Financial Results for the Year Ended March 31, 2014 (J-GAAP)

May 14, 2014

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 25, 2014
Scheduled date to start dividends distribution: June 26, 2014
Scheduled date of filing annual securities report: June 26, 2014
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, 2014 (April 1, 2013 – March 31, 2014)

(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, 2014	271,447	1.6	6,322	(27.7)	4,940	(40.7)	2,831	(35.4)
Year ended March 31, 2013	267,191	3.8	8,741	(25.1)	8,326	(34.3)	4,383	(25.7)

(Note) Comprehensive income: Year ended March 31, 2014: ¥2,726 million yen (-41.7%); Year ended March 31, 2013: ¥4,678 million yen (-21.1%)

	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, 2014	40.51	—	4.6	2.9	2.3
Year ended March 31, 2013	62.95	—	7.4	5.1	3.3

Reference: Equity-method investment profit (loss): Year ended March 31, 2014: ¥– million; Year ended March 31, 2013: ¥– million

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Million yen	Million yen	%	Yen
As of March 31, 2014	176,246	62,327	35.2	887.18
As of March 31, 2013	166,619	61,255	36.6	872.17

Reference: Shareholders' equity: As of March 31, 2014: ¥61,999 million; As of March 31, 2013: ¥60,952 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, 2014	7,520	(4,110)	(1,026)	10,439
Year ended March 31, 2013	12,847	(9,534)	(4,146)	8,028

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, 2013	—	9.00	—	9.00	18.00	1,253	28.6	2.1
Year ended March 31, 2014	—	10.00	—	10.00	20.00	1,397	49.4	2.3
Year ending March 31, 2015 (forecast)	—	10.00	—	10.00	20.00		46.6	

3. Forecast of consolidated financial results for the year ending March 31, 2015 (April 1, 2014 – March 31, 2015)

(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	138,200	1.6	2,700	(16.4)	1,700	(32.1)	600	(63.9)	8.59
Full year	278,400	2.6	7,700	21.8	5,700	15.4	3,000	6.0	42.93

* 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.: Yes
2) Changes in accounting policies due to reasons other than those stated in 1): None
3) Changes in accounting estimates: None
4) Restatement: None

(3) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)
   As of March 31, 2014: 73,017,952 As of March 31, 2013: 73,017,952
2) Number of treasury stock
   As of March 31, 2014: 3,133,768 As of March 31, 2013: 3,131,669
3) Average number of shares issued and outstanding in each period
   As of March 31, 2014: 69,885,348 As of March 31, 2013: 69,626,622

(Reference) Overview of the non-consolidated business results

1. Non-consolidated financial results for the year ended March 31, 2014 (April 1, 2013 – March 31, 2014)

(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, 2014	238,342	0.9	3,485	(47.6)	2,918	(56.5)	1,471	(56.9)
Year ended March 31, 2013	236,272	2.8	6,648	(39.7)	6,708	(45.9)	3,418	(45.6)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Year ended March 31, 2014	21.06	—
Year ended March 31, 2013	49.10	—

(2) Non-consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Million yen	Million yen	%	Yen
As of March 31, 2014	150,186	63,124	42.0	903.28
As of March 31, 2013	145,216	63,103	43.5	902.95

Reference: Shareholders' equity: As of March 31, 2014: ¥63,124 million yen; As of March 31, 2013: ¥63,103 million yen

2. Forecast of non-consolidated financial results for the year ending March 31, 2015 (April 1, 2014 – March 31, 2015)

(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	121,100	1.3	1,400	(27.3)	1,000	(43.2)	500	(68.0)	7.15
Full year	243,200	2.0	4,300	23.4	3,200	9.6	1,500	1.9	21.46

* 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 Nichii Gakkan had as of the time this report was prepared and on certain assumptions judged to be reasonable. Various factors may cause actual results to differ significantly from forecasts. Please refer to the disclaimers, provided under "(1) Analysis of business results" of "1. Analysis of business results and financial position" on page 2 of the attached document, regarding the assumptions upon which forecasts are based and the use of forecasts.

〇 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

A moderate economic recovery continued during the fiscal year under review in response to the government's monetary easing and fiscal policy, resulting in higher stock prices and a weaker yen, increased corporate revenues, and improved employment conditions.

As the government's growth strategy, the Industrial Competitiveness Council commenced discussions regarding positioning the medical and nursing care industry as a growth industry and its internationalization, support for women's social advancement, and the use of a foreign workforce. The development of the infrastructure to prepare for an increase in foreign visitors due to the 2020 Tokyo Olympics is about to begin, suggesting the progress of globalization even in the domestic demand-oriented industry.

The Nichii Gakkan Group launched a medium-term management strategy in April 2012 with the aim of achieving stable, long-term earnings growth by improving the balance of its business structure.

In the fiscal year under review, which is the second year of the medium-term management strategy, the Group further expanded its existing businesses and made strategic investments in view of the diversifying social needs and institutional reforms in each sector.

In the expansion of its existing businesses, the Group worked to strengthen its business base and expanded its businesses into neighboring areas including the medical business support service, services not covered by long-term care insurance, and the childcare service.

As strategic investments, the Group launched the nationwide operation of a new brand, COCO Juku Junior, using the language business base built through the nationwide operation of COCO Juku in the first half of FY2014. In addition to the active promotion of classes through the franchise, the Group has worked to provide children with opportunities to learn languages through, for example, English lessons provided at childcare facilities operated by the Group. The Group has also developed a system for the long-term support of language learning by strengthening the overseas study support system based on cooperation with York Global Study Center, a subsidiary of the Group, and opening the American Language Institute - Tokyo Center of the New York University School of Continuing and Professional Studies (NYU-SCPS ALI Tokyo Center).

The strategic investment to establish classrooms and secure human resources for the language business was largely completed by the first half of FY2014, and the business is at the stage of shifting from making investments to seeking returns through, for example, unified reform with the existing education business and the creation of synergy with other businesses. The Group has also worked on geographical diversification, focusing on marketing activities in China and the opening of a clinic in Singapore, among other activities.

The business result was an increase in sales for the sixth consecutive fiscal year owing to new contracts with large hospitals, the acquisition of more nursing care service users and subsidiaries, and the strong performance of GABA Corporation and Nichii Care Palace Co., Ltd.

While income was reduced due to a decline in the number of students in the education segment and increased expenses for the full-year operation of COCO Juku classes, profitability increased in the Medical Support Segment and the Long-Term Care Segment through increased operational and locational efficiency.

The Group posted net sales of 271,447 million yen in the fiscal year under review (267,191 million yen in the previous fiscal year), operating income of 6,322 million yen (8,741 million yen), and ordinary income of 4,940 million yen (8,326 million yen). Net income was 2,831 million yen (4,383 million yen).

Results by business segment are as follows:

<Medical Support Segment>

The Group worked to improve its sales capacity based on its various management support services and other services, which resulted in the acquisition of new contracts with large hospitals and the expansion of businesses with existing hospital clients that supported the strong sales of the hospital business, and increased revenues.

While income declined until the second quarter due to a temporary rise in personnel expenses for the establishment of a new large hospital, the operations of the new hospital have been stable since the third quarter, with income beginning to rise.

In an effort to expand the management support service based on the medium-term management strategy, the Group has focused on diverse business expansion, including developing a new medical concierge service, increasing IT-based services, and organizing a variety of seminars. As a result, sales in this segment stood at 105,972 million yen (compared with 104,106 million yen in the previous fiscal year), and operating income was 8,660 million yen (8,301 million yen).

<Long-term Care Segment>

The operation level at each location of both at-home services and services at health care facilities continued to increase, resulting in increased revenues and income. In addition to the key services provided at home and day-care facilities, the Group increased the disability welfare services and home-visit care services provided by its at-home care services to enhance its comprehensive nursing care services. With regard to facility care services, business at new facilities, particularly Nichii Home, remained strong, which contributed the Group's earnings at an early stage.

In its efforts to promote the nursing care business, the Group focused on improving service quality by increasing the opportunities for staff training and developing a comprehensive service system to meet local needs such as building facilities for home-visit care and dementia care services to contribute to the achievement of community-based comprehensive care in each area.

New business facilities established for the Group's home care services include 16 care plan facilities (to a total of 790), 11 home-visit care facilities (to a total of 1,112 including home-visit bathing facilities), 14 day-care facilities (to a total of 367), six home nursing care facilities (to a total of 65), and two welfare equipment leasing facilities (to a total of 139). For its facility care services, the Group established 15 Nichii no Hohoemi group homes (to a total of 262), seven Nichii no Kirameki paid nursing homes (to a total of 58), and two Nichii Home paid nursing homes (to a total of 54).

As a result, sales in this segment came to 142,856 million yen (compared with 137,330 million yen in the previous fiscal year), and operating income was 12,549 million yen (10,890 million yen).

(Note) The major services offered in this segment based on the new segment classifications were as follows: home care services, facility care services, welfare services for the disabled, and childcare services (excluding these services at hospitals).

<Health Care Segment>

Under the new business operation system introduced in April 2013, the Group has focused on the development and growth of services not covered by long-term care insurance, including sales of healthcare products, housekeeping services, a meal home delivery service, a care worker dispatch service, etc. The business result was a decline in both revenues and income, primarily due to delayed sales activities in the care worker dispatch service. The Group is strengthening the business base and management system of this service to prepare for full-scale operation from the next fiscal year, taking into account the amendments to the Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers scheduled for 2015.

As a result, sales in this segment came to 3,682 million yen (compared with 3,702 million yen in the previous fiscal year), and operating income was 221 million yen (292 million yen).

(Note) The major services offered in this segment based on the new segment classifications were as follows: sales of health care products, housekeeping services, meal home delivery, and care staff dispatching service.

<Education Segment>

In the existing education business, the Group focused on taking in new categories of students by developing new programs to accommodate institutional changes and social needs, including training courses for care workers and helpers for expectant and new mothers and practical care-giving training courses. Enrollment in the fiscal year under review remained low, partly due to improved employment conditions and changes made to qualification systems.

In the language education business, the Group developed the nationwide operation of COCO Juku Junior, strengthened the overseas study support system both in Japan and overseas, and opened NYU-SCPS ALI Tokyo Center. In response to increasing demand for children's education, the Group developed a system for optimal programs for different language proficiency levels covering long-term growth from early childhood education to high school and college enrollment.

As part of its efforts to achieve the extensive growth of COCO Juku, the Group built marketing channels by strengthening sales activities targeting companies and developing the community-based COCO Juku Junior business. Additionally, the Group implemented the unified operation of classes with the existing education business to reduce the expenses for facility operation.

GABA Corporation enjoyed strong sales, with a 7.6% year-on-year increase in the number of clients at the end of FY2014 and sales exceeding 10 billion yen for the first time.

The segment posted net sales of 18,512 million yen (compared with 21,721 million yen in the previous fiscal year), and an operating loss of 7,269 million yen (operating income of 3,338 million yen).

<Other>

The Group undertook activities based on the Group businesses, including the fostering of therapy dogs with the aim of increasing the added value of its core businesses. To strengthen its business base, the Group worked to improve the corporate system and increase the operating efficiency of each Group company.

As a result, sales in this segment stood at 423 million yen (compared with 330 million yen in the previous fiscal year), and operating income was 45 million yen (an operating loss of 128 million yen).

2) Outlook for the year ending March 31, 2015

The government passed the Social Security Program bill in December 2013 and is beginning to implement measures to counteract the declining birthrate, along with reforms of the health insurance system, long-term care insurance system, and public pension system in order to build a sustainable social security system with balanced benefits and burdens.

In the health insurance system, the medical fees revised in April allowed the specialization of sickbed functions and the improvement of support for patients' return home to be moved to the implementation stage. For the long-term care insurance system, a revision of the preventive benefits, an increase in the maximum individual payment rate, the improvement of care worker treatment, etc. are being considered in preparation for the revision of the rewards for nursing care to be enforced in April 2015.

Discussions on the revitalization of the labor market including the promotion of the employment of women and young people are now in full swing, and the Support System for Children and Child Rearing is planned to be introduced in 2015.

In FY2015, the Group will continue to carry out its businesses in view of trends in the social security sector and further globalization.

In its response to the social security system, the Group will be focusing on medical and nursing care partnerships through the expansion of its home-visit nursing care service, the improvement of the preventive medicine service by obtaining contracts for community support projects, and various life support services to provide versatile support for the elderly to prepare for the revision of rewards for nursing care planned for April 2015.

In terms of the revitalization of the labor market, the Group will work to increase contracts in the clinic segment and care worker dispatch business in view of the revision of the Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers and develop and strengthen its childcare business and housekeeping service to support the parenting generation ahead of the enforcement of the Support System for Children and Child Rearing.

In the language education business, which is the core of the Group's strategic investment, the Group will increase the language education services offered to children and drastically reform its marketing, operation, and promotional activities to increase sales and reduce expenses with the aim of minimizing any operating loss.

On May 14, 2014, the Group signed a capital and business alliance agreement with JSS Group, the leader in the swimming school industry, in order to accelerate the development of the language education, nursing care (preventive medicine), and childcare businesses. This alliance will aim to create new value and maximize the lifetime value offered by the two companies' services by sharing the customer bases of the two companies, including the elderly, children, and parents, and nationwide business bases based on local communities.

For the geographical (regional) diversification that is the basic concept of the Group's medium-term management strategy, the Group will be developing its businesses in the Asia Pacific region. In the China business as its core business, the Group will develop care workers and a nursing care service led by its Chinese local subsidiary under the direction of the International Business Division established at the head office in April 2014. In May 2014, the Group will participate in the international welfare service exhibition held in Beijing and Shanghai to promote its focal areas of human resource education, life support services such as nursing care, and sanitary products based on the concept of “three excellences,” consisting of “excellent human resources,” “excellent services,” and “excellent products.” The Group will promote the understanding of and familiarization with the Japanese style of nursing care in order to develop a full-scale business in China in the future.

Based on the assumption of an increase in the number of contracted medical institutions and users of long-term care services in the Medical Support and Long-term Care Segments, and in the number of students in the language education business, the Group expects to achieve an increase in sales for the seventh consecutive fiscal year. In its earnings forecast, the Group expects to achieve increased income for the first time in three fiscal years as a result of the strong performance of the core businesses and reduced losses in the language education business. As a consequence, in the fiscal year ending March 31, 2015, the Group forecasts net sales of 278,400 million yen (compared with 271,447 million yen in the fiscal year under review), operating income of 7,700 million yen (6,322 million yen), ordinary income of 5,700 million yen (4,940 million yen), and net income of 3,000 million yen (2,831 million yen).

(2) Analysis of financial position

1) Overview of financial position

During the fiscal year under review, cash and cash equivalents (“cash”) increased 2,411 million yen year on year, to 10,439 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 7,520 million yen.

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

[Cash flows from investing activities]

Cash used in investing activities came to 4,110 million yen.

This was primarily the result of the acquisition of tangible fixed assets, including facilities, and the purchase of software.

[Cash flows from financing activities]

Cash used in financing activities was 1,026 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, 2013	Year ended March 31, 2014
Equity ratio (%)	36.6	35.2
Equity ratio based on present value (%)	35.1	38.0
Debt redemption (years)	4.0	8.1
Interest coverage ratio (times)	7.2	3.6

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 the next fiscal year

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, 2014, we are planning to pay a year-end dividend of 10 yen per share.

(Yen)

	Cash Dividends per Share		
(Record date)	2Q-end	Year-end	Annual
Year ended March 31, 2014	10.00 (Actual)	10.00 (Forecast)	20.00 (Forecast)
Year ending March 31, 2015	10.00 (Forecast)	10.00 (Forecast)	20.00 (Forecast)

(4) Business and other risks

Potential risks to the operations of each segment 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. Since the Company’s core segments 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 Segment]

The Nichii Group’s Medical Support segment 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.

[Long-term Care and Health Care Segments]

The Nichii Group’s Long-term Care segment 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 in the Health Care Segment 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 Long-term Care segment.

[Education Segment]

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.

Of the course fees paid at the time of application for the above existing courses and the English conversation schools COCO Juku, COCO Juku Junior, and GABA, the amount equivalent to lessons not yet provided is included in the liability section of the balance sheet as “Advances received.” If a large number of students cancel their classes within a short period of time, a substantial amount of the advances received must be reimbursed, which may affect the financial position and financial results of the Company.

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]

The Nichii 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 segment and Health Care segment, 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 provides 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 Nichii Gakkan Group may need to realize an impairment loss on land and buildings owned, goodwill and/or other assets if the profitability of each business declines significantly, which may affect the financial position and financial results of the Group.

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 25 subsidiaries and two affiliates, and is engaged in four segments (Medical Support, Long-term Care, Health Care and Education). In the Medical Support segment, 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 Long-term Care segment provides institutional services such as long-term care insurance. 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 segment, the Group sells and leases welfare equipment and provides welfare services for the disabled. The Group also directly manages childcare centers and operates childcare centers in companies.

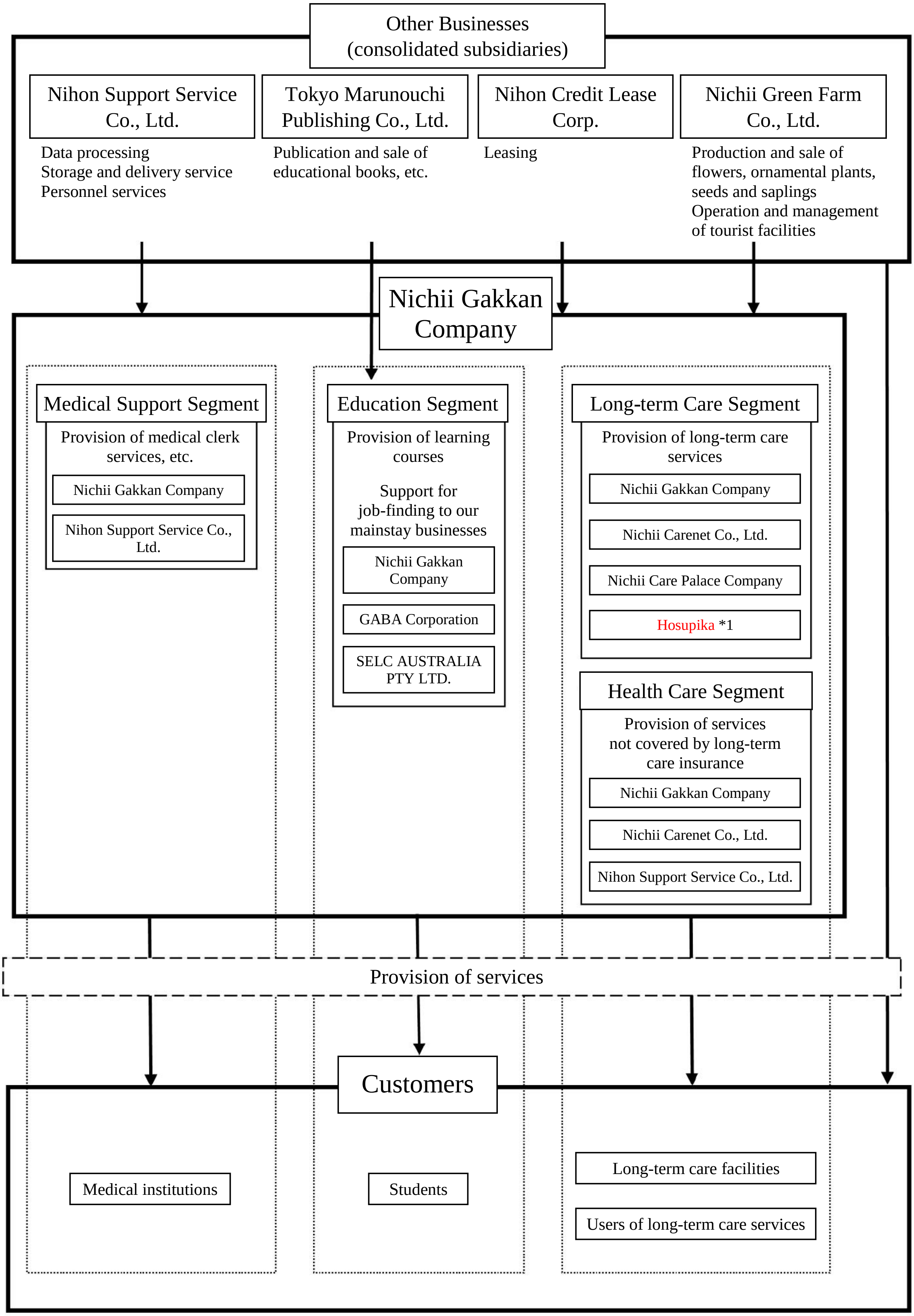
The Health Care segment sells health care products as services not covered by institutional services such as long-term care insurance, and also provides a housekeeping service, catering, and a care staff dispatching service, among other services.

The Education segment 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. In the language education business, GABA Corporation provides one-on-one English conversation lessons and COCO Juku and COCO Juku Junior provide group lessons, and the Group offers other language education services to meet the needs of a wide range of age groups by, for instance, developing the overseas study support system.

In addition, 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.

Segments	Principal Businesses/Products	Principal Companies
Medical Support	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.
Long-term Care	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. Hosupika
Health Care	Sales of health care products, housekeeping service, catering, care staff dispatching service	Nichii Gakkan Company Nichii Carenet Co., Ltd. Nihon Support Service Co., Ltd.
Education	Courses for medical office work, training for new care workers, training for the Certified Care Worker qualification, development of helpers for expectant and new mothers and English conversation schools	Nichii Gakkan Company GABA Corporation SELC AUSTRALIA PTY LTD.
Other	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.



*1. Hosupika will be integrated into Nichii Gakkan in June 2014.

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 issues to be addressed

To achieve stable, long-term profit growth based on continuous development, the Nichii Gakkan Group is implementing the medium-term management strategy that commenced in April 2012 and reorganizing its business composition to balance it by expanding its business areas and strengthening its business base.

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

Improving the balance in the business composition

In order to grow businesses in growth markets, the medical support business has focused on comprehensive management support for medical institutions, and the long-term care business has efficiently developed and operated facilities. Meanwhile, the internal environment must be improved to prevent the impact of demographic, institutional and other changes in the external environment. The education business must also be stabilized to minimize the impact of changes in the employment conditions due to economic trends on the demand for qualifications.

To resolve the issues in each business, the Group will therefore diversify its business categories and regional businesses (geographical diversification) in addition to expanding the existing businesses.

Diversification of business categories

Last year, the long-term care business was reorganized into the Long-term Care segment and the Health Care Segment that provides services not covered by long-term care insurance to expand the housekeeping service and strengthen the meal home delivery service, the sale of sanitary products under a private brand, and other life support services to reduce the risks caused by institutional change. The education business will build the foundation for the language education business by establishing English conversation schools, COCO Juku and COCO Juku Junior, and responding to demand for language learning necessitated by globalization.

The segment will achieve efficient business operations through the effective use of management resources by diversifying the business categories linked to the existing businesses and expanding the business areas.

Regional (geographical) diversification

The International Business Division was established in April 2014, and operates overseas business with an emphasis on the Asia Pacific region. The China business division has been preparing for business development in China based on the Group's marketing activities that were carried out in Beijing and Shanghai in the past. Using "zhi hu" as the brand name, meaning "the best care service" in Chinese, the division will be launching a full-scale business in China from July 2014 based on the concept of "three excellences," consisting of "excellent human resources," "excellent services," and "excellent products." The business model based on which human resources have been developed to provide high quality services in Japan for more than 40 years will be strategically arranged for the Chinese market and culture to promote the understanding of and familiarization with the Japanese style of nursing care. The America & Oceania business division will operate businesses in the America and Oceania regions through human resource development, overseas study support, and other services.

Through regional/geographical diversification, the division will build a new business model that applies the expertise acquired through business operations in Japan, and incorporate the global perspectives acquired in overseas businesses into domestic businesses for higher growth potential, stability, and profitability.

(4) Other significant matters for management

There are no applicable matters.

4. Consolidated financial statements

(1) Consolidated balance sheets

(Thousand yen)

	Fiscal 2013 (As of March 31, 2013)	Fiscal 2014 (As of March 31, 2014)
Assets		
Current assets		
Cash and deposits	8,686,050	9,595,734
Notes and accounts receivable—trade	*3 32,200,612	32,203,271
Short-term investment securities	2,398,857	3,501,938
Merchandise and finished goods	589,186	623,388
Work in progress	31,546	15,111
Raw materials and supplies	394,759	310,210
Deferred tax assets	2,975,096	2,888,713
Other	8,972,555	9,258,717
Less: allowance for doubtful accounts	(45,765)	(31,299)
Total current assets	56,202,899	58,365,785
Fixed assets		
Property, plant and equipment		
Buildings and structures	*2 51,115,544	*2 52,550,390
Accumulated depreciation	(21,446,223)	(23,496,612)
Buildings and structures—net	29,669,321	29,053,777
Machinery, equipment and vehicles	86,870	86,622
Accumulated depreciation	(82,055)	(82,557)
Machinery, equipment and vehicles—net	4,815	4,065
Tools, furniture and fixtures	*2 4,142,095	*2 4,628,861
Accumulated depreciation	(3,170,860)	(3,328,125)
Tools, furniture and fixtures—net	971,235	1,300,735
Land	8,142,343	8,163,254
Lease assets	22,725,759	31,417,199
Accumulated depreciation	(2,439,267)	(3,532,624)
Lease assets—net	20,286,491	27,884,574
Construction in progress	455,061	366,235
Total property, plant and equipment	59,529,268	66,772,643
Intangible assets		
Goodwill	20,311,644	18,446,825
Software	2,755,690	1,924,742
Software in progress	469,855	1,274,064
Lease assets	620,555	398,977
Other	229,836	216,875
Total intangible assets	24,387,582	22,261,486
Investments and other assets		
Investments securities	*1 2,861,472	*1 2,784,187
Long-term loans receivable	6,113,941	7,132,989
Long-term prepaid expenses	2,612,846	2,493,804
Guarantee deposits	12,276,280	12,881,961
Deferred tax assets	2,130,706	2,720,016
Other	1,472,220	*1 1,240,236
Less: Allowance for doubtful accounts	(967,518)	(406,643)
Total investments and other assets	26,499,950	28,846,552
Total fixed assets	110,416,801	117,880,682
Total assets	166,619,700	176,246,468

(Thousand yen)

	Fiscal 2013 (As of March 31, 2013)	Fiscal 2014 (As of March 31, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	827,506	861,540
Short-term loans payable	982,562	4,014,826
Current portion of long-term loans payable	6,899,203	9,541,357
Current portion of lease obligations	1,268,506	1,283,027
Income taxes payable	1,472,751	1,674,761
Accrued consumption taxes	1,052,935	881,693
Accrued expenses	16,678,253	15,669,460
Advances received	10,869,503	11,019,906
Provision for bonuses	4,998,197	5,092,365
Provision for directors' bonuses	39,700	39,700
Other	7,207,916	5,651,457
Total current liabilities	52,297,036	55,730,097
Non-current liabilities		
Long-term loans payable	21,021,495	17,316,153
Lease obligations	20,693,301	28,683,159
Long-term advances received	2,982,906	3,006,894
Deferred tax liabilities	5,764	601
Provision for retirement benefits	4,991,263	—
Provision for directors' retirement benefits	167,319	167,784
Asset retirement obligations	1,714,930	1,774,879
Net defined benefit liability	—	5,786,553
Other	1,490,369	1,453,096
Total non-current liabilities	53,067,349	58,189,123
Total liabilities	105,364,385	113,919,220
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,354,214	17,354,214
Retained earnings	36,818,238	38,335,223
Treasury stock, at cost	(5,372,812)	(5,374,688)
Total shareholders' equity	60,733,430	62,248,540
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	146,927	25,037
Foreign currency translation adjustments	72,190	58,966
Remeasurements of defined benefit plans	—	(332,870)
Total accumulated other comprehensive income	219,118	(248,866)
Minority interests	302,765	327,574
Total net assets	61,255,314	62,327,248
Total liabilities and net assets	166,619,700	176,246,468

(2) Consolidated statements of income and comprehensive income

(Consolidated statements of income)

(Thousand yen)

	Fiscal 2013 (from April 1, 2012 to March 31, 2013)	Fiscal 2014 (from April 1, 2013 to March 31, 2014)
Net sales	267,191,576	271,447,305
Cost of sales	209,437,781	215,725,965
Gross profit	57,753,794	55,721,340
Selling, general and administrative expenses		
Advertising and promotion expenses	9,324,333	7,424,579
Directors' compensation	205,379	193,810
Salaries and benefits	16,246,925	17,947,101
Provision for employee bonuses	1,195,538	1,268,227
Provision for directors' bonuses	39,700	39,700
Provision for directors' retirement benefits	7,929	7,932
Provision for employee retirement benefits	394,822	440,428
Legal welfare expenses	2,798,753	3,150,632
Travel and transportation expenses	1,562,884	1,659,845
Rent expenses	3,027,375	3,001,303
Provision for doubtful accounts	3,041	(4,585)
Depreciation and amortization	2,142,480	2,214,831
Amortization of goodwill	1,868,913	1,844,971
Other	10,194,234	10,210,435
Total selling, general and administrative expenses	49,012,312	49,399,213
Operating income	8,741,482	6,322,126
Non-operating income		
Interest income	140,856	143,611
Rent income	199,931	196,132
Commission on consignment for job creation businesses	400,473	114,924
Subsidy income	320,579	125,846
Other	429,200	248,531
Total non-operating income	1,491,040	829,046
Non-operating expenses		
Interest expenses	1,784,705	2,091,011
Rent expenses	50,066	63,555
Other	71,593	55,995
Total non-operating expenses	1,906,366	2,210,561
Ordinary income	8,326,156	4,940,611
Extraordinary income		
Gain on sales of investment securities	1,922	1,030,370
Other	—	850
Total extraordinary income	1,922	1,031,220

	Fiscal 2013 (from April 1, 2012 to March 31, 2013)	Fiscal 2014 (from April 1, 2013 to March 31, 2014)
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	*1 40,453	*1 80,438
Loss on sales of property, plant and equipment, net	*2 3,640	—
Loss on liquidation of subsidiaries and affiliates	241,237	77,036
Loss on amortization of lease deposits	78,000	—
Provision for loss on store closing	4,678	8,284
Impairment loss	—	*3 26,908
Other	18,593	1,556
Total extraordinary losses	386,604	194,224
Income before income taxes and minority interests	7,941,474	5,777,606
Income taxes—current	3,845,200	3,174,356
Income taxes—deferred	(318,248)	(258,768)
Total income taxes	3,526,951	2,915,588
Income before minority interests	4,414,522	2,862,018
Minority interests in income	31,230	30,808
Net income	4,383,291	2,831,209

(Consolidated statements of comprehensive income)

(Thousand yen)

	Fiscal 2013 (from April 1, 2012 to March 31, 2013)	Fiscal 2014 (from April 1, 2013 to March 31, 2014)
Income before minority interests	4,414,522	2,862,018
Other comprehensive income		
Valuation difference on available-for-sale securities	191,970	(121,889)
Foreign currency translation adjustments	72,190	(13,223)
Total other comprehensive income	*1 264,161	*1 (135,113)
Comprehensive income	4,678,683	2,726,904
Comprehensive income attributable to:		
Owners of the parent	4,647,452	2,696,096
Minority interests	31,230	30,808

(3) Consolidated statements of changes in net assets

Fiscal 2013 (from April 1, 2012 to March 31, 2013) (Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at the beginning of the period	11,933,790	17,354,214	34,057,020	(6,133,715)	57,211,311
Changes of items during the period					
Dividends from retained earnings			(1,180,535)		(1,180,535)
Net income			4,383,291		4,383,291
Purchase of treasury stock				(710)	(710)
Disposal of treasury stock			(441,538)	761,612	320,074
Changes other than shareholders' equity during the period (net)					
Total changes of items during the period	—	—	2,761,217	760,902	3,522,119
Balance at the end of the period	11,933,790	17,354,214	36,818,238	(5,372,812)	60,733,430

	Accumulated other comprehensive income			Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance at the beginning of the period	(45,042)	—	(45,042)	276,034	57,442,302
Changes of items during the period					
Dividends from retained earnings					(1,180,535)
Net income					4,383,291
Purchase of treasury stock					(710)
Disposal of treasury stock					320,074
Changes other than shareholders' equity during the period (net)	191,970	72,190	264,161	26,730	290,892
Total changes of items during the period	191,970	72,190	264,161	26,730	3,813,011
Balance at the end of the period	146,927	72,190	219,118	302,765	61,255,314

Fiscal 2014 (from April 1, 2013 to March 31, 2014) (Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at the beginning of the period	11,933,790	17,354,214	36,818,238	(5,372,812)	60,733,430
Changes of items during the period					
Dividends from retained earnings			(1,327,831)		(1,327,831)
Net income			2,831,209		2,831,209
Purchase of treasury stock				(1,876)	(1,876)
Change of scope of consolidation			13,606		13,606
Changes other than shareholders' equity during the period (net)					
Total changes of items during the period	—	—	1,516,985	(1,876)	1,515,109
Balance at the end of the period	11,933,790	17,354,214	38,335,223	(5,374,688)	62,248,540

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the period	146,927	72,190	—	219,118	302,765	61,255,314
Changes of items during the period						
Dividends from retained earnings						(1,327,831)
Net income						2,831,209
Purchase of treasury stock						(1,876)
Change of scope of consolidation						13,606
Changes other than shareholders' equity during the period (net)	(121,889)	(13,223)	(332,870)	(467,984)	24,808	(443,175)
Total changes of items during the period	(121,889)	(13,223)	(332,870)	(467,984)	24,808	1,071,933
Balance at the end of the period	25,037	58,966	(332,870)	(248,866)	327,574	62,327,248

(4) Consolidated statements of cash flows

(Thousand yen)

	Fiscal 2013 (from April 1, 2012 to March 31, 2013)	Fiscal 2014 (from April 1, 2013 to March 31, 2014)
Cash flows from operating activities:		
Income before income taxes and minority interests	7,941,474	5,777,606
Depreciation and amortization	5,643,123	6,111,588
Amortization of goodwill	1,868,913	1,844,971
Impairment loss	—	26,908
Increase (decrease) in provision for retirement benefits	271,419	(4,995,024)
Increase (decrease) in provision for directors' retirement benefits	4,395	465
Increase (decrease) in provision for bonuses	221,974	87,523
Increase (decrease) in provision for directors' bonuses	3,200	—
Increase (decrease) in allowance for doubtful accounts	(33,469)	(575,446)
Increase (decrease) in provision for loss on store closing	18,485	1,654
Increase (decrease) in net defined benefit liability	—	5,278,605
Interest and dividends income	(145,798)	(148,646)
Interest expenses	1,784,705	2,091,011
(Gain) loss on sales of investment securities	(1,922)	(1,030,370)
(Gain) loss on valuation of investment securities	12	—
Loss on retirement of property, plant and equipment, net	40,453	80,438
(Gain) loss on sales of property, plant and equipment, net	3,640	—
Loss on liquidation of subsidiaries and affiliates	241,237	77,036
(Increase) decrease in notes and accounts receivable-trade	(372,945)	(2,840)
(Increase) decrease in inventories	(80,316)	66,887
(Increase) decrease in other current assets	(553,333)	(173,161)
Decrease (increase) in claims provable in bankruptcies	16,133	544,914
(Increase) decrease in other fixed assets	337,373	430,032
Increase (decrease) in notes and accounts payable—trade	(144,553)	34,643
Increase (decrease) in accrued consumption taxes	(109,600)	(171,242)
Increase (decrease) in other current liabilities	2,851,823	(2,955,442)
Increase (decrease) in other non-current liabilities	550,020	174,692
Other, net	(9,494)	11,807
Sub-total	20,346,953	12,588,614
Interest and dividends income received	46,479	37,400
Interest expenses paid	(1,783,046)	(2,092,055)
Income taxes paid	(5,762,588)	(3,013,669)
Net cash provided by operating activities	12,847,798	7,520,290

(Thousand yen)

	Fiscal 2013 (from April 1, 2012 to March 31, 2013)	Fiscal 2014 (from April 1, 2013 to March 31, 2014)
Cash flows from investing activities:		
Payments into time deposits	(1,008,000)	(812,000)
Proceeds from withdrawal of time deposits	808,000	814,000
Purchase of short-term investment securities	(3,594,975)	(2,604,461)
Proceeds from sales of short-term investment securities	2,400,000	2,900,000
Purchase of property, plant and equipment	(5,222,202)	(1,816,697)
Proceeds from sales of property, plant and equipment	2,354	—
Purchase of intangible assets	(746,411)	(1,303,727)
Purchase of investment securities	(1,062,920)	(200,000)
Proceeds from sales of investment securities	949,500	1,969,115
Purchase of stocks of subsidiaries and affiliates	(890,010)	(532,800)
Payments of loans receivable	(466,344)	(1,421,141)
Collection of loans receivable	623,883	136,568
Payments for guarantee deposits	(1,366,340)	(953,333)
Proceeds from collection of guarantee deposits	344,806	326,755
Subsidy income	264,133	61,473
Other, net	(569,901)	(674,498)
Net cash used in investing activities	(9,534,428)	(4,110,747)
Cash flows from financing activities:		
Net increase (decrease) in short-term loans payable	788,853	3,032,458
Proceeds from long-term loans payable	13,000,000	5,500,000
Repayment of long-term loans payable	(15,379,700)	(6,746,000)
Proceeds from sales of treasury stock	275	—
Purchase of treasury stock	(710)	(1,876)
Cash dividends paid by parent company	(1,183,573)	(1,326,160)
Cash dividends paid to minority shareholders	(4,500)	(6,000)
Repayments of lease obligations	(1,272,260)	(1,296,884)
Other, net	(94,752)	(181,723)
Net cash provided by (used in) financing activities	(4,146,368)	(1,026,186)
Effect of exchange rate changes on cash and cash equivalents	46,890	(7,448)
Net increase (decrease) in cash and cash equivalents	(786,106)	2,375,908
Cash and cash equivalents at beginning of year	8,741,769	8,028,550
Increase in cash and cash equivalents from newly consolidated subsidiary	—	35,194
Increase in cash and cash equivalents resulting from merger	72,887	—
Cash and cash equivalents at end of year	*1 8,028,550	*1 10,439,653