822	2,130,706
Other	1,397,283	1,472,220
Less: Allowance for doubtful accounts	(1,007,711)	(967,518)
Total investments and other assets	24,725,918	26,499,950
Total fixed assets	103,714,460	110,416,801
Total assets	157,816,341	166,619,700

(Thousand yen)

	FY2012 (As of March 31, 2012)	Fiscal 2013 (As of March 31, 2013)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	957,132	827,506
Short-term loans payable	193,091	982,562
Current portion of long-term loans payable	5,257,449	6,899,203
Current portion of lease obligations	1,215,521	1,268,506
Income taxes payable	3,274,561	1,472,751
Accrued consumption taxes	1,162,535	1,052,935
Accrued expenses	16,178,955	16,678,253
Advances received	9,560,434	10,869,503
Provision for bonuses	4,775,256	4,998,197
Provision for directors' bonuses	36,500	39,700
Other	6,298,064	7,207,916
Total current liabilities	48,909,502	52,297,036
Non-current liabilities		
Long-term loans payable	24,990,175	21,021,495
Lease obligations	15,833,977	20,693,301
Long-term advances received	2,694,117	2,982,906
Deferred tax liabilities	—	5,764
Provision for retirement benefits	4,719,843	4,991,263
Provision for directors' retirement benefits	162,923	167,319
Asset retirement obligations	1,542,245	1,714,930
Other	1,521,252	1,490,369
Total non-current liabilities	51,464,536	53,067,349
Total liabilities	100,374,038	105,364,385
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,354,214	17,354,214
Retained earnings	34,057,020	36,818,238
Treasury stock, at cost	(6,133,715)	(5,372,812)
Total shareholders' equity	57,211,311	60,733,430
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(45,042)	146,927
Foreign currency translation adjustments	—	72,190
Total accumulated other comprehensive income	(45,042)	219,118
Minority interests	276,034	302,765
Total net assets	57,442,302	61,255,314
Total liabilities and net assets	157,816,341	166,619,700

(2) Consolidated statements of income and comprehensive income

(Consolidated statements of income)

(Thousand yen)

	Fiscal 2012 (from April 1, 2011 to March 31, 2012)	Fiscal 2013 (from April 1, 2012 to March 31, 2013)
Net sales	257,340,573	267,191,576
Cost of sales	203,513,674	209,437,781
Gross profit	53,826,898	57,753,794
Selling, general and administrative expenses		
Advertising and promotion expenses	4,959,690	9,324,333
Directors' compensation	225,221	205,379
Salaries and benefits	14,911,785	16,246,925
Provision for employee bonuses	1,175,233	1,195,538
Provision for directors' bonuses	36,500	39,700
Provision for directors' retirement benefits	8,192	7,929
Provision for employee retirement benefits	383,168	394,822
Legal welfare expenses	2,508,927	2,798,753
Travel and transportation expenses	1,504,077	1,562,884
Rent expenses	2,985,100	3,027,375
Provision for doubtful accounts	3,912	3,041
Depreciation and amortization	2,079,553	2,142,480
Amortization of goodwill	1,471,455	1,868,913
Other	9,901,765	10,194,234
Total selling, general and administrative expenses	42,154,584	49,012,312
Operating income	11,672,313	8,741,482
Non-operating income		
Interest income	142,107	140,856
Rent income	243,793	199,931
Commission on consignment for job creation businesses	1,190,729	400,473
Subsidy income	284,934	320,579
Other	341,659	429,200
Total non-operating income	2,203,223	1,491,040
Non-operating expenses		
Interest expenses	1,074,869	1,784,705
Rent expenses	60,211	50,066
Other	65,695	71,593
Total non-operating expenses	1,200,776	1,906,366
Ordinary income	12,674,760	8,326,156
Extraordinary income		
Gain on sales of investment securities	4,111	1,922
Reversal of provision for loss on store closing	14,643	—
Reversal of provision for loss on disaster	44,442	—
Other	3,720	—
Total extraordinary income	66,918	1,922

	Fiscal 2012 (from April 1, 2011 to March 31, 2012)		Fiscal 2013 (from April 1, 2012 to March 31, 2013)	
Extraordinary losses				
Loss on retirement of property, plant and equipment, net	*3	44,749	*1	40,453
Loss on sales of property, plant and equipment, net		—	*2	3,640
Loss on liquidation of subsidiaries and affiliates		—		241,237
Loss on amortization of lease deposits		—		78,000
Loss on disaster	*3	69,940		—
Provision for loss on store closing		42,345		4,678
Loss on transfer to defined contribution pension plan		148,117		—
Other		6,178		18,593
Total extraordinary losses		311,331		386,604
Income before income taxes and minority interests		12,430,347		7,941,474
Income taxes—current		5,263,532		3,845,200
Income taxes—deferred		1,235,097		(318,248)
Total income taxes		6,498,630		3,526,951
Income before minority interests		5,931,717		4,414,522
Minority interests in income		34,604		31,230
Net income		5,897,112		4,383,291

(Consolidated statements of comprehensive income)

(Thousand yen)

	Fiscal 2012 (from April 1, 2011 to March 31, 2012)	Fiscal 2013 (from April 1, 2012 to March 31, 2013)
Income before minority interests	5,931,717	4,414,522
Other comprehensive income		
Valuation difference on available-for-sale securities	1,806	191,970
Foreign currency translation adjustments	—	72,190
Total other comprehensive income	*1 1,806	*1 264,161
Comprehensive income	5,933,524	4,678,683
Comprehensive income attributable to:		
Owners of the parent	5,898,919	4,647,452
Minority interests	34,604	31,230

(3) Consolidated statements of changes in net assets

(Thousand yen)

	Fiscal 2012 (from April 1, 2011 to March 31, 2012)	Fiscal 2013 (from April 1, 2012 to March 31, 2013)
Shareholders' equity		
Capital stock		
Balance at the beginning of the period	11,933,790	11,933,790
Changes of items during the period		
Total changes of items during the period	—	—
Balance at the end of the period	11,933,790	11,933,790
Capital surplus		
Balance at the beginning of the period	17,354,214	17,354,214
Changes of items during the period		
Total changes of items during the period	—	—
Balance at the end of the period	17,354,214	17,354,214
Retained earnings		
Balance at the beginning of the period	29,492,922	34,057,020
Changes of items during the period		
Dividends from retained earnings	(1,035,921)	(1,180,535)
Net income	5,897,112	4,383,291
Disposal of treasury stock	(297,092)	(441,538)
Total changes of items during the period	4,564,098	2,761,217
Balance at the end of the period	34,057,020	36,818,238
Treasury stock, at cost		
Balance at the beginning of the period	(6,789,290)	(6,133,715)
Changes of items during the period		
Purchase of treasury stock	(540)	(710)
Disposal of treasury stock	656,115	761,612
Total changes of items during the period	655,574	760,902
Balance at the end of the period	(6,133,715)	(5,372,812)
Total shareholders' equity		
Balance at the beginning of the period	51,991,637	57,211,311
Changes of items during the period		
Dividends from retained earnings	(1,035,921)	(1,180,535)
Net income	5,897,112	4,383,291
Purchase of treasury stock	(540)	(710)
Disposal of treasury stock	359,022	320,074
Total changes of items during the period	5,219,673	3,522,119
Balance at the end of the period	57,211,311	60,733,430

(Thousand yen)

	Fiscal 2012 (from April 1, 2011 to March 31, 2012)	Fiscal 2013 (from April 1, 2012 to March 31, 2013)
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance at the beginning of the period	(46,849)	(45,042)
Changes of items during the period		
Changes other than shareholders’ equity during the period (net)	1,806	191,970
Total changes of items during the period	1,806	191,970
Balance at the end of the period	(45,042)	146,927
Foreign currency translation adjustments		
Balance at the beginning of the period	—	—
Changes of items during the period		
Changes other than shareholders’ equity during the period (net)	—	72,190
Total changes of items during the period	—	72,190
Balance at the end of the period	—	72,190
Total accumulated other comprehensive income		
Balance at the beginning of the period	(46,849)	(45,042)
Changes of items during the period		
Changes other than shareholders’ equity during the period (net)	1,806	264,161
Total changes of items during the period	1,806	264,161
Balance at the end of the period	(45,042)	219,118
Minority interests		
Balance at the beginning of the period	255,608	276,034
Changes of items during the period		
Changes other than shareholders’ equity during the period (net)	20,426	26,730
Total changes of items during the period	20,426	26,730
Balance at the end of the period	276,034	302,765
Total net assets		
Balance at the beginning of the period	52,200,395	57,442,302
Changes of items during the period		
Dividends from retained earnings	(1,035,921)	(1,180,535)
Net income	5,897,112	4,383,291
Purchase of treasury stock	(540)	(710)
Disposal of treasury stock	359,022	320,074
Changes other than shareholders’ equity during the period (net)	22,233	290,892
Total changes of items during the period	5,241,906	3,813,011
Balance at the end of the period	57,442,302	61,255,314

(4) Consolidated statements of cash flows

(Thousand yen)

	Fiscal 2012 (from April 1, 2011 to March 31, 2012)	Fiscal 2013 (from April 1, 2012 to March 31, 2013)
Cash flows from operating activities:		
Income before income taxes and minority interests	12,430,347	7,941,474
Depreciation and amortization	5,228,244	5,643,123
Amortization of goodwill	1,471,455	1,868,913
Increase (decrease) in allowance for doubtful accounts	(75,357)	(33,469)
Increase (decrease) in provision for bonuses	456,476	221,974
Increase (decrease) in provision for directors' bonuses	1,400	3,200
Increase (decrease) in provision for retirement benefits	291,694	271,419
Increase (decrease) in provision for directors' retirement benefits	5,002	4,395
Increase (decrease) in provision for loss on disaster	(382,800)	—
Increase (decrease) in provision for loss on store closing	5,272	18,485
Interest and dividends income	(146,244)	(145,798)
Interest expenses	1,074,869	1,784,705
(Gain) loss on sales of investment securities	(4,111)	(1,922)
(Gain) loss on valuation of investment securities	2,827	12
Loss on retirement of property, plant and equipment, net	44,749	40,453
(Gain) loss on sales of property, plant and equipment, net	—	3,640
Loss on disaster	69,940	—
Loss on liquidation of subsidiaries and affiliates	—	241,237
(Increase) decrease in notes and accounts receivable-trade	(1,579,884)	(372,945)
(Increase) decrease in inventories	(118,222)	(80,316)
(Increase) decrease in other current assets	176,945	(553,333)
Decrease (increase) in claims provable in bankruptcies	27,694	16,133
(Increase) decrease in other fixed assets	590,994	337,373
Increase (decrease) in notes and accounts payable—trade	(48,796)	(144,553)
Increase (decrease) in accrued consumption taxes	368,244	(109,600)
Increase (decrease) in other current liabilities	2,586,095	2,851,823
Increase (decrease) in other non-current liabilities	501,586	550,020
Other, net	(1,684)	(9,494)
Sub-total	22,976,739	20,346,953
Interest and dividends income received	38,017	46,479
Interest expenses paid	(1,076,470)	(1,783,046)
Income taxes paid	(5,809,468)	(5,762,588)
Net cash provided by operating activities	16,128,818	12,847,798

(Thousand yen)

	Fiscal 2012 (from April 1, 2011 to March 31, 2012)	Fiscal 2013 (from April 1, 2012 to March 31, 2013)
Cash flows from investing activities:		
Payments into time deposits	(508,000)	(1,008,000)
Proceeds from withdrawal of time deposits	808,000	808,000
Purchase of short-term investment securities	(1,100,054)	(3,594,975)
Proceeds from sales of short-term investment securities	—	2,400,000
Purchase of property, plant and equipment	(2,897,415)	(5,222,202)
Proceeds from sales of property, plant and equipment	765	2,354
Purchase of intangible assets	(1,006,606)	(746,411)
Purchase of investment securities	—	(1,062,920)
Proceeds from sales of investment securities	304,216	949,500
Purchase of stocks of subsidiaries and affiliates	(151,108)	(890,010)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(7,658,337)	—
Payments of loans receivable	(1,330,949)	(466,344)
Collection of loans receivable	165,707	623,883
Payments for guarantee deposits	(1,335,582)	(1,366,340)
Proceeds from collection of guarantee deposits	414,889	344,806
Subsidy income	594,218	264,133
Other, net	(517,371)	(569,901)
Net cash used in investing activities	(14,217,627)	(9,534,428)
Cash flows from financing activities:		
Net increase (decrease) in short-term loans payable	(1,140,000)	788,853
Proceeds from long-term loans payable	17,950,000	13,000,000
Repayment of long-term loans payable	(11,531,200)	(15,379,700)
Proceeds from sales of treasury stock	89	275
Purchase of treasury stock	(540)	(710)
Cash dividends paid by parent company	(1,034,825)	(1,183,573)
Cash dividends paid to minority shareholders	(4,500)	(4,500)
Repayments of lease obligations	(1,071,057)	(1,272,260)
Other, net	(90,407)	(94,752)
Net cash provided by (used in) financing activities	3,077,558	(4,146,368)
Effect of exchange rate changes on cash and cash equivalents	(2,036)	46,890
Net increase (decrease) in cash and cash equivalents	4,986,713	(786,106)
Increase in cash and cash equivalents resulting from merger	—	72,887
Cash and cash equivalents at beginning of year	3,755,056	8,741,769
Cash and cash equivalents at end of year	*1 8,741,769	*1 8,028,550