Financial Statements 2022

Benesse Holdings, Inc. and Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2022, and Independent Auditor's Report

Consolidated Balance Sheet

Benesse Holdings, Inc. and Subsidiaries
March 31, 2022

ASSETS	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2022
CURRENT ASSETS:			
Cash and deposits (Notes 5 and 6)	¥125,787	¥151,013	$1,031,041
Marketable securities (Notes 5, 6 and 7)	18,996	5,951	155,705
Receivables:			
Trade notes and accounts (Notes 6 and 16)	25,621	29,092	210,008
Other (Note 6)	57,994	57,183	475,361
Due from associated companies (Note 16)	18	17	148
Inventories (Note 8)	34,699	31,534	284,418
Other current assets	11,881	12,321	97,384
Allowance for doubtful receivables	(337)	(1,417)	(2,762)
Total current assets	274,659	285,694	2,251,303
PROPERTY AND EQUIPMENT:			
Land	34,990	35,080	286,803
Buildings and leasehold improvements (Note 9)	88,513	91,184	725,516
Equipment, fixtures and other (Note 9)	30,473	34,726	249,779
Lease assets (Note 9)	114,184	109,982	935,934
Total	268,160	270,972	2,198,032
Accumulated depreciation	(111,352)	(113,955)	(912,721)
Net property and equipment	156,808	157,017	1,285,311
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 6 and 7)	19,257	14,490	157,844
Investments in associated companies (Note 6)	2,262	2,179	18,541
Goodwill and other intangible assets (Note 11)	14,930	13,120	122,377
Software (Note 9)	24,653	25,071	202,074
Asset for retirement benefits (Note 13)	6,627	5,033	54,320
Deferred tax assets (Note 20)	10,251	5,174	84,025
Other assets	31,152	34,204	255,344
Total investments and other assets	109,132	99,271	894,525
TOTAL	¥540,599	¥541,982	$4,431,139

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2022	2021	Thousands of U.S. Dollars (Note 1) 2022
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 6 and 12)	¥ 5,075	¥ 249	$ 41,598
Payables:			
Trade notes and accounts	16,129	13,961	132,205
Other	25,594	26,515	209,787
Due to associated companies	896	910	7,344
Advances received (Note 16)	109,269	106,846	895,648
Income taxes payable	2,282	2,359	18,705
Other current liabilities	20,933	25,039	171,582
Total current liabilities	180,178	175,879	1,476,869
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Notes 6 and 12)	33,175	38,257	271,926
Lease obligations (Notes 6 and 10)	98,243	95,611	805,270
Guarantee deposits received from nursing home residents		37,470	
Advances received from nursing home residents (Note 16)	57,727		473,172
Liability for retirement benefits (Note 13)	5,957	8,156	48,828
Deferred tax liabilities (Note 20)	596	681	4,885
Other long-term liabilities	8,560	10,891	70,164
Total long-term liabilities	204,258	191,066	1,674,245
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)			
EQUITY (Notes 14, 16 and 21):			
Common stock—authorized, 405,282,040 shares in 2022 and 2021; issued, 102,571,215 shares in 2022 and 102,541,528 shares in 2021	13,781	13,740	112,959
Capital surplus	28,391	29,632	232,713
Stock acquisition rights	105	105	861
Retained earnings	125,422	151,435	1,028,049
Treasury stock—at cost—6,160,099 shares in 2022 and 6,158,118 shares in 2021	(21,364)	(21,362)	(175,115)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	408	1,166	3,344
Foreign currency translation adjustments	200	(5,852)	1,639
Defined retirement benefit plans (Note 13)	2,428	1,016	19,902
Total	149,371	169,880	1,224,352
Noncontrolling interests	6,792	5,157	55,673
Total equity	156,163	175,037	1,280,025
TOTAL	¥540,599	¥541,982	$4,431,139

Consolidated Statement of Income

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2022

	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2022
NET SALES (Notes 15 and 16)	¥431,944	¥427,532	$3,540,525
COST OF SALES (Notes 13 and 18)	239,185	241,346	1,960,533
Gross profit	192,759	186,186	1,579,992
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 13, 17 and 18)	172,592	173,096	1,414,689
Operating income	20,167	13,090	165,303
OTHER INCOME (EXPENSES):			
Dividend income	178	145	1,459
Rent income	343	344	2,811
Interest expense—net (Note 12)	(5,818)	(5,445)	(47,689)
Foreign exchange gain	349	58	2,861
Gain on investments—net	383	546	3,139
Equity in net earnings of associated companies	112	119	918
Subsidy income	526	1,581	4,311
Loss on impairment of long-lived assets (Note 9)	(200)	(530)	(1,639)
Loss on sale of investments in a consolidated subsidiary (Note 23.b)	(9,570)		(78,443)
Restructuring expenses of a foreign consolidated subsidiary		(1,554)	
Loss on temporary closure		(722)	
Other—net	(749)	(1,075)	(6,138)
INCOME BEFORE INCOME TAXES	5,721	6,557	46,893
INCOME TAXES (Note 20):			
Current	3,895	5,558	31,926
Refund		(1,267)	
Deferred	(226)	(1,599)	(1,853)
Total income taxes	3,669	2,692	30,073
NET INCOME	2,052	3,865	16,820
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	988	742	8,099
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 1,064	¥ 3,123	$ 8,721

	Yen 2022	Yen 2021	U.S. Dollars 2022
PER SHARE OF COMMON STOCK (Notes 2.t and 24):			
Basic net income	¥ 11.04	¥ 32.40	$ 0.09
Cash dividends applicable to the year	50.00	50.00	0.41

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
NET INCOME	¥2,052	¥ 3,865	$ 16,820
OTHER COMPREHENSIVE INCOME (LOSS) (Note 22):			
Unrealized (loss) gain on available-for-sale securities	(761)	686	(6,238)
Foreign currency translation adjustments	6,054	591	49,623
Defined retirement benefit plans	1,404	1,043	11,508
Share of other comprehensive income in associates	24	15	197
Total other comprehensive income	6,721	2,335	55,090
COMPREHENSIVE INCOME	¥8,773	¥ 6,200	$ 71,910
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥7,769	¥ 5,478	$ 63,680
Noncontrolling interests	1,004	722	8,230

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2022

	Thousands	Millions of Yen										
							Accumulated Other Comprehensive Income (Loss)					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2020	96,355	¥ 13,700	¥ 29,593	¥ 105	¥ 153,130	¥ (21,362)	¥ 467	¥ (6,456)	¥ (34)	¥ 169,143	¥ 6,197	¥ 175,340
Issuance of new shares (Note 14)	28	40	40							80		80
Net income attributable to owners of the parent					3,123					3,123		3,123
Cash dividends, ¥50.0 per share					(4,818)					(4,818)		(4,818)
Capital increase of consolidated subsidiaries			(1)							(1)		(1)
Net change in the year							699	604	1,050	2,353	(1,040)	1,313
BALANCE, MARCH 31, 2021	96,383	13,740	29,632	105	151,435	(21,362)	1,166	(5,852)	1,016	169,880	5,157	175,037
Cumulative effects of changes in accounting policies(Note 3)					(22,257)					(22,257)		(22,257)
Restated balance		13,740	29,632	105	129,178	(21,362)	1,166	(5,852)	1,016	147,623	5,157	152,780
Issuance of new shares (Note 14)	30	41	41							82		82
Net income attributable to owners of the parent					1,064					1,064		1,064
Cash dividends, ¥50.0 per share					(4,820)					(4,820)		(4,820)
Purchase of treasury stock	(2)					(2)				(2)		(2)
Capital increase of a consolidated subsidiary			(1,305)							(1,305)		(1,305)
Change in the parent's ownership interest due to transactions with noncontrolling interests			23							23		23
Net change in the year							(758)	6,052	1,412	6,706	1,635	8,341
BALANCE, MARCH 31, 2022	96,411	¥ 13,781	¥ 28,391	¥ 105	¥ 125,422	¥ (21,364)	¥ 408	¥ 200	¥ 2,428	¥ 149,371	¥ 6,792	¥ 156,163

	Thousands of U.S. Dollars (Note 1)										
						Accumulated Other Comprehensive Income (Loss)					
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2021	$112,623	$242,885	$861	$1,241,270	$(175,098)	$9,557	$(47,967)	$8,328	$1,392,459	$42,270	$1,434,729
Cumulative effects of changes in accounting policies(Note 3)				(182,434)					(182,434)		(182,434)
Restated balance	112,623	242,885	861	1,058,836	(175,098)	9,557	(47,967)	8,328	1,210,025	42,270	1,252,295
Issuance of new shares (Note 14)	336	336							672		672
Net income attributable to owners of the parent				8,721					8,721		8,721
Cash dividends, $0.41 per share				(39,508)					(39,508)		(39,508)
Purchase of treasury stock					(17)				(17)		(17)
Capital increase of a consolidated subsidiary		(10,697)							(10,697)		(10,697)
Change in the parent's ownership interest due to transactions with noncontrolling interests		189							189		189
Net change in the year						(6,213)	49,606	11,574	54,967	13,403	68,370
BALANCE, MARCH 31, 2022	$112,959	$232,713	$861	$1,028,049	$(175,115)	$3,344	$1,639	$19,902	$1,224,352	$55,673	$1,280,025

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
OPERATING ACTIVITIES:			
Income before income taxes	¥ 5,721	¥ 6,557	$ 46,893
Adjustments for:			
Depreciation and amortization	18,945	19,025	155,287
Loss on impairment of long-lived assets	200	530	1,639
Loss on sale of investments in a consolidated subsidiary	9,570		78,443
Other noncash income and expenses—net	6,453	5,438	52,893
Changes in assets and liabilities, net of effects:			
(Decrease) increase in allowance for doubtful receivables and other reserves	(60)	688	(492)
(Increase) decrease in trade receivables	(651)	958	(5,336)
Increase in inventories	(3,039)	(1,463)	(24,910)
Increase (decrease) in trade payables	2,724	(1,690)	22,328
Increase in advances received	2,230	11,155	18,279
Increase in asset for retirement benefits	(1,594)	(1,796)	(13,066)
Other—net	(4,557)	129	(37,351)
Subtotal	35,942	39,531	294,607
Interest and dividends received	713	623	5,844
Interest paid	(6,345)	(5,880)	(52,008)
Income taxes—paid	(5,845)	(8,430)	(47,910)
Net cash provided by operating activities	24,465	25,844	200,533
INVESTING ACTIVITIES:			
Increase in time deposits—net	(164)	(346)	(1,344)
Purchases of marketable securities	(16,999)	(2,001)	(139,336)
Proceeds from sales of marketable securities	2,931	2,905	24,025
Purchases of property and equipment	(4,716)	(5,374)	(38,656)
Purchases of software	(9,612)	(9,440)	(78,787)
Purchases of investment securities	(8,886)	(813)	(72,836)
Proceeds from sales of investment securities	1,483	1,172	12,156
Purchase of additional interests in a consolidated subsidiary		(2,988)	
Purchase of controlling interests in companies (a company in 2021)	(2,819)	(1,181)	(23,107)
Payment for sale of interests in a subsidiary previously consolidated	(7,818)		(64,082)
Other—net	(760)	(1,632)	(6,230)
Net cash used in investing activities	(47,360)	(19,698)	(388,197)
FINANCING ACTIVITIES:			
Proceeds from long-term debt		8,000	
Repayments of long-term debt	(249)	(14,003)	(2,041)
Proceeds from issuance of bonds		10,000	
Dividends paid	(4,820)	(4,821)	(39,508)
Repayments of lease obligations	(3,410)	(3,379)	(27,951)
Other—net	(648)	(542)	(5,311)
Net cash used in financing activities	(9,127)	(4,745)	(74,811)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	2,222	(247)	18,213
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(29,800)	1,154	(244,262)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	144,035	142,881	1,180,615
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 5)	¥ 114,235	¥ 144,035	$ 936,353

(Continued)

Consolidated Statement of Cash Flows

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
ADDITIONAL CASH FLOW INFORMATION:			
Purchase of controlling interests in companies:			
Current assets	¥ 1,945		$ 15,943
Long-term assets	288		2,361
Consolidation goodwill	2,458		20,148
Current liabilities	(410)		(3,361)
Long-term liabilities	(31)		(254)
Acquisition cost	4,250		34,837
Cash and cash equivalents of newly consolidated subsidiaries	(1,431)		(11,730)
Purchase of controlling interests in companies	¥ 2,819		$ 23,107
Sale of interests in a subsidiary previously consolidated:			
Current assets	¥ 13,782		$ 112,967
Long-term assets	6,950		56,967
Current liabilities	(12,507)		(102,516)
Long-term liabilities	(5,016)		(41,115)
Unrealized loss on available-for-sale securities	(11)		(90)
Foreign currency translation adjustments	5,929		48,599
Defined retirement benefit plans	726		5,951
Transfer expenses	266		2,180
Loss on sale of investments in a consolidated subsidiary	(9,570)		(78,443)
Selling price	549		4,500
Other receivables	(318)		(2,607)
Other payables	55		451
Transfer expenses	(266)		(2,180)
Cash and cash equivalents of a subsidiary previously consolidated	(7,838)		(64,246)
Payment for sale of interests in a subsidiary previously consolidated	¥ (7,818)		$ (64,082)
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Assets and obligations from finance lease transactions recognized in the consolidated balance sheet:			
Lease assets	¥ 5,847	¥ 11,481	$ 47,926
Lease obligations	6,227	12,583	51,041

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2022

Note 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Benesse Holdings, Inc. (the “Company”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”). The foreign subsidiaries prepare their financial statements in accordance with either IFRS or accounting principles generally accepted in the United States of America (“U.S. GAAP”).

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2021 consolidated financial statements to conform to the classifications used in 2022.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥122 to $1, the approximate rate of exchange at March 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and its 38 (37 in 2021) subsidiaries (collectively, the “Group”).

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in nine associated companies are accounted for by applying the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Group are also eliminated.

b. Business Combinations—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent’s ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent’s ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

c. Cash Equivalents—Cash equivalents in the consolidated statement of cash flows are defined as low-risk, highly liquid, short-term (maturity within three months of acquisition date) investments that are readily convertible to cash.

d. Inventories—Inventories are primarily stated at the lower of cost, determined by the average cost method, or net selling value. Inventories of foreign subsidiaries are primarily stated at the lower of cost, determined by the average cost method, or market, or net selling value.

e. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management’s intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings (costs of securities sold are calculated by the moving-average method); (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity are reported at amortized cost using the straight-line method of amortization; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity (costs of securities sold are calculated by the moving-average method).

Nonmarketable available-for-sale equity securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income. As for investments in investment limited partnerships and other similar partnerships, which are deemed to be securities in accordance with Article 2, paragraph (2) of the Japanese Financial Instruments and Exchange Act, the Group's share of each partnership's equity and net income or loss are recognized on a net basis based on the partnership's most recent financial statements that are available depending on the reporting date prescribed in the relevant partnership agreement.

f. Property and Equipment—Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its domestic subsidiaries is computed by the declining-balance method over the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired on or after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, lease assets of the Company and its domestic subsidiaries, and all property and equipment of foreign subsidiaries. The range of useful lives in the Company and its domestic subsidiaries is principally from 2 to 50 years for buildings and leasehold improvements. The useful lives for lease assets of the Company and its domestic subsidiaries are the terms of the respective leases, and those of foreign subsidiaries are the terms of the respective leases or estimated useful lives of the lease assets.

Under certain conditions such as exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired. As of March 31, 2022 and 2021, such deferred profit amounted to ¥3,375 million ($27,664 thousand) and ¥2,617 million, respectively.

g. Long-Lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. Goodwill and Other Intangible Assets—The differences between the cost and net equity at acquisition ("consolidation goodwill") and customer-related assets in domestic subsidiaries are amortized on a straight-line basis over 10 to 20 years for goodwill and mainly over 20 years for customer-related assets. Immaterial consolidation goodwill incurred during the period is charged to income.

i. Software—Software used internally is amortized by the straight-line method over its estimated useful life (primarily 5 years and 10 years for the Company and its domestic subsidiaries and primarily 5 years for foreign subsidiaries).

j. Leases—Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet by the Company and its domestic subsidiaries, and all other leases are accounted for as operating leases.

On January 13, 2016, the International Accounting Standards Board (IASB) issued IFRS 16, "Leases," requiring the recognition of substantially all lease assets and lease liabilities on the balance sheet. Certain foreign subsidiaries that apply IFRS applied this accounting standard effective April 1, 2019.

k. Retirement and Pension Plans—The Company and certain domestic subsidiaries have severance lump-sum payment plans and a contributory funded defined benefit pension plan for employees, and certain domestic subsidiaries have lump-sum payment plans for directors, Audit & Supervisory Board members and Company officers. The pension plans, which were established under the Japanese Employees' Pension Insurance Act, cover a substitutional portion of the governmental pension program by the Company on behalf of the government and a corporate portion established at the discretion of the Company. The pension fund is administered by a board of trustees composed of management and employee representatives as required by government regulations.

Effective April 1, 2004, the Company and its certain domestic subsidiaries introduced a cash-balance plan as part of the former pension plan to reduce their future risk due to unexpected low returns from the pension fund.

In addition, certain subsidiaries have defined contribution plans.

Berlitz Corporation has a defined benefit plan, Supplemental Executive Retirement Plan ("SERP"), for the benefit of its Chairman of the Board, certain designated executives and their designated beneficiaries and accounts for it in accordance with the U.S. GAAP. Berlitz was excluded from the consolidation scope as the Company transferred all of its shares in Berlitz on February 14, 2022.

The Group accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations of the Company and its domestic subsidiaries are attributed to periods on a benefit formula basis. Actuarial gains and losses of the Company and its domestic subsidiaries that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income) after adjusting for tax effects, and are recognized in profit or loss primarily over 8 years no longer than the expected average remaining service period of the employees, starting from the year following the year in which they occur. Foreign subsidiaries only recognize actuarial gains and losses that are greater than 10% of the larger of the beginning balance of the projected benefit obligation or the market-related value (which may equal fair value) of the plan assets, and they are amortized on a straight-line basis primarily over 13 years, which are based on the average life expectancy of the eligible executives. Past service costs of the Company and its domestic subsidiaries are amortized on a straight-line basis primarily over 8 years no longer than the expected average remaining service period of the employees.

Retirement benefits to directors, Audit & Supervisory Board members and Company officers of certain domestic subsidiaries are recorded as a liability at the amount that would be required if all directors, Audit & Supervisory Board members and Company officers retired at each consolidated balance sheet date.

l. Stock Options—Compensation expense for employee stock options is recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with Accounting Standards Board of Japan (“ASBJ”) Statement No. 8, “Accounting Standard for Share-based Payment.” Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, stock options are presented as a stock acquisition right as a separate component of equity until exercised.

m. Research and Development Costs—Research and development costs are charged to income as incurred.

n. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by foreign exchange forward contracts.

o. Foreign Currency Financial Statements—The consolidated balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” in a separate component of equity. Revenue and expense accounts of foreign subsidiaries are translated into yen at the average exchange rate.

p. Derivative Financial Instruments and Hedge Activities—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates. Foreign exchange forward contracts are utilized by the Company to reduce foreign exchange risk.

The Company measures foreign exchange forward contracts at fair value, and the unrealized gains/losses are recognized in the consolidated statement of income.

q. Bonuses to Directors and Company Officers—Bonuses to directors and Company officers are accrued at the end of the year to which such bonuses are attributable.

r. Basis for Recognizing Revenue and Expenses—The Group identifies a distinct good or service in a contract with a customer, and considering it as a transaction unit, identifies performance obligation(s). The transaction price is determined as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised good or service to the customer. Some contracts include more than one performance obligation, and the transaction price is allocated to each performance obligation. When control of a promised good or service is transferred to a customer and a performance obligation of the Group is satisfied at a point in time, revenue is recognized at the point in time. When control of a promised good or service is transferred to a customer and a performance obligation of the Group is satisfied over time, revenue is recognized over time by measuring the progress towards complete satisfaction of the performance obligation, depending on contract details. For some good and product sales in Japan, the Company and its domestic subsidiaries recognize revenue upon shipment when it takes a normal period of time from when an ordered good or product is shipped out to when the customer obtains control of such good or product, applying an alternative treatment in paragraph 98 of the ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition,” issued on March 26, 2021. The Group does not have significant financial components in contracts with customers.

The Group’s major businesses are the Education Business in Japan, the Kids & Family Business, the Nursing Care and Childcare Business, and the Berlitz Business. Since the Company, on February 14, 2022, transferred all of its shares in Berlitz Corporation, which had been a consolidated subsidiary of the Company and had constituted the Berlitz Business, the consolidated statement of income for the year ended March 31, 2022, includes revenue of the Berlitz Business up to the end of the third quarter.

(1) Education Business in Japan

In the Education Business in Japan, the Group engages in the correspondence course business targeting primary school students to high school students, Shinkenzemi, the school and teacher support business, the prep school and classroom education business, and other businesses.

In the correspondence course business, Shinkenzemi, the Group provides more than one good and/or service including the provision of course materials and services for correcting answers submitted by customers and tutoring. A contract associated with the business includes more than one performance obligation, and the standalone selling price is not directly observable. Accordingly, the Group allocates the transaction price to each performance obligation by estimating its costs of satisfying a performance obligation and then adding an appropriate margin for that good or service. The Group determines that a customer obtains control of a promised good or service and a performance obligation of the Group is satisfied at the point in time when the customer confirms that course materials conform to agreed specifications to recognize revenue from the provision of course materials, and when the Group provides answers to the customer after correction to recognize revenue on answer correction and tutoring.

In the school and teacher support business, the Group mainly offers simulated exams and support services for ICT education, learning, and school affairs. In connection with simulated exams, the Group mainly provides question booklets and answer booklets, grades the exams, and provides exam results to customers. The Group considers these activities as one performance obligation since they are highly interrelated and determines that a customer obtains control of a good or service and a performance obligation of the Group is satisfied mainly at the point in time when the Group provides exam results to the customer to recognize revenue. For support services for ICT education, learning, and school affairs, a customer obtains control of a service by receiving a software license and upgrading the version, or receiving ICT use support. Accordingly, the Group determines that its performance obligation is satisfied by measuring the progress in providing the service and recognizes revenue over the contract term.

In the prep school and classroom education business, the Group primarily gives classes. A customer obtains control of a service by taking classes. Accordingly, the Group determines that its performance obligation is satisfied by measuring the progress in giving lessons and recognizes revenue over the contract term.

(2) Kids & Family Business

In the Kids & Family Business, the Group provides the course materials of Kodomo Challenge in the correspondence course business in Japan, China, Taiwan and Indonesia, targeting mainly infants. The Group also engages in the mail-order business in Japan.

To recognize revenue for Kodomo Challenge in the correspondence course business, the Group determines that a customer obtains control of course materials and a performance obligation of the Group is satisfied at the point in time when the Group provides the course materials to the customer.

To recognize revenue for the mail-order business, the Group determines that a customer obtains control of goods and a performance obligation of the Group is satisfied at the point in time when the Group provides the goods to the customer. In a transaction where the Group is an agent in connection with the provision of goods to a customer, revenue is recognized in the net amount of consideration that the Group retains after paying a supplier the consideration received from the customer in exchange for goods provided by the supplier.

(3) Nursing Care and Childcare Business

In the Nursing Care and Childcare Business, the Group engages primarily in the residential care services business, and revenue of the business is comprised of facility usage/nursing care charges and payments from nursing home residents.

For facility usage/nursing care charges, a customer obtains control of a service by receiving a nursing care service. Accordingly, the Group determines that its performance obligation is satisfied by measuring the progress in providing the service and recognizes revenue over the period of service.

For payments from nursing home residents, a customer obtains control of a service by using nursing home facilities. Accordingly, the Group determines that its performance obligation is satisfied over the period of use and recognizes revenue over such period after estimating the average occupancy term.

(4) Berlitz Business

In the Berlitz business, the Group engaged in the language education business and the study abroad support (ELS) business and primarily gave lessons.

For such businesses, a customer obtained control of a service by taking lessons. Accordingly, the Group determined that its performance obligation was satisfied by measuring the progress in giving lessons and recognized revenue over the contract term. Revenue of the Berlitz Business was accounted for in accordance with U.S. GAAP.

s. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Company and certain domestic subsidiaries file a tax return under the consolidated taxation system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries, and will start to apply the group tax sharing system instead of the consolidated taxation system at the beginning of the year ending March 31, 2023.

With regard to differences under the group tax sharing system established by the “Act Partially Amending the Income Tax Act” (Act No. 8, 2020) and differences under the non-consolidated taxation system reexamined together with transition to the group tax sharing system, the Company calculates the amounts of deferred tax assets and deferred tax liabilities based on the Income Tax Act before the revision, not applying the ASBJ Guidance No. 28, “Implementation Guidance on Tax Effect Accounting,” issued on February 16, 2018, as permitted by the Practical

Issues Task Force ("PITF") No. 39, "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System," issued on March 31, 2020.

The Company and certain domestic subsidiaries expect to apply the PITF No. 42, "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System," issued on August 12, 2021, which prescribes treatments of accounting and disclosure on the corporation tax and the local corporation tax as well as the tax effect accounting under the group tax sharing system, for annual periods beginning on or after April 1, 2022.

t. Per Share Information—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

u. New Accounting Pronouncements

Implementation Guidance on Accounting Standard for Fair Value Measurement—The implementation guidance prescribes the treatments of fair value measurement of investment trusts and the relevant disclosure as well as disclosure on the fair value of investments in partnerships for which an amount equivalent to a company's share is recognized on a net basis in its balance sheet.

The Company and its domestic subsidiaries expect to apply the revised implementation guidance for annual periods beginning on or after April 1, 2022, and are in the process of measuring the effects of applying the revised implementation guidance in future applicable periods.

Note 3. ACCOUNTING CHANGE

a. Accounting Standard for Revenue Recognition

The Company and its domestic subsidiaries started to apply the "Accounting Standard for Revenue Recognition" at the beginning of the year ended March 31, 2022, and recognize revenue in the amount expected to be received in exchange for a promised good or service when the Company and its domestic subsidiaries transfer control of the good or service to a customer.

The following are the main changes due to the application.

For Shinkenzemi, the correspondence course business in the Education Business in Japan, revenue was recognized in the month of course completion, and provision for answer correction fees was recognized in an amount required based on the historical submission rate to provide for future expenditures on answer correction fees. Under the standard, revenue from the provision of course materials is recognized when a customer confirms that course materials conform to agreed specifications, and revenue on answer correction and tutoring is recognized when the Group provides corrected answers to the customer.

For the mail-order business in the Kids & Family Business, revenue was recognized in the gross amount of consideration that was expected to be received from a customer. Under the standard, in a transaction where the Group is an agent in connection with the provision of goods to a customer, revenue is recognized in the net amount of consideration that the Group retains after paying a supplier the consideration received from the customer in exchange for goods provided by the supplier.

For book publication in the Kids & Family Business and the Education Business in Japan, provision for sales returns was recognized in the amount of expected loss based on the historical product return rate in a given time period for trade accounts receivable of the same business to provide for losses on publication returns. Under the standard, for merchandise or finished products expected to be returned, revenue is not recognized upon sale in accordance with the provisions on variable consideration, and refund liabilities are recognized in the amount of consideration received or receivable.

For the residential care services business in the Nursing Care and Childcare Business, portion of a payment from a nursing home resident was recognized as revenue in the month during which the resident starts to occupy the nursing home, and the rest of the payment was recognized as revenue over the contract term on a straight-line basis. Under the standard, payments from nursing home residents are recognized as revenue over the average occupancy term on a straight-line basis. As a result of this change, while "guarantee deposits received from nursing home residents" of ¥37,470 million, which was measured by using the previous method, is presented under long-term liabilities in the consolidated balance sheet as of March 31, 2021, contract liabilities measured by using the new method are presented as "advances received from nursing home residents" of ¥57,727 million ($473,172 thousand) in the consolidated balance sheet as of March 31, 2022.

The Company and its domestic subsidiaries recognized the cumulative effect of retrospectively applying the new accounting policies before the beginning of the year ended March 31, 2022, as an adjustment to the beginning balance of retained earnings in the year ended March 31, 2022, and have applied the new accounting policies thereafter in accordance with the transitional provision in the proviso of paragraph 84 of the standard.

As a result of the above, in the consolidated balance sheet as of March 31, 2022, in addition to the "advances received from nursing home residents" as stated above, "deferred tax assets" under investments and other assets and "advances received" under current liabilities increased by ¥4,595 million ($37,664 thousand) and ¥3,672 million ($30,098 thousand), respectively.

In the consolidated statement of income for the year ended March 31, 2022, "net sales" decreased by ¥1,172 million ($9,607 thousand), both "operating income" and "income before income taxes" increased by ¥1,461 million

($11,975 thousand), and “net income attributable to owners of the parent” increased by ¥1,053 million ($8,631 thousand).

Due to the adjustment to the beginning balance of equity in the year ended March 31, 2022, as stated above, the beginning balance of “retained earnings” in the consolidated statement of changes in equity decreased by ¥22,257 million ($182,434 thousand).

For information about the effect on net income per share, please see Note 24. NET INCOME PER SHARE.

The Company did not reclassify the amounts in the consolidated financial statements for the year ended March 31, 2021, to conform to the new presentation in accordance with the transitional provision in paragraph 89-2 of the standard. In addition, information about revenue recognition for the year ended March 31, 2021, is not disclosed in accordance with the transitional provision in paragraph 89-3 of the standard.

b. Accounting Standard for Fair Value Measurement

The Company and its domestic subsidiaries started to apply the ASBJ Statement No. 30, “Accounting Standard for Fair Value Measurement,” issued on July 4, 2019 (the “Standard” in this section) and the related standards and guidance at the beginning of the year ended March 31, 2022, and prospectively applied the new accounting policies prescribed by the Standard and the related standards and guidance as of the beginning of the year ended March 31, 2022, in accordance with paragraph 19 of the Standard and paragraph 44-2 of the ASBJ Statement No. 10, “Accounting Standard for Financial Instruments,” issued on July 4, 2019. As a result of the application, government and corporate bonds, which were carried at the prices obtained from financial institutions or at amortized cost, are carried at fair value measured maximizing the use of relevant observable inputs for the fair value to be best expressed.

Financial instruments categorized by fair value hierarchy and other information is disclosed in Note 6. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES. Information for the year ended March 31, 2021, however, is not disclosed in accordance with the transitional provision in paragraph 7-4 of the ASBJ Guidance No. 19, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments,” issued on July 4, 2019.

Note 4. SIGNIFICANT ACCOUNTING ESTIMATES

a. Valuation of Goodwill

(1) Amount recorded in the consolidated financial statements

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Goodwill	¥ 12,122	¥ 10,177	$ 99,361

(2) Information on the significant accounting estimates of identified item

The Group aims at proactively conducting M&A transactions after carefully selecting target companies in the business areas where the Group can leverage its strengths and recognize goodwill measured as the excess of the acquisition cost over the net of the amounts of the identifiable assets and the liabilities of the acquired company measured at fair value at the date of business combination as the acquired company’s excess earnings power in the future that is expected from its business activities.

Goodwill is attributed to any Group company from which operating results are separately reported for managerial purposes. At the end of each reporting period, each company assesses whether there is any indication that goodwill may be impaired after taking into consideration a rapid change in the business environment where its subsidiary acquired through a merger or acquisition operates. If there is an indication that goodwill may be impaired, an impairment loss is recognized when the aggregate amount of estimated undiscounted future cash flows of the asset group including goodwill is less than its carrying amount.

The undiscounted future cash flows are estimated based on the business plan approved by the management of each company, and such plan is developed on the basis of certain assumptions including the assumption of revenue forecast that is based on the market environment where the company operates (including the effect of the COVID-19 pandemic).

If any business plan is required to be revised in connection with the assumptions used in the estimate due to the deteriorating business environment caused by changes in customer and competitor trends and other factors, the Group may recognize an impairment loss in the year ending March 31, 2023.

In the year ended March 31, 2021, the Group identified an indication of an impairment loss of goodwill and other assets that arose from the share acquisition of EDUCOM Corporation. In the year ended March 31, 2022, however, the Group did not identify any indication of an impairment loss of such assets since operating results of EDUCOM showed stable growth.

b. Recoverability of deferred tax assets

(1) Amount recorded in the consolidated financial statements

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets	¥ 10,251	¥ 5,174	$ 84,025

(2) Information on the significant accounting estimates of identified item

The Group recognized deferred tax assets which were expected to be recoverable by using future taxable income that excludes tax deductions resulting from the reversal of deductible temporary differences based on future profitability and tax planning in accordance with the schedule for reversal of taxable/deductible temporary differences. Each Group company estimated future taxable income in periods during which deferred tax assets were determined to be recoverable based on the business plan approved by the management of the company taking into consideration the impact of business environment on the Group's operating results. As a result, deferred tax assets which were determined not to be recoverable in future were reversed as valuation allowance.

Future taxable income was estimated mainly based on assumptions including the cumulative total number of enrollment and an increase in sales efficiency for Shinkenzemi and Kodomo Challenge, major businesses of Benesse Corporation. For the residential care services business of Benesse Style Care Co., Ltd., future taxable income was estimated mainly based on assumptions including the number of nursing homes and elderly homes, which was premised on increasing needs for nursing care services due to the aging population.

If future taxable income is required to be revised in connection with the assumptions used in these estimates due to the deteriorating business environment caused by changes in customer and competitor trends and other factors, in the year ending March 31, 2023, the Company may further reverse deferred tax assets that are not expected to be recoverable.

Note 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Cash and deposits	¥ 125,787	¥ 151,013	$ 1,031,041
Marketable securities	18,996	5,951	155,705
Time deposits and short-term investments which mature or become due after more than three months of acquisition date	(30,539)	(12,920)	(250,319)
Investment trusts and other	(9)	(9)	(74)
Cash and cash equivalents	¥ 114,235	¥ 144,035	$ 936,353

Note 6. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group manages its surplus funds focusing on liquidity and safety according to how and when they are to be used during the year. Particularly, derivative transactions are utilized mainly to hedge various risks and efficiently manage funds. The Group considers derivative transactions with high leverage to be high-risk transactions and does not enter into such transactions. In addition, the Group has set overdraft limits in order to finance operating capital flexibly and stably in case of an unpredictable event.

(2) Nature and Extent of Risks Arising from Financial Instruments

Trade notes and accounts receivable and other receivables are exposed to counterparty credit risk. Monetary receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. The Group uses foreign exchange forward contracts in order to manage exposure to market risk from changes in foreign currency exchange rates of loans receivable in foreign currencies and dividend income from foreign subsidiaries, which are exposed to foreign exchange risk and counterparty credit risk. Marketable and investment securities mainly comprise commercial paper, equity securities, debt securities, investment partnerships and stock investment trusts. The Group holds equity securities, investment partnerships and stock investment trusts within certain limits. These are exposed to issuer credit risk, foreign exchange risk, interest rate risk and market price risk.

Trade notes and accounts payable, other payables and income taxes payable are due within one year. Long-term debt is primarily used for future business investments of the Company. Long-term debt with variable interest is exposed to interest rate risk. Lease obligations under finance leases are mainly used for capital investments.

(3) Risk Management for Financial Instruments

Credit risk management

The Group manages its credit risk from trade notes and accounts receivable and other receivables in accordance with the “Credit Management Regulations,” which include monitoring of counterparties, due dates, amounts and balances by type by the general manager of each department of the Group to identify and mitigate the default risk of counterparties at an early stage and monitoring of the credit standing of counterparties by the Finance Department on a regular basis.

The Finance Department manages issuer credit risk by regularly monitoring the rating information and the credit standing of issuers in accordance with the “Fund Management Regulations.” As for counterparty credit risk in derivatives, the Group regards that counterparty default risk is extremely low because the counterparties are limited to creditworthy financial institutions.

Market risk management

For fluctuation risks of foreign currency exchange rates, interest rates and market prices relating to marketable and investment securities, the Company’s Finance Department obtains and monitors the price information of marketable and investment securities from financial institutions on a steady basis for securities with market prices, and on a periodic basis for those without market prices. With respect to securities transactions, the Finance Department executes transactions in accordance with the “Fund Management Regulations,” which prescribe the authority and the limits, and monitors the status on a steady basis. The Finance Department reports the status to the Representative Director and Chairman, CEO, and the Representative Director and President, COO, on a weekly basis, and in the event of a significant change in the status, the Finance Department reports it to the Board of Directors.

Foreign exchange risk relating to monetary receivables in foreign currencies is hedged by foreign exchange forward contracts. In addition, long-term debt, except some, is at fixed interest rates to control the interest rate risk of long-term debt.

The derivatives the Company uses are foreign exchange forward contracts, and as to foreign exchange risk, the authority and the limits for each transaction are prescribed in the “Derivative Transaction Regulations,” and the Company’s Finance Department monitors unrealized gain/loss on foreign exchange forward contracts on a steady basis. The Finance Department reports it to the Representative Director and Chairman, CEO, and the Representative Director and President, COO, on a weekly basis, and to the Board of Directors on a quarterly basis and in the event of a significant change in the status.

Liquidity risk management
Liquidity risk includes the risk that the Group cannot meet its contractual obligations in full on their maturity dates. In order to manage liquidity risk, the Company’s Finance Department develops an annual financial plan based on reports from departments, monitors bank account activity on a daily basis, and prepares and updates a financial plan on a monthly basis. The Company’s subsidiaries manage their liquidity risk in the same way as the Company does.

(4) Fair Values of Financial Instruments
Since various assumptions and factors are reflected in estimating fair value, different assumptions and factors could result in different fair value.

(*a*) *Fair value of financial instruments*

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
March 31, 2022			
Marketable and investment securities:			
Available-for-sale securities	¥ 34,845	¥ 34,845	
Total	¥ 34,845	¥ 34,845	
Long-term debt	¥ 38,250	¥ 38,008	¥ (242)
Lease obligations	101,713	101,151	(562)
Total	¥ 139,963	¥ 139,159	¥ (804)
March 31, 2021			
Marketable and investment securities:			
Available-for-sale securities	¥ 11,424	¥ 11,424	
Total	¥ 11,424	¥ 11,424	
Long-term debt	¥ 38,506	¥ 38,381	¥ (125)
Lease obligations	98,756	101,096	2,340
Total	¥ 137,262	¥ 139,477	¥ 2,215
Derivatives	¥ (128)	¥ (128)	

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
March 31, 2022			
Marketable and investment securities:			
Available-for-sale securities	$ 285,615	$ 285,615	
Total	$ 285,615	$ 285,615	
Long-term debt	$ 313,524	$ 311,541	$ (1,983)
Lease obligations	833,713	829,107	(4,606)
Total	$ 1,147,237	$ 1,140,648	$ (6,589)

Notes:
1. Since “cash and deposits,” “trade notes and accounts receivable,” “other receivables,” “trade notes and accounts payable,” “other payables,” and “income taxes payable” are cash or settled in a short period of time, their carrying amount approximates fair value. Accordingly, information about these items is not disclosed.
2. The carrying amount and the fair value of long-term debt and lease obligations include the current portion of long-term debt and lease obligations.

(b) *Carrying amount of investments in equity instruments that do not have a quoted market price in an active market*

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Investments in equity instruments that do not have a quoted market price in an active market	¥ 1,156	¥ 6,821	$ 9,475
Investments in partnerships		2,196	
Investments in associated companies	2,262	2,179	18,541
Total	¥ 3,418	¥11,196	$ 28,016

Information about investments in partnerships and other similar entities as of March 31, 2022, for which an amount equivalent to the Group's share is recognized on a net basis in the consolidated balance sheet, is not disclosed. Such investments were carried at ¥2,252 million ($18,459 thousand) as of March 31, 2022.

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
March 31, 2022				
Deposits	¥ 125,408			
Trade notes and accounts receivable	25,621			
Other receivables	57,994			
Marketable and investment securities—				
Available-for-sale securities with fund investments and other:				
Government and corporate bonds	¥ 19,047	¥ 2,811	¥ 3,400	
Trust fund investments and other		1,064		
Total marketable and investment securities	¥ 19,047	¥ 3,875	¥ 3,400	
March 31, 2021				
Deposits	¥ 148,308			
Trade notes and accounts receivable	29,092			
Other receivables	57,183			
Marketable and investment securities—				
Available-for-sale securities with fund investments and other:				
Government and corporate bonds	¥ 2,990	¥ 735		¥ 100
Trust fund investments and other	3,000	1,037		
Total marketable and investment securities	¥ 5,990	¥ 1,772		¥ 100

	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
March 31, 2022				
Deposits	$ 1,027,934			
Trade notes and accounts receivable	210,008			
Other receivables	475,361			
Marketable and investment securities—				
Available-for-sale securities with fund investments and other:				
Government and corporate bonds	$ 156,123	$ 23,041	$ 27,869	
Trust fund investments and other		8,721		
Total marketable and investment securities	$ 156,123	$ 31,762	$ 27,869	

Please see Note 12. LONG-TERM DEBT for annual maturities of long-term debt and Note 10. LEASES for obligations under finance leases.

(6) Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

When using more than one input that is significant to fair value measurement, the Group categorizes the fair value on the basis of the lowest priority level input.

(a) Financial instruments measured at fair value in the consolidated balance sheet

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
March 31, 2022				
Marketable and investment securities—				
Available-for-sale securities:				
Equity securities	¥ 8,483			¥ 8,483
Government and corporate bonds		¥ 25,147		25,147
Total	¥ 8,483	¥ 25,147		¥ 33,630

	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
March 31, 2022				
Marketable and investment securities—				
Available-for-sale securities:				
Equity securities	$ 69,533			$ 69,533
Government and corporate bonds		$ 206,123		206,123
Total	$ 69,533	$ 206,123		$ 275,656

The above table does not include the fair value of investment trusts which were carried at ¥1,215 million ($ 9,959 thousand) at March 31, 2022.

(*b*) *Financial instruments not measured at fair value in the consolidated balance sheet*

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
March 31, 2022				
Long-term debt		¥ 38,008		¥ 38,008
Lease obligations		101,151		101,151
Total		¥ 139,159		¥ 139,159

	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
March 31, 2022				
Long-term debt		$ 311,541		$ 311,541
Lease obligations		829,107		829,107
Total		$1,140,648		$1,140,648

Note: Valuation techniques used to measure fair value and inputs used in fair value measurement
<u>Marketable and investment securities</u>
Listed equity securities and government and corporate bonds are estimated based on quoted market prices. Since listed equity securities are traded in active markets, the fair values are categorized within Level 1 Fair Values. Meanwhile, government and corporate bonds held by the Company are less frequently traded in markets, and their quoted prices are not accepted as those in active markets. Accordingly, their fair values are categorized within Level 2 Fair Values.
The fair values of bonds without quoted prices are estimated based on the prices obtained from financial institutions and are categorized within Level 2 Fair Values.

Long-term debt and Lease obligations
The fair values of these items are measured by the Discounted Cash Flow Method using the total of principal and interest, the remaining term of the obligation, and an interest rate for similar new transactions, and are categorized within Level 2 Fair Values.

Note 7. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Current:			
Government and corporate bonds	¥ 18,996	¥ 2,951	$ 155,705
Trust fund investments and other		3,000	
Total	¥ 18,996	¥ 5,951	$ 155,705
Non-current:			
Marketable equity securities	¥ 8,483	¥ 3,498	$ 69,533
Investments in equity instruments that do not have a quoted market price in an active market	1,156	6,821	9,475
Investments in partnerships	2,252	2,196	18,459
Government and corporate bonds	6,151	881	50,418
Trust fund investments and other	1,215	1,094	9,959
Total	¥ 19,257	¥ 14,490	$ 157,844

The costs and aggregate fair values of marketable and investment securities at March 31, 2022 and 2021, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2022				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 8,081	¥ 567	¥ (165)	¥ 8,483
Government and corporate bonds	25,157	95	(105)	25,147
Trust fund investments and other	1,154	62	(1)	1,215

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2021				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,456	¥ 1,048	¥ (6)	¥ 3,498
Government and corporate bonds	3,778	82	(28)	3,832
Trust fund investments and other	4,055	39		4,094

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2022				
Securities classified as:				
Available-for-sale:				
Equity securities	$ 66,238	$ 4,647	$ (1,352)	$ 69,533
Government and corporate bonds	206,205	779	(861)	206,123
Trust fund investments and other	9,459	508	(8)	9,959

The proceeds and realized gains and losses of the available-for-sale securities that were sold during the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Proceeds from sales	¥ 861	¥ 621	$ 7,057
Gross realized gains	¥ 230	¥ 323	$ 1,885
Gross realized losses	(6)		(49)
Net realized gain (loss)	¥ 224	¥ 323	$ 1,836

The impairment losses on available-for-sale equity securities for the years ended March 31, 2022 and 2021, were ¥47 million ($385 thousand) and ¥27 million, respectively.

Note 8. INVENTORIES

Inventories at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Finished products	¥ 29,260	¥ 26,066	$ 239,836
Work in process	3,445	3,592	28,238
Raw materials and supplies	1,994	1,876	16,344
Total	¥ 34,699	¥ 31,534	$ 284,418

Note 9. LONG-LIVED ASSETS

The Group reviewed their long-lived assets for impairment as of March 31, 2022 and 2021. As a result, the Group recognized impairment losses as follows:

Use	Type	Millions of Yen	Thousands of U.S. Dollars	Recoverable Amount
Year ended March 31, 2022				
Online English lesson business (for schools and cram schools)	Software	¥125	$1,024	Zero
Residential care services business	Buildings and leasehold improvements, lease assets, and others	40	328	Zero
Cram and prep school business	Buildings and leasehold improvements, software, and others	35	287	Zero
	Total	¥200	$1,639	
Year ended March 31, 2021				
Language education business	Technology-related assets—Other	¥283		Nil (The carrying amount was reduced to zero in accordance with U.S. GAAP.)
Business related to university entrance examinations	Software and others	127		Zero
English education business	Buildings and leasehold improvements, and others	91		Zero
Cram school business	Buildings and leasehold improvements, and others	14		Zero
Cram and prep school business	Buildings and leasehold improvements, and others	9		Zero
Residential care services business	Buildings and leasehold improvements, and others	6		Zero
	Total	¥530		

Note 10. LEASES

Lessee

The Company and a domestic subsidiary have lease contracts for certain land, buildings and other assets under noncancelable operating leases. The Group leases land, buildings and other assets and software under finance leases.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2022		2022	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 3,470	¥ 10,038	$ 28,443	$ 82,278
Due after one year	98,243	47,410	805,270	388,607
Total	¥ 101,713	¥ 57,448	$ 833,713	$ 470,885

Note 11. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Consolidation goodwill	¥ 11,059	¥ 9,865	$ 90,648
Goodwill associated with domestic consolidated subsidiaries	1,063	312	8,713
Others	2,808	2,943	23,016
Total	¥ 14,930	¥ 13,120	$ 122,377

Note 12. LONG-TERM DEBT

Long-term debt at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Bonds payable with interest rates ranging from 0.16% to 0.42% in 2022 and 2021			
Unsecured	¥ 10,025	¥ 10,032	$ 82,172
Loans from banks with interest rates ranging from 0.13% to 2.16% in 2022 and 2021:			
Collateralized		147	
Unsecured	28,225	28,327	231,352
Total	38,250	38,506	313,524
Less current portion	(5,075)	(249)	(41,598)
Long-term debt, less current portion	¥ 33,175	¥ 38,257	$ 271,926

Annual maturities of long-term debt, excluding finances leases (see Note 10), at March 31, 2022, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2023	¥ 5,075	$ 41,598
2024	5,067	41,533
2025	53	434
2026	5,042	41,328
2027	10,013	82,074
2028 and thereafter	13,000	106,557
Total	¥ 38,250	$ 313,524

Note 13. RETIREMENT AND PENSION PLANS

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from certain domestic subsidiaries and annuity payments from a welfare annuity fund. Employees are entitled to larger payments if the termination is involuntary or by retirement at the mandatory retirement age.

Liability for retirement benefits as of March 31, 2022 and 2021, excludes retirement benefits to directors, Audit & Supervisory Board members and company officers at certain domestic subsidiaries of ¥98 million ($803 thousand) and ¥84 million, respectively. Such retirement benefits are paid subject to the approval of the shareholders.

Defined benefit plans

(1) The changes in defined benefit obligation for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥ 22,968	¥ 23,424	$ 188,262
Current service cost	1,328	1,381	10,885
Interest cost	158	118	1,295
Actuarial gains	(354)	(817)	(2,902)
Benefits paid	(871)	(962)	(7,139)
Foreign currency translation difference for a foreign subsidiary	118	(182)	968
Decrease resulting from exclusion of subsidiaries from consolidation	(2,777)		(22,762)
Others	11	6	90
Balance at end of year	¥ 20,581	¥ 22,968	$ 168,697

(2) The changes in plan assets for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥ 19,758	¥ 18,642	$ 161,951
Expected return on plan assets	404	372	3,311
Actuarial gains	878	601	7,197
Contributions from the employer	726	698	5,951
Benefits paid	(430)	(569)	(3,525)
Others	13	14	107
Balance at end of year	¥ 21,349	¥ 19,758	$ 174,992

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Funded defined benefit obligation	¥ 14,722	¥ 14,725	$ 120,672
Plan assets	(21,349)	(19,758)	(174,992)
Total	(6,627)	(5,033)	(54,320)
Unfunded defined benefit obligation	5,859	8,243	48,025
Net (asset) liability arising from defined benefit obligation	¥ (768)	¥ 3,210	$ (6,295)

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Liability for retirement benefits	¥ 5,859	¥ 8,243	$ 48,025
Asset for retirement benefits	(6,627)	(5,033)	(54,320)
Net (asset) liability arising from defined benefit obligation	¥ (768)	¥ 3,210	$ (6,295)

Berlitz Corporation has a SERP for the benefit of its Chairman of the Board, certain designated executives and their designated beneficiaries. The above liability for retirement benefits as of March 31, 2021, includes

¥171 million for SERP, which is disclosed in other current liabilities in the consolidated balance sheet.

(4) The components of net periodic benefit costs for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Service cost	¥ 2,007	¥ 2,038	$ 16,451
Interest cost	158	118	1,295
Expected return on plan assets	(404)	(372)	(3,311)
Recognized actuarial (gains) losses	(278)	34	(2,279)
Amortization of prior service cost	38	38	311
Net periodic benefit costs	¥ 1,521	¥ 1,856	$ 12,467

Service cost includes ¥679 million ($5,566 thousand) and ¥657 million of estimated prepaid retirement payments for employees in accordance with the prepaid retirement allowance plan of Benesse Corporation for the years ended March 31, 2022 and 2021, respectively.

The Group also recognized additional retirement benefits to employees during the years ended March 31, 2022 and 2021. These payments are not included in net periodic benefit costs above but are included in loss on restructuring of business included in other—net (¥12 million ($98 thousand)) and restructuring expenses of a foreign consolidated subsidiary (¥831 million) for the years ended March 31, 2022 and 2021, respectively.

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Prior service cost	¥ 38	¥ 38	$ 311
Actuarial losses	1,999	1,452	16,386
Total	¥ 2,037	¥ 1,490	$ 16,697

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrecognized prior service cost	¥ (110)	¥ (148)	$ (902)
Unrecognized actuarial gains	3,602	1,603	29,525
Total	¥3,492	¥ 1,455	$ 28,623

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2022 and 2021, consisted of the following:

	2022	2021
Debt investments	28%	33%
Equity investments	11	11
General account	16	18
Cash and cash equivalents	9	4
Others	36	34
Total	100 %	100 %

b. *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2022 and 2021, were set forth as follows:

		2022	2021
Discount rate	The Company and domestic consolidated subsidiaries	Primarily 0.6%	Primarily 0.4%
	Foreign consolidated subsidiaries		Primarily 1.9%
Expected rate of return on plan assets	The Company and domestic consolidated subsidiaries	Primarily 2.0%	Primarily 2.0%
Expected rate of salary increases	The Company and domestic consolidated subsidiaries	Primarily 5.6%	Primarily 5.6%
	Foreign consolidated subsidiaries		Primarily 2.0%

Defined contribution plans

Certain subsidiaries had ¥309 million ($2,533 thousand) and ¥330 million in defined contribution retirement benefit costs for the years ended March 31, 2022 and 2021, respectively.

Note 14. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria, and accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

In connection with the issuance of shares under the restricted stock compensation plan, common stock and capital surplus each increased by ¥41 million ($336 thousand) and ¥40 million during the year ended March 31, 2022 and 2021, respectively.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2022, was approved at the Board of Directors held on May 12, 2022:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 ($0.20) per share	¥ 2,410	$ 19,754

Note 15. SEGMENT INFORMATION

Under ASBJ Statement No. 17, “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information,” and ASBJ Guidance No. 20, “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information,” an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group’s reportable segments are those for which separate financial information is available and regular evaluation by the Company’s Board of Directors is being performed in order to decide how resources are allocated among the Group and to assess operating results.

The Group was made up of segments grouped by product and/or service based on four businesses and designated the Education in Japan, the Kids & Family, the Nursing Care and Childcare, and the Berlitz as its reportable segments. The Berlitz Business, however, was excluded from the reportable segments as of the beginning of the three-month period ended March 31, 2022, since the Company, transferred all of its shares in Berlitz Corporation, which had been a consolidated subsidiary of the company and had constituted the Berlitz Business, on February 14, 2022. Accordingly, the Group makes resource investments mostly in the three businesses of the Education in Japan, the Kids & Family, and the Nursing Care and Childcare to achieve sustainable growth of the Group as a whole.

In the Education Business in Japan, the Group engages in the correspondence course business targeting primary school students to high school students, the school and teacher support business, the prep school and classroom education business, and other businesses.

In the Kids & Family Business, the Group engages in the correspondence course business in Japan, China, Taiwan and Indonesia, targeting mainly infants, the mail-order business, book publication, and other businesses. During the year ended March 31, 2022, the Company made a decision that it would wind down the correspondence course business targeting infants in Indonesia.

In the Nursing Care and Childcare Business, the Group engages in the residential care services business (operation of nursing homes and elderly homes) and the home care attendant services business, offers training courses for nursing care personnel, and engages in recruitment and temporary staffing of nurses and caregivers, the preschool and afterschool childcare operations business, and other businesses.

In the Berlitz business, the Group engaged in the language education business and the ELS business.

(Matters regarding Changes in Reportable Segments)

At the beginning of the year ended March 31, 2022, the Group changed its organizational structure to achieve its new medium-term management plan. Accordingly, the name of the Global Kodomo Challenge Business was changed to the Kids & Family Business, the kids & family business and the worldwide kids business of Benesse Corporation were changed from Others to the Kids & Family Business and from the Education Business in Japan to the Kids & Family Business, respectively.

Moreover, segment information for the year ended March 31, 2021, has been restated based on the new classification after these changes.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. Segment profit corresponds to operating income. Intersegment sales and transfers are recorded based on the prices used in transactions with third parties.

As stated in Note 3. ACCOUNTING CHANGE, the Company and its domestic subsidiaries started to apply the "Accounting Standard for Revenue Recognition" and the related guidance at the beginning of the year ended March 31, 2022, and changed their accounting treatments for revenue recognition. Accordingly, the methods of measurement for the amounts of segment profit (loss) were changed in the same manner.

The following table presents the effects of the change on reportable segments in the year ended March 31, 2022.

	Millions of Yen								
	2022								
	Reportable Segment								
	Education Business in Japan	Kids & Family Business	Nursing Care and Childcare Business	Reportable Segment Total	Others	Total	Corporate	Reconcili-ations	Consoli-dated
Increase (decrease) in sales	¥ 420	¥ (2,254)	¥ 663	¥ (1,171)	¥ (764)	¥ (1,935)		¥ 763	¥ (1,172)
Increase (decrease) in segment profit	756	41	663	1,460	(10)	1,450		11	1,461
Increase (decrease) in segment assets	756	15	4,180	4,951	15	4,966	¥ (60)	(13)	4,893

	Thousands of U.S. Dollars								
	2022								
	Reportable Segment								
	Education Business in Japan	Kids & Family Business	Nursing Care and Childcare Business	Reportable Segment Total	Others	Total	Corporate	Reconcili-ations	Consoli-dated
Increase (decrease) in sales	$ 3,443	$ (18,475)	$ 5,434	$ (9,598)	$ (6,263)	$ (15,861)		$ 6,254	$ (9,607)
Increase (decrease) in segment profit	6,197	336	5,434	11,967	(82)	11,885		90	11,975
Increase (decrease) in segment assets	6,197	123	34,262	40,582	123	40,705	$ (492)	(106)	40,107

(3) Information about Sales, Profit (Loss), Assets and Other Items

	Millions of Yen								
	2022								
	Reportable Segment								
	Education Business in Japan s	Kids & Family Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total	Reconcili-ations	Consoli-dated
Sales:									
Sales to external customers	¥ 212,129	¥ 71,238	¥ 127,397	¥ 20,074	¥ 430,838	¥ 1,106	¥ 431,944		¥ 431,944
Intersegment sales or transfers	33	39	0	509	581	16,902	17,483	¥ (17,483)	
Total	¥ 212,162	¥ 71,277	¥ 127,397	¥ 20,583	¥ 431,419	¥ 18,008	¥ 449,427	¥ (17,483)	¥ 431,944
Segment profit (loss)	¥ 19,086	¥ 1,719	¥ 8,013	¥ (2,799)	¥ 26,019	¥ (8)	¥ 26,011	¥ (5,844)	¥ 20,167
Segment assets	202,947	66,618	199,858		469,423	10,109	479,532	61,067	540,599
Other items:									
Increase in property and equipment and intangible assets	8,672	4,583	9,212	535	23,002	522	23,524	39	23,563
Depreciation	8,664	2,157	5,797	640	17,258	318	17,576	(28)	17,548
Amortization of goodwill	823	10	469		1,302		1,302		1,302
Loss on impairment of long-lived assets	160	6	40		206		206		206
Goodwill at March 31, 2022	6,331	785	5,006		12,122		12,122		12,122
Investments in equity method entities	136	452			588	1,774	2,362		2,362

	Millions of Yen								
	2021								
	Reportable Segment								
	Education Business in Japan	Kids & Family Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total	Reconcili-ations	Consoli-dated
Sales:									
Sales to external customers	¥ 204,403	¥ 71,857	¥ 123,808	¥ 26,401	¥ 426,469	¥ 1,063	¥ 427,532		¥ 427,532
Intersegment sales or transfers	43	49	44	625	761	18,903	19,664	¥ (19,664)	
Total	¥ 204,446	¥ 71,906	¥ 123,852	¥ 27,026	¥ 427,230	¥ 19,966	¥ 447,196	¥ (19,664)	¥ 427,532
Segment profit (loss)	¥ 11,918	¥ 2,002	¥ 10,394	¥ (6,715)	¥ 17,599	¥ 79	¥ 17,678	¥ (4,588)	¥ 13,090
Segment assets	197,472	59,089	192,063	19,730	468,354	10,388	478,742	63,240	541,982
Other items:									
Increase in property and equipment and intangible assets	12,500	1,853	13,864	820	29,037	190	29,227	17	29,244
Depreciation	8,598	1,940	5,373	1,110	17,021	360	17,381	(52)	17,329
Amortization of goodwill	1,220		337		1,557		1,557		1,557
Loss on impairment of long-lived assets	241		6	283	530		530		530
Goodwill at March 31, 2021	7,161		3,016		10,177		10,177		10,177
Investments in equity method entities	131	534			665	1,594	2,259		2,259

	Thousands of U.S. Dollars								
	2022								
	Reportable Segment								
	Education Business in Japan	Kids & Family Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total	Reconcili-ations	Consoli-dated
Sales:									
Sales to external customers	$ 1,738,762	$ 583,918	$ 1,044,238	$ 164,541	$ 3,531,459	$ 9,066	$ 3,540,525		$ 3,540,525
Intersegment sales or transfers	270	320	0	4,172	4,762	138,541	143,303	$ (143,303)	
Total	$ 1,739,032	$ 584,238	$ 1,044,238	$ 168,713	$ 3,536,221	$ 147,607	$ 3,683,828	$ (143,303)	$ 3,540,525
Segment profit (loss)	$ 156,443	$ 14,090	$ 65,680	$ (22,943)	$ 213,270	$ (65)	$ 213,205	$ (47,902)	$ 165,303
Segment assets	1,663,500	546,049	1,638,180		3,847,729	82,861	3,930,590	500,549	4,431,139
Other items:									
Increase in property and equipment and intangible assets	71,082	37,566	75,508	4,385	188,541	4,279	192,820	319	193,139
Depreciation	71,017	17,680	47,516	5,246	141,459	2,607	144,066	(230)	143,836
Amortization of goodwill	6,746	82	3,844		10,672		10,672		10,672
Loss on impairment of long-lived assets	1,311	49	328		1,688		1,688		1,688
Goodwill at March 31, 2022	51,894	6,434	41,033		99,361		99,361		99,361
Investments in equity method entities	1,115	3,705			4,820	14,541	19,361		19,361

Note: The details of reconciliations were as follows:

Sales	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars 2022
Intersegment eliminations	¥ (17,483)	¥ (19,664)	$ (143,303)
Total	¥ (17,483)	¥ (19,664)	$ (143,303)

Profit (Loss)	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars 2022
Intersegment eliminations	¥ (35)	¥ 303	$ (287)
Corporate expenses	(5,809)	(4,891)	(47,615)
Total	¥ (5,844)	¥ (4,588)	$ (47,902)

Note: Corporate expenses are mainly expenses of the Company that are not attributable to the reportable segments.

Assets	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars 2022
Intersegment eliminations	¥ (22,537)	¥(133,555)	$ (184,730)
Corporate assets	83,604	196,795	685,279
Total	¥ 61,067	¥ 63,240	$ 500,549

Note: Corporate assets consist mainly of marketable securities of the Company that are not attributable to the reportable segments.

Increase in Property and Equipment and Intangible Assets	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars 2022
Intersegment eliminations	¥ (298)	¥ (330)	$ (2,443)
Capital investments by the Company not attributable to reportable segments	337	347	2,762
Total	¥ 39	¥ 17	$ 319

Depreciation	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars 2022
Intersegment eliminations	¥ (332)	¥ (291)	$ (2,721)
Depreciation by the Company not attributable to reportable segments	304	239	2,491
Total	¥ (28)	¥ (52)	$ (230)

(4) Information about Geographical Areas

Sales

Millions of Yen		
2022		
Japan	Others	Total
¥ 384,506	¥ 47,438	¥ 431,944

Millions of Yen		
2021		
Japan	Others	Total
¥ 377,453	¥ 50,079	¥ 427,532

Thousands of U.S. Dollars		
2022		
Japan	Others	Total
$ 3,151,689	$ 388,836	$ 3,540,525

Note: Sales are classified by country or region based on the location of customers.

Note 16. REVENUE RECOGNITION

(1) Disaggregated revenue from contracts with customers

	Millions of Yen						
	2022						
	Reportable Segment						
	Education Business in Japan	Kids & Family Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total
Correspondence course business	¥ 102,477	¥ 52,151			¥ 154,628		¥ 154,628
School and teacher support business	56,726				56,726		56,726
Prep school and classroom education business	45,615				45,615		45,615
Mail-order business		4,176			4,176		4,176
Residential care services business			¥ 109,455		109,455		109,455
Language education business				¥ 18,757	18,757		18,757
ELS business				1,317	1,317		1,317
Others	7,311	14,911	17,942		40,164	¥ 1,106	41,270
Revenue from contracts with customers	¥ 212,129	¥ 71,238	¥ 127,397	¥ 20,074	¥ 430,838	¥ 1,106	¥ 431,944

	Thousands of U.S. Dollars						
	2022						
	Reportable Segment						
	Education Business in Japan	Kids & Family Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total
Correspondence course business	$ 839,976	$ 427,467			$ 1,267,443		$ 1,267,443
School and teacher support business	464,967				464,967		464,967
Prep school and classroom education business	373,893				373,893		373,893
Mail-order business		34,230			34,230		34,230
Residential care services business			$ 897,172		897,172		897,172
Language education business				$ 153,746	153,746		153,746
ELS business				10,795	10,795		10,795
Others	59,926	122,221	147,066		329,213	$ 9,066	338,279
Revenue from contracts with customers	$1,738,762	$ 583,918	$1,044,238	$ 164,541	$ 3,531,459	$ 9,066	$ 3,540,525

On February 14, 2022, the Company transferred all of its shares in Berlitz Corporation, which had constituted the

Berlitz Business. Accordingly, Berlitz's revenue up to the end of the third quarter was included in the consolidated statement of income for the year ended March 31, 2022.

(2) Basic information to understand revenues from contracts with customers

Information to enable users to understand revenue from contracts with customers is as stated in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, r. Basis for recognizing revenue and expenses.

(3) Relationship between the satisfaction of performance obligations in contracts with customers and cash flows arising from the contracts as well as the amount and timing of revenue expected to be recognized in future periods from existing contracts with customers at March 31, 2022

(a) Contract balances

The following table presents the balances of receivables from contracts with customers and contract liabilities.

	Millions of Yen		Thousands of U.S. Dollars	
	2022		2022	
	Receivables from Contracts with Customers	Contract Liabilities	Receivables from Contracts with Customers	Contract Liabilities
Balance at beginning of year	¥ 29,356	¥ 172,095	$ 240,623	$ 1,410,615
Balance at end of year	25,634	166,995	210,115	1,368,811

Receivables from contracts with customers and contract liabilities are included in trade notes and accounts receivable and receivables due from associated companies, and advances received and advances received from nursing home residents, respectively, in the consolidated balance sheet. Contract liabilities are mainly associated with contracts for which the Group receives consideration from customers in advance and recognize revenue over time.

Revenue recognized for the year ended March 31, 2022, that was included in the balance of contract liabilities at the beginning of the year ended March 31, 2022, was ¥108,098 million ($886,049 thousand). Revenue recognized for the year ended March 31, 2022, from performance obligations satisfied (or partially satisfied) in previous periods was ¥2,756 million ($22,590 thousand).

(b) Transaction prices allocated to remaining performance obligations

The aggregate amount of the transaction price allocated to the remaining performance obligations as of March 31, 2022, was ¥166,995 million ($1,368,811 thousand). Such remaining performance obligations were mainly associated with Shinkenzemi and Kodomo Challenge in the correspondence course business and the residential care services business in the nursing care and childcare business.

The transaction price allocated to the remaining performance obligations associated with Shinkenzemi and Kodomo Challenge was ¥86,073 million ($705,516 thousand). Approximately 90% of the remaining performance obligations is expected to be satisfied within one year, and the rest within a maximum of three years. The transaction price allocated to the remaining performance obligations associated with the residential care services business was ¥57,727 million ($473,172 thousand). Approximately 70% of the remaining performance obligations is expected to be satisfied within three years, and the rest within a maximum of six years.

Note 17. ADVERTISING COSTS

Advertising costs charged to income were ¥33,445 million ($274,139 thousand) and ¥33,212 million for the years ended March 31, 2022 and 2021, respectively.

Note 18. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,280 million ($10,492 thousand) and ¥1,610 million for the years ended March 31, 2022 and 2021, respectively.

Note 19. DERIVATIVES

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
	2021			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts—				
Selling—U.S. dollars	¥12,348		¥(128)	¥(128)

Note 20. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2022 and 2021.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2022 and 2021, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets:			
Tax loss carryforwards	¥ 22,462	¥ 8,268	$ 184,115
Depreciation	6,368	5,689	52,197
Advances received from nursing home residents	4,127		33,828
Provision for employees' bonuses	2,451	2,465	20,090
Liability for retirement benefits	1,967	1,810	16,123
Trade accounts receivable	1,059	356	8,680
Long-term other payables	776	822	6,361
Leasehold and guarantee deposits	636	588	5,213
Loss on impairment of long-lived assets	609	628	4,992
Other payables	557	614	4,565
Deferred consumption taxes	522	522	4,279
Social insurance premium	369	375	3,024
Enterprise tax	319	291	2,615
Inventories	288	360	2,361
Unrealized profit on fixed assets	253	268	2,074
Loss on valuation of investment securities	142	699	1,164
Advances received	142	255	1,164
Prepaid expenses	81	299	664
Accrued expenses		1,933	
Foreign tax credit carryforwards		600	
Deferred revenue		331	
Others	943	767	7,729
Total of tax loss carryforwards and temporary differences	44,071	27,940	361,238
Less valuation allowance for tax loss carryforwards	(20,854)	(7,598)	(170,934)
Less valuation allowance for temporary differences	(9,049)	(11,615)	(74,172)
Total valuation allowance	(29,903)	(19,213)	(245,106)
Total	14,168	8,727	116,132
Offset with deferred tax liabilities	3,917	3,553	32,107
Net deferred tax assets	¥ 10,251	¥ 5,174	$ 84,025
Deferred tax liabilities:			
Asset for retirement benefits	¥ 2,051	¥ 1,517	$ 16,812
Intangible assets	810	859	6,639
Undistributed earnings of foreign subsidiaries and associated companies	787	666	6,451
Unrealized gain on available-for-sale securities	275	509	2,254
Inventories	144	258	1,180
Other	446	425	3,656
Total	4,513	4,234	36,992
Offset with deferred tax assets	3,917	3,553	32,107
Net deferred tax liabilities	¥ 596	¥ 681	$ 4,885

Valuation allowance increased by ¥10,690 million ($87,623 thousand) primarily due to an increase in valuation allowance for tax loss carryforwards of the Company.

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2022 and 2021, were as follows:

	Millions of Yen						
March 31, 2022	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 50	¥ 911	¥ 137	¥ 668	¥ 217	¥ 20,479	¥ 22,462
Less valuation allowances for tax loss carryforwards	45	900	117	130	208	19,454	20,854
Net deferred tax assets relating to tax loss carryforwards	5	11	20	538	9	1,025	1,608

	Millions of Yen						
March 31, 2021	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥146	¥ 64	¥942	¥ 275	¥ 966	¥ 5,875	¥ 8,268
Less valuation allowances for tax loss carryforwards	141	64	941	257	500	5,695	7,598
Net deferred tax assets relating to tax loss carryforwards	5		1	18	466	180	670

	Thousands of U.S. Dollars						
March 31, 2022	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	$ 410	$ 7,467	$1,123	$ 5,475	$ 1,779	$167,861	$ 184,115
Less valuation allowances for tax loss carryforwards	369	7,377	959	1,065	1,705	159,459	170,934
Net deferred tax assets relating to tax loss carryforwards	41	90	164	4,410	74	8,402	13,181

For the tax loss carryforwards of ¥22,462 million ($184,115 thousand) and ¥8,268 million (amount multiplied by effective statutory tax rate), deferred tax assets of ¥1,608 million ($13,181 thousand) and ¥670 million were recognized as of March 31, 2022 and 2021, respectively. Net deferred tax assets relating to tax loss carryforwards were determined to be recoverable as future taxable income was anticipated, and therefore, valuation allowance was not recognized.

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2022 and 2021, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2022	2021
Normal effective statutory tax rate	30.6%	30.6 %
Change in valuation allowance	155.7	(5.5)
Expenses not deductible for income tax purposes	14.6	12.9
Per capita inhabitants tax	8.3	7.2
Amortization of goodwill	6.7	7.1
Foreign withholdings tax	3.3	4.1
Difference from burden of income taxes of foreign consolidated subsidiaries	3.2	10.0
Undistributed earnings of associated companies	2.1	(1.3)
Equity in net earnings of associated companies	(0.6)	(0.6)
Income not taxable for income tax purposes	(3.5)	(3.4)
Adjustment of loss on sale of investments in a consolidated subsidiary	(62.6)	
Adjustment of bad debt expenses	(95.9)	
Foreign tax credit		(2.1)
Income taxes—refund		(17.5)
Others	2.2	(0.4)
Actual effective tax rate	64.1%	41.1 %

Note 21. STOCK OPTION PLAN

The stock options outstanding as of March 31, 2022, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2015 Stock Option	3 directors 17 selected employees	1,477 1,873	August 3, 2015	¥ 3,513	From August 4, 2017 to August 3, 2022
2016 Stock Option	3 directors	975	September 12, 2016	¥ 2,639	From September 13, 2018 to September 12, 2023

The stock option activity is as follows:

	2015 Stock Option	2016 Stock Option
	(Number of Stock Options)	
Year Ended March 31, 2022		
Non-vested		
March 31, 2021—Outstanding		
Granted		
Canceled		
Vested		
March 31, 2022—Outstanding		
Vested		
March 31, 2021—Outstanding	2,079	975
Vested		
Exercised		
Canceled		
March 31, 2022—Outstanding	2,079	975
Exercise price	¥3,513 ($29)	¥2,639 ($22)
Average stock price at exercise		
Fair value price at grant date	¥377 ($3)	¥277 ($2)

Note 22. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (566)	¥ 1,401	$ (4,640)
Reclassification adjustments to profit or loss	(443)	(508)	(3,631)
Amount before income tax effect	(1,009)	893	(8,271)
Income tax effect	248	(207)	2,033
Total	¥ (761)	¥ 686	$ (6,238)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 182	¥ 176	$ 1,491
Reclassification adjustments to profit or loss	5,859	428	48,025
Amount before income tax effect	6,041	604	49,516
Income tax effect	13	(13)	107
Total	¥ 6,054	¥ 591	$ 49,623
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 1,317	¥ 1,425	$ 10,795
Reclassification adjustments to profit or loss	720	65	5,902
Amount before income tax effect	2,037	1,490	16,697
Income tax effect	(633)	(447)	(5,189)
Total	¥ 1,404	¥ 1,043	$ 11,508
Share of other comprehensive income in associates:			
Gains arising during the year	¥ 37	¥ 28	$ 304
Reclassification adjustments to profit or loss	(8)	(5)	(66)
Amount before income tax effect	29	23	238
Income tax effect	(5)	(8)	(41)
Total	¥ 24	¥ 15	$ 197
Total other comprehensive income	¥ 6,721	¥ 2,335	$ 55,090

Note 23. BUSINESS COMBINATIONS

a. *Business Combination by Acquisition*

On June 1, 2021, the Company acquired all issued shares of Heart Medical Care Co., Ltd. (head office: Chiyoda-ku, Tokyo). As a result, Heart Medical Care and its two subsidiaries became consolidated subsidiaries of the Company.

(1) Outline of the business combination

(a) Name of the acquired company and its business outline

Name of the acquired company: Heart Medical Care Co., Ltd.

Business outline: Recruitment and temporary staffing in the medical, nursing care, and welfare fields and related businesses

(b) Major reason for the business combination

Heart Medical Care operates “Heart Page,” one of the largest directory of nursing care service providers, “Kaigo Kyujin Navi,” a recruitment and outplacement website for nursing care, medical and welfare facilities with the industry’s leading number of job postings, “Oasis Navi,” a search site for private nursing homes and care homes, and “Nurse Agent,” a recruitment site for nurses. Heart Medical Care also provides temporary placement services for caregivers and nurses, and rental services for nursing care equipment.

In November 2020, the Company announced a medium-term management plan titled “Evolve Core Businesses and Expand into New Fields.” Under the plan, the Company positions expansion of its recruitment business in the nursing care field as one of its important growth strategies in the nursing care business. By making Heart Medical Care a consolidated subsidiary, the Group will increase the speed of its expansion in the nursing care field. As a leader in the field, the Group will play an even greater role in addressing the social issue of supporting seniors to live by their own values.

(c) Date of business combination
June 30, 2021 (deemed date of acquisition)

(d) Legal form of business combination
Share acquisition in exchange for cash

(e) Name of the company after the combination
No change

(f) Ratio of voting rights acquired
100%

(g) Basis for determining the acquirer
The Company acquired 100% of voting rights of Heart Medical Care by cash.

(2) The period for which the operations of the acquired company are included in the consolidated financial statements
Nine months from July 1, 2021 to March 31, 2022

(3) Acquisition cost of the acquired company and related details of each class of consideration

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition—Cash	¥ 4,250	$ 34,837
Acquisition cost	¥ 4,250	$ 34,837

(4) Major acquisition-related costs

	Millions of Yen	Thousands of U.S. Dollars
Advisory fees and others	¥ 44	$ 361

(5) Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization
(a) Amount of goodwill incurred
¥2,458 million ($20,148 thousand)

(b) Reasons for the goodwill incurred
Goodwill is mainly incurred from expected excess earnings power in the future arising from future business development.

(c) Method and period of amortization
Goodwill is amortized on a straight-line basis over 14 years.

(6) The assets acquired and the liabilities assumed at the date of business combination are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 1,945	$ 15,943
Long-term assets	288	2,361
Total assets	¥ 2,233	$ 18,304
Current liabilities	¥ (410)	$ (3,361)
Long-term liabilities	(31)	(254)
Total liabilities	¥ (441)	$ (3,615)

(7) Pro forma information (unaudited)

If this business combination had been completed as of April 1, 2021, the beginning of the year ended March 31, 2022, the effects on the consolidated statement of income for the year ended March 31, 2022, would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥ 908	$ 7,443
Operating income	41	336

Outline of the method of calculation for the effects above:
The Company determined the differences between net sales and profit and loss information that were estimated as though the business combination had been completed as of the beginning of the year ended March 31, 2022, and net sales and profit and loss information on the Company's consolidated statement of income as the estimated amounts of effects. In addition, such differences include the amount equivalent to goodwill amortization during the period from the beginning of the year ended March 31, 2022, to the date of the business combination.

The Company did not receive an audit certificate on the estimated amounts.

b. Business Divestiture

On February 14, 2022, the Company transferred all of its shares in Berlitz Corporation ("Berlitz"), its consolidated subsidiary, to Berlitz Holdings, Inc., which is a special purpose company owned by ILSC Holdings LP ("ILSC").

(1) Outline of the business divestiture

(a) Name of the acquirer
Berlitz Holdings, Inc. ("ILSC SPC")

(b) Divested business
Berlitz engages in the language education business and the ELS business.

(c) Major reason for the business divestiture
Berlitz was founded in 1878 and became a consolidated subsidiary of the Company in 1993 when it was considered the world's largest language education enterprise. Berlitz became a wholly owned subsidiary of the Company in 2001. Through the implementation of its unique language learning method, the "Berlitz Method," it has operated a communications business centered on language education and has expanded its business model that contributes to the developmental growth and globalization of individuals and businesses around the world. In addition, ELS Language Centers, which is affiliated with Berlitz, is the largest college-prep English language school in the United States and has supported a multitude of international students with their English language studies. ELS worked to grow its business by cooperating with the Benesse Group's ELS business. In order to remain competitive despite the rise of technologically savvy competitors and the difficulties presented by the COVID-19 pandemic, Berlitz enhanced its business management frameworks, introduced new online education courses, bolstered its digital marketing capabilities, and implemented other business reforms to strengthen its business position.

In November 2020, the Company formulated a medium-term management plan for fiscal years 2021 to 2025. While the Company will continue to be engaged in the pursuit of sustainable growth via initiatives of evolving our core businesses of education and nursing care, and expanding into new fields, which focuses on exploring new areas of growth potential, the Company is also continuing a policy of engaging in business selection and concentration.

After deliberating on the role of Berlitz in the business portfolio of the Benesse Group, and after conducting negotiations with multiple candidates, the Company reached the conclusion that synergies exist between Berlitz and ILSC and accelerating Berlitz's growth with ILSC's support would bring Berlitz's further development. As such, the Company transferred all of its shares in Berlitz to ILSC SPC.

(d) Date of business divestiture
February 14, 2022
The operating results of Berlitz up to the end of the third quarter are included in the consolidated financial statements for the year ended March 31, 2022.

(e) Other items of the transaction (including the legal form)

Legal form of business divestiture:	Share transfer only in exchange for assets such as cash
Other items of the transaction:	In an effort to improve the financial position of Berlitz, and as agreed with ILSC per the terms of the share transfer, the Company waived its outstanding loan and loan interest receivables in respect to Berlitz. There were no effects on the consolidated financial statements since bad debt expenses due to the debt waiver were

	eliminated in consolidation procedures.
Number of shares transferred:	9,546,536 shares (100% ownership interest)

(2) Outline of accounting treatment applied

(a) Amount of loss on the share transfer

	Millions of Yen	Thousands of U.S. Dollars
Loss on sale of investments in a consolidated subsidiary	¥ 9,570	$ 78,443

(b) Appropriate carrying amounts of assets and liabilities related to the transferred business and their major components

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 13,782	$ 112,967
Long-term assets	6,950	56,967
Total assets	¥ 20,732	$ 169,934
Current liabilities	¥ (12,507)	$ (102,516)
Long-term liabilities	(5,016)	(41,115)
Total liabilities	¥ (17,523)	$ (143,631)

(c) Accounting treatment

The difference between the carrying amount of the transferred shares in the consolidated balance sheet and its selling price was recognized as "loss on sale of investments in a consolidated subsidiary" under other expenses.

(3) Name of reportable segment that included the divested business

Berlitz Business

(4) Amounts of net sales and operating loss on the divested business included in the consolidated statement of income for the year ended March 31, 2022

	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥20,074	$164,541
Operating loss	3,265	26,762

c. Transaction under Common Control and Others

On March 31, 2022, the Company acquired shares of Classi Corp. (head office: Shinjuku-ku, Tokyo), a consolidated subsidiary of the Company, through a third-party allotment.

(1) Outline of the transaction

(a) Name of the constituent company and its business outline

Name of the constituent company:	Classi Corp.
Business outline:	Development and operation of educational platform

(b) Date of business combination

March 31, 2022

(c) Legal form of business combination

Acquisition of shares of the constituent company through a third-party allotment

(d) Name of the company after the combination

No change

(e) Outline and purpose of the transaction

The Company regarded Classi as a key component of the Benesse Group's digital strategy for schools. Accordingly, for the purpose of strengthening the relationship with Classi, the Company acquired the shares of Classi through the third-party allotment.

The percentage of ownership interest after the capital increase is 67.3% (50.0% before the capital increase).

(2) Overview of accounting treatment applied
The share acquisition was accounted for as a transaction with noncontrolling interests under the classification of transactions under common control in accordance with the "Accounting Standard for Business Combinations" and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(3) Matters related to the acquisition of additional shares of the consolidated subsidiary
Acquisition cost of the acquired company and related details of each class of consideration

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition—Cash	¥ 6,290	$ 51,557
Acquisition cost	¥ 6,290	$ 51,557

(4) Change in the Company's ownership interest due to the acquisition of additional shares of the consolidated subsidiary
(a) Cause for change in capital surplus
Acquisition of additional shares of the consolidated subsidiary

(b) Decrease in capital surplus due to the acquisition of additional shares of the consolidated subsidiary
¥1,305 million ($10,697 thousand)

Note 24. NET INCOME PER SHARE

The following table presents the bases for calculating basic net income per share ("EPS") for the years ended March 31, 2022 and 2021. Diluted EPS for the years ended March 31, 2022 and 2021, is not disclosed because there were no potentially dilutive shares outstanding. As stated in Note 3. ACCOUNTING CHANGE, the Company and its domestic subsidiaries started to apply the "Accounting Standard for Revenue Recognition" at the beginning of the year ended March 31, 2022. As a result of the application, basic EPS for the year ended March 31, 2022, increased by ¥10.92 ($0.09).

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Year Ended March 31, 2022				
Basic EPS—Net income available to common shareholders	¥ 1,064	96,401	¥ 11.04	$ 0.09
Year Ended March 31, 2021				
Basic EPS—Net income available to common shareholders	¥ 3,123	96,374	¥ 32.40	

Independent Auditor's Report

To the Board of Directors of Benesse Holdings, Inc.:

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Benesse Holdings, Inc.:

Opinion

We have audited the consolidated financial statements of Benesse Holdings, Inc. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Transactions for transfer of Berlitz Corporation shares	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As described in Note 23.b. "Business Divestiture," on February 14, 2022, Benesse Holdings, Inc. (the "Company") waived its outstanding loan and loan interest receivables in respect to Berlitz Corporation ("Berlitz"), its consolidated subsidiary, and transferred all of its shares in Berlitz to Berlitz Holdings, Inc., which is a special purpose company owned by ILSC Holdings LP. As a result, the Group recorded loss on sale of investments in a consolidated subsidiary amounting to 9,570 million yen in the consolidated statement of income for the year ended March 31, 2022, and income before income taxes was 5,721 million yen. The transactions for the transfer of Berlitz shares were accounted for in accordance with Accounting Practice Committee Statement No. 7 "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" and Accounting Standards Board of Japan ("ASBJ") Statement No. 7 "Accounting Standard for Business Divestitures" and so on. The determination of the loss on sale of investments in a consolidated subsidiary considered the adjusted investment amount including retained earnings after acquisition, which was recorded in the consolidated financial statements until the date on which the Company lost its control. Regarding the appropriate carrying amount of the assets and liabilities of transferred business, as the business divestiture was executed on a date that was not Berlitz's financial closing date, it was treated as a transfer of shares that took place on the last day of the third quarter of the consolidated accounting period. As the difference between the subsidiary's closing date and the consolidated closing date does not exceed three months, any material transactions that arose in the period between the subsidiary's closing date and the consolidated closing date were adjusted for the consolidation as needed. Furthermore, as Berlitz applies the U.S. GAAP, the accounting for foreign subsidiaries, etc., including goodwill amortization, were modified in the consolidated financial closing procedures based on ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for the Consolidated Financial Statements." While the Company will maintain its cooperative relationship for the Group's study abroad support business even after the business divestiture, it has determined that there will be no material ongoing involvement, and has thus recognized the loss on sale of investments in a consolidated subsidiary.	In examining the transactions for transfer of Berlitz shares, we performed the following audit procedures, among others: • In order to understand the overview of the transactions for transfer of Berlitz shares, we read the relevant documents from the board of directors and performed inquiries of management. • We evaluated the reasonableness of the transfer prices and the transfer transactions by obtaining an understanding of the selection process for the transferees and the decision process for the transfer prices, along with performing comparisons of factors, such as the pricing terms presented by the multiple companies selected as transferee candidates. • We tested the transfer prices by reading the stock purchase agreements, including price adjustments and other factors stipulated in the transfer agreements, and comparing these with evidences, such as bank statements. • Regarding the determination of appropriate carrying amount of the assets and liabilities of the transferred business, we performed comparisons of evidences such as vouchers and accounting records with the adjustments to Berliz's carrying amount as of the end of the third quarter of the consolidated accounting period due to the transactions arising between the subsidiary's and the consolidated closing dates, including transactions for forfeiting of claims, and the adjusted items in ASBJ PITF No. 18. Regarding the deconsolidation accounting, we evaluated whether the relationship with the net assets of the transferred business and transfer prices as well as the loss on sale of investments in a consolidated subsidiary was consistent.

The transactions for transfer of Berlitz shares are composed of multiple nonrecurring transactions, including dissolution of capital relationships and forfeiture of all amounts for loans receivable. Furthermore, there are multiple matters that require consideration in the audit, such as material transactions that arise in the period between the subsidiary's and the consolidated closing dates, the adjustments for ASBJ PITF No. 18, and ongoing involvement after the transfer. Additionally, the amount of the loss on sale of investments in a consolidated subsidiary is material, and has a significant impact on the consolidated financial statements. We identified the transactions for transfer of Berlitz shares as a key audit matter because the accounting for the multiple nonrecurring transactions, which require multiple considerations in the audit, will impact the consolidated financial statements significantly if not performed appropriately.	• In evaluating the ongoing involvement consideration, we examined the transfer agreements as well as the relevant agreements, and evaluated whether the relationship, such as the situation with ongoing involvement of officers and employees as well as the existence of long-term agreements pertaining to services resulting from the transferred business could be regarded as material ongoing involvement.

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

August 5, 2022