Financial Statements 2021

Benesse Holdings, Inc. and Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2021, and Independent Auditor's Report

Consolidated Balance Sheet

Benesse Holdings, Inc. and Subsidiaries
March 31, 2021

ASSETS	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT ASSETS:			
Cash and time deposits (Notes 4 and 5)	¥151,013	¥152,508	$1,360,477
Marketable securities (Notes 4, 5 and 6)	5,951	2,905	53,613
Trade receivables (Note 5):			
Accounts	29,092	30,210	262,090
Other	57,183	48,758	515,162
Due from affiliates	17	9	153
Inventories (Note 7)	31,534	30,085	284,090
Other current assets	12,321	9,978	111,001
Allowance for doubtful receivables (Note 5)	(1,417)	(1,099)	(12,766)
Total current assets	285,694	273,354	2,573,820
PROPERTY AND EQUIPMENT:			
Land	35,080	35,120	316,036
Buildings and leasehold improvements (Note 8)	91,184	91,617	821,477
Equipment, fixtures and other	34,726	34,201	312,847
Lease assets (Note 8)	109,982	99,587	990,829
Total	270,972	260,525	2,441,189
Accumulated depreciation	(113,955)	(110,136)	(1,026,621)
Net property and equipment	157,017	150,389	1,414,568
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 6)	14,490	14,342	130,541
Investments in associated companies (Note 5)	2,179	2,070	19,631
Goodwill and other intangible assets (Notes 8 and 10)	13,120	12,022	118,198
Software (Note 8)	25,071	23,812	225,865
Asset for retirement benefits (Note 12)	5,033	3,238	45,342
Deferred tax assets (Note 18)	5,174	4,106	46,613
Other assets	34,204	34,093	308,143
Total investments and other assets	99,271	93,683	894,333
TOTAL	¥541,982	¥517,426	$4,882,721

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 5 and 11)	¥ 249	¥ 13,943	$ 2,243
Trade payables (Note 5):			
Accounts	13,961	15,685	125,775
Other	26,515	24,761	238,874
Due to affiliates	910	872	8,198
Advances received	106,846	95,701	962,577
Income taxes payable (Note 5)	2,359	6,017	21,252
Other current liabilities	25,039	20,554	225,576
Total current liabilities	175,879	177,533	1,584,495
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Notes 5 and 11)	38,257	20,156	344,658
Lease obligations (Notes 5 and 9)	95,611	86,424	861,360
Guarantee deposits received from nursing home residents	37,470	38,668	337,568
Liability for retirement benefits (Note 12)	8,156	7,914	73,477
Deferred tax liabilities (Note 18)	681	641	6,135
Other long-term liabilities	10,891	10,750	98,117
Total long-term liabilities	191,066	164,553	1,721,315
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5, 9 and 17)			
EQUITY (Notes 13 and 19):			
Common stock—authorized, 405,282,040 shares in 2021 and 2020; issued, 102,541,528 shares in 2021 and 102,513,199 shares in 2020	13,740	13,700	123,784
Capital surplus	29,632	29,593	266,955
Stock acquisition rights	105	105	946
Retained earnings	151,435	153,130	1,364,279
Treasury stock—at cost—6,158,118 shares in 2021 and 6,157,838 shares in 2020	(21,362)	(21,362)	(192,450)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	1,166	467	10,505
Foreign currency translation adjustments	(5,852)	(6,456)	(52,721)
Defined retirement benefit plans (Note 12)	1,016	(34)	9,153
Total	169,880	169,143	1,530,451
Noncontrolling interests	5,157	6,197	46,460
Total equity	175,037	175,340	1,576,911
TOTAL	¥541,982	¥517,426	$4,882,721

Consolidated Statement of Income

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET SALES	¥427,532	¥448,577	$3,851,640
COST OF SALES (Notes 12 and 16)	241,346	249,980	2,174,289
Gross profit	186,186	198,597	1,677,351
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12, 15 and 16)	173,096	177,331	1,559,423
Operating income	13,090	21,266	117,928
OTHER INCOME (EXPENSES):			
Dividend income	145	146	1,306
Rent income	344	340	3,099
Interest expense—net (Note 11)	(5,445)	(4,925)	(49,054)
Foreign exchange gain	58	213	523
Gain on investments—net	546	184	4,919
Equity in net earnings of associated companies	119	132	1,072
Subsidy income	1,581	174	14,243
Gain on sale of investment in subsidiaries and an affiliate—net		3,302	
Loss on impairment of long-lived assets (Note 8)	(530)	(3,572)	(4,775)
Restructuring expenses of foreign consolidated subsidiary	(1,554)	(425)	(14,000)
Loss on temporary closure	(722)		(6,505)
Other—net	(1,075)	(606)	(9,684)
INCOME BEFORE INCOME TAXES	6,557	16,229	59,072
INCOME TAXES (Note 18):			
Current	5,558	9,024	50,072
Refund	(1,267)		(11,415)
Deferred	(1,599)	(187)	(14,405)
Total income taxes	2,692	8,837	24,252
NET INCOME	3,865	7,392	34,820
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	742	1,103	6,685
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 3,123	¥ 6,289	$ 28,135

	Yen		U.S. Dollars
	2021	2020	2021
PER SHARE OF COMMON STOCK (Notes 2.t and 22):			
Basic net income	¥ 32.40	¥ 65.28	$ 0.29
Diluted net income		65.27	
Cash dividends applicable to the year	50.00	50.00	0.45

Diluted net income per share for the year ended March 31, 2021 is not disclosed because there are no potentially dilutive shares outstanding.
See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCOME	¥3,865	¥7,392	$ 34,820
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 12 and 20):			
Unrealized gain (loss) on available-for-sale securities	686	(918)	6,180
Foreign currency translation adjustments	591	(708)	5,324
Defined retirement benefit plans	1,043	233	9,397
Share of other comprehensive income (loss) in associates	15	(2)	135
Total other comprehensive income (loss)	2,335	(1,395)	21,036
COMPREHENSIVE INCOME	¥6,200	¥5,997	$ 55,856
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥5,478	¥4,908	$ 49,351
Noncontrolling interests	722	1,089	6,505

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2021

	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, 2019	96,327	¥ 13,662	¥ 29,555	¥ 105	¥ 152,165	¥ (21,360)	¥ 1,372	¥ (5,748)	¥ (267)	¥ 169,484	¥ 5,616	¥ 175,100
Cumulative effects of changes in accounting policies					(507)					(507)		(507)
Restated balance		13,662	29,555	105	151,658	(21,360)	1,372	(5,748)	(267)	168,977	5,616	174,593
Issuance of new shares (Note 13)	30	38	38							76		76
Net income attributable to owners of the parent					6,289					6,289		6,289
Cash dividends, ¥50.0 per share					(4,817)					(4,817)		(4,817)
Purchases of treasury stock	(2)					(2)				(2)		(2)
Net change in the year							(905)	(708)	233	(1,380)	581	(799)
BALANCE, MARCH 31, 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 13)	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

	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, 2020	$123,423	$266,604	$946	$1,379,549	$(192,450)	$ 4,207	$(58,162)	$ (306)	$1,523,811	$55,829	$1,579,640
Issuance of new shares (Note 13)	361	361							722		722
Net income attributable to owners of the parent				28,135					28,135		28,135
Cash dividends, $0.45 per share				(43,405)					(43,405)		(43,405)
Capital increase of consolidated subsidiaries		(10)							(10)		(10)
Net change in the year						6,298	5,441	9,459	21,198	(9,369)	11,829
BALANCE, MARCH 31, 2021	$123,784	$266,955	$946	$1,364,279	$(192,450)	$10,505	$(52,721)	$9,153	$1,530,451	$46,460	$1,576,911

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2021

	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
OPERATING ACTIVITIES:			
Income before income taxes	¥ 6,557	¥ 16,229	$ 59,072
Adjustments for:			
Depreciation and amortization	19,025	19,995	171,396
Loss on impairment of long-lived assets	530	3,572	4,775
Other noncash income and expenses—net	5,438	5,536	48,991
Gain on sale of investment in subsidiaries and an affiliate		(3,302)	
Changes in assets and liabilities, net of effects:			
Increase in allowance for doubtful receivables and other reserves	688	165	6,198
Decrease in trade accounts receivable	958	2,252	8,631
(Increase) decrease in inventories	(1,463)	775	(13,180)
Increase in trade accounts payable	246	438	2,216
Increase in advances received	11,155	5,170	100,495
Increase in asset for retirement benefits	(1,796)	(539)	(16,180)
Other—net	(1,807)	220	(16,279)
Subtotal	39,531	50,511	356,135
Interest and dividends received	623	695	5,613
Interest paid	(5,880)	(5,437)	(52,973)
Income taxes—paid	(9,358)	(6,556)	(84,306)
Income taxes—refund	928	2,766	8,360
Net cash provided by operating activities	25,844	41,979	232,829
INVESTING ACTIVITIES:			
Increase in time deposits—net	(346)	(498)	(3,117)
Purchases of marketable securities	(2,001)	(2,008)	(18,027)
Proceeds from sales of marketable securities	2,905	21,883	26,171
Purchases of property and equipment	(5,374)	(5,956)	(48,414)
Purchases of software	(9,440)	(8,442)	(85,045)
Purchases of investment securities	(813)	(5,980)	(7,324)
Proceeds from sales of investment securities	1,172	737	10,559
Acquisition of additional interests of a consolidated subsidiary	(2,988)		(26,919)
Proceeds from sale of interests in subsidiaries previously consolidated		3,866	
Cash decrease due to acquisition of controlling interests in a company	(1,181)	(268)	(10,640)
Other—net	(1,632)	(1,909)	(14,703)
Net cash (used in) provided by investing activities	(19,698)	1,425	(177,459)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	8,000	15,000	72,072
Repayments of long-term debt	(14,003)	(19,186)	(126,153)
Proceeds from issuance of bonds	10,000		90,090
Dividends paid	(4,821)	(4,820)	(43,432)
Repayments of lease obligations	(3,379)	(3,084)	(30,441)
Other—net	(542)	(572)	(4,884)
Net cash used in financing activities	(4,745)	(12,662)	(42,748)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(247)	(519)	(2,225)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,154	30,223	10,397
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	142,881	112,658	1,287,216
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 4)	¥ 144,035	¥ 142,881	$ 1,297,613

(Continued)

Consolidated Statement of Cash Flows

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
ADDITIONAL CASH FLOW INFORMATION:			
Proceeds from sale of interests in subsidiaries previously consolidated:			
Current assets		¥ 1,739	
Long-term assets		603	
Current liabilities		(688)	
Long-term liabilities		(146)	
Accumulated other comprehensive income (loss)		(3)	
Transfer expenses		109	
Gain on sale of investment in subsidiaries and an affiliate		3,332	
Selling price		4,946	
Transfer expenses		(109)	
Cash and cash equivalents of subsidiaries		(971)	
Proceeds from sale of interests in subsidiaries previously consolidated		¥ 3,866	
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Assets and obligations from finance lease transactions recognized in the consolidated balance sheet:			
Lease assets	¥ 11,481	¥ 9,553	$ 103,432
Lease obligations	12,583	10,283	113,360

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2021

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 2020 consolidated financial statements to conform to the classifications used in 2021.

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 ¥111 to $1, the approximate rate of exchange at March 31, 2021. 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 37 (37 in 2020) subsidiaries (collectively, the “Companies”). Berlitz Corporation, a wholly owned subsidiary of the Company located in the United States of America, consolidates all of its subsidiaries, and is counted as one company, the financial statements of which are prepared in accordance with U.S. GAAP.

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 Companies have 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 Companies 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 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; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity are reported at amortized cost; 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.

Nonmarketable available-for-sale 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.

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. The useful lives for lease assets of the Company and its domestic subsidiaries are the terms of the respective leases.

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, 2021 and 2020, such deferred profit amounted to ¥2,617 million ($23,577 thousand) and ¥2,176 million, respectively.

g. Long-Lived Assets—Long-lived assets of the Company and its domestic subsidiaries are reviewed 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 5 to 20 years for goodwill and mainly over 20 years for customer-related assets. Immaterial consolidation goodwill that was incurred in the current period was charged to income.

Prior to April 1, 2008, in accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets,” goodwill and other intangible assets of Berlitz Corporation that were determined to have an indefinite life were not amortized, but rather tested for impairment on an annual basis and between annual tests if an event occurred or circumstances arose that would more likely than not reduce the fair value below its carrying amount, which were reflected in the Company’s consolidated financial statements without any adjustments. Effective April 1, 2008, goodwill and other intangible assets are adjusted to be amortized on a straight-line basis primarily over 20 years due to the adoption of Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” See Note 10 for details on goodwill and other intangible assets.

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

j. Leases—Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet. Lease obligations relating to finance leases are primarily used for capital expenditures.

On January 13, 2016, the International Accounting Standards Board (IASB) issued IFRS 16, “Leases,” requiring recognition of substantially all lease assets and leases liabilities on the balance sheet. Certain foreign subsidiaries that apply IFRS applied this accounting standard effective April 1, 2019. These subsidiaries recognized the cumulative effect of applying IFRS 16 as an adjustment to the beginning balance of retained earnings as of April 1, 2019 in accordance with the transitional measure.

k. Retirement and Pension Plans—The Company and certain of its domestic subsidiaries have severance lump-sum payment plans for employees. The Company and its certain domestic subsidiaries have a contributory funded defined benefit pension plan and lump-sum payment plans for employees, directors, Audit & Supervisory Board members and Company officers. The pension plans, which were established under the Japanese Welfare Pension Insurance Law, 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 the Company’s future risk due to unexpected low returns from the pension fund.

A certain foreign subsidiary (Berlitz Corporation) has a Supplemental Executive Retirement Plan (“SERP”) for the benefit of its Chairman of the Board, certain designated executives and their designated beneficiaries.

In addition, certain subsidiaries have defined contribution plans.

The Company accounted 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 certain domestic subsidiaries are attributed to periods on a benefit formula basis, and those of foreign subsidiaries are attributed to periods using the projected unit credit method. Actuarial gains and losses of certain 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 over 8 years no longer than the expected average remaining service period of the employees. Foreign subsidiaries only recognize actuarial gains and losses that are greater than 10% of the larger of the beginning balances 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 within the average remaining service period. Past service costs are amortized on a straight-line basis primarily over 8 years within the average remaining service period.

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. Asset Retirement Obligations—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

m. Stock Options—Compensation expense for employee stock options are 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 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 balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

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

o. 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 forward exchange contracts.

p. 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.

q. Derivative Financial Instruments and Hedge Activities—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange and interest rates. Foreign exchange forward contracts, and interest rates and currency swaps are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

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

The interest rate and currency swaps used to hedge long-term debt denominated in a foreign currency with a variable interest rate, which qualifies for hedge accounting and meets specific matching criteria, is not measured at market value. Rather, the long-term debt is recorded at a yen amount under the swap agreement and interest expense is calculated and recorded using a fixed interest rate.

r. 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.

s. Revenue Recognition—The accounting standards for primary revenue in a certain domestic subsidiary (Benesse Corporation) are as follows.

Correspondence course business:
Completed-contract method (Revenue is recorded in the month of course completion.)
Scholastic ability testing business:
Completed-contract method (Revenue is recorded when the test results are sent out.)

A certain foreign subsidiary (Berlitz Corporation) that applies U.S. GAAP applied the following new accounting standard, effective April 1, 2019.
On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers” (ASC606).
The core principal of the standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

t. 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.
With regard to differences under the group tax sharing system established by “Act on Partial Revision of the Income Tax Act (Act No. 8, 2020)” and differences under the single tax return filing 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 ASBJ Guidance No. 28, “Implementation Guidance on Tax Effect Accounting,” issued on February 16, 2018, as permitted by the 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.

u. 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.
Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock.
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.

v. New Accounting Pronouncements

Accounting Standard for Revenue Recognition—On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition” and ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition,” and revised the standard and guidance on March 31, 2020 and March 26, 2021, respectively. The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.
The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Accounting Standard for Fair Value Measurement
Implementation Guidance on Accounting Standard for Fair Value Measurement
Accounting Standard for Measurement of Inventories
Accounting Standard for Financial Instruments
Implementation Guidance on Disclosures about Fair Value of Financial Instruments—On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, “Accounting Standard for Fair Value Measurement” and ASBJ Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement,” and revised related ASBJ Statements and ASBJ Guidance (the “New Accounting Standards”). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standards, nonmarketable available-for-sale securities are stated at cost. The New Accounting Standards are effective for the annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2020, or annual periods ending on or after March 31, 2020. The New Accounting Standards shall be applied prospectively, however, under certain circumstances, it is permitted to be applied retrospectively.
The Company expects to apply the New Accounting Standards for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the New Accounting Standards in future applicable periods.

ASU 2016-02 "Leases"—On February 25, 2016, the FASB issued ASU 2016-02, "Leases," requiring recognition of substantially all lease assets and leases liabilities on the balance sheet.
Certain foreign subsidiaries that apply U.S. GAAP expect to apply this accounting standard from the beginning of annual periods beginning on April 1, 2022, and are in the process of measuring the effects of applying the accounting standard in future applicable periods.

Note 3. SIGNIFICANT ACCOUNTING ESTIMATES

Valuation of goodwill and customer-related assets

Goodwill and other intangible assets of ¥13,120 million ($118,198 thousand) recorded in the consolidated balance sheet as of March 31, 2021 include goodwill of ¥5,061 million ($45,595 thousand) and customer-related assets of ¥2,504 million ($22,559 thousand) relating to the acquisition of shares of EDUCOM Corporation owned by Classi Corporation, one of the Company's consolidated subsidiary. Classi Corporation acquired 65.2% of EDUCOM Corporation's issued shares on January 8, 2019 and the remaining 34.8% on February 26, 2021.

The Company identified indications of impairment as of March 31, 2021 mainly because relatively large amounts of the acquisition cost were allocated to the goodwill and other intangible assets. By regarding the entire EDUCOM business as one asset group, the Company made a comparison between the carrying amounts and the estimated total of undiscounted future cash flows based on the medium-term management plan starting on the year ending March 31, 2022, which was approved by the management of both Classi Corporation and EDUCOM Corporation. As a result, the undiscounted future cash flows exceeded the carrying amounts and accordingly, the Company decided not to recognize impairment loss.
The estimate of undiscounted future cash flows is determined using the number of schools that would newly implement a school support system, market share, the percentage of existing customers that continue their contracts and other items as major assumptions on the premise of more use of ICT at schools along with digitalization of education.
If any revision is required for the assumptions used for these estimates due to a deterioration in business environment caused by changes in trends of competitors or other events, the Company may recognize impairment loss in the year ending March 31, 2022.

Recoverability of deferred tax assets

Deferred tax assets of ¥5,174 million ($46,613 thousand) were recorded in the consolidated balance sheet as of March 31, 2021.
The Companies record deferred tax assets which are expected to be recoverable by using future taxable income that excludes tax deductions resulting from the reversal of those deductible temporary differences based on future profitability and tax planning in accordance with the schedule for reversal of taxable/deductible temporary differences. The Companies recognize deferred tax assets only when it is recoverable that taxable income will be available against which the deductible temporary differences can be utilized, based on the medium-term management plan approved by the management of the Companies and by taking into consideration the impact of business environment on the performance of the Companies. As a result, deferred tax assets which were determined not to be recoverable in future were reversed as valuation allowance.
The main assumptions about future taxable income in the medium-term management plan include as follows.
The cumulative total number of enrollment at Shinkenzemi and Kodomo Challenge businesses, major businesses of Benesse Corporation, one of the Company's consolidated subsidiary, on the premise of an increase in interests in online learnings due to COVID-19.
The number of nursing homes and elderly homes in a residential care services business, a major business of Benesse Style Care Co., Ltd., one of the Company's consolidated subsidiary, on the premise of growth in needs for nursing care services due to aging population.
If any revision is required for the assumptions used for these estimates due to a deterioration in business environment caused by changes in trends of customers and competitors or other events, the Company may reverse deferred tax assets that are not expected to be recoverable in the year ending March 31, 2022.

Note 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2021 and 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Cash and time deposits	¥ 151,013	¥ 152,508	$ 1,360,477
Marketable securities	5,951	2,905	53,613
Time deposits and short-term investments which mature or become due after more than three months from acquisition date	(12,920)	(12,521)	(116,396)
Investment fund and other	(9)	(11)	(81)
Cash and cash equivalents	¥ 144,035	¥ 142,881	$ 1,297,613

Note 5. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Companies focus on liquidity and safety in regard to investments of surplus funds, after considering their application and timing. Particularly, derivative transactions are utilized mainly to hedge various risks and efficiently invest in funds. The Companies consider derivative transactions with high leverage to be high-risk transactions, and do not enter into such transactions. In addition, the Companies have set overdraft limits in order to finance operating capital with efficiency and stability in case of an unexpected contingency.

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

Trade receivables are exposed to credit risks of counterparties. Monetary receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. The Companies enter into foreign exchange forward contracts in order to earn returns and manage exposure to market risk from changes in foreign currency exchange rates of dividend income from foreign subsidiaries. Foreign exchange forward contracts are exposed to credit risks of counterparties and the market risk of fluctuation in foreign currency exchange rates. Marketable and investment securities mainly comprise equity securities, investment partnerships and trust fund investments with certain holding limits, and negotiable certificates of deposit and government and corporate bonds. These securities are exposed to issuer credit risk and fluctuation risks of foreign exchange, interest rates and market price.

Trade payables and income taxes payable are payable within one year. Short-term bank loans and long-term debt are primarily used for future business investments in the Company. Long-term debt with variable interest is exposed to fluctuation risk of interest rates.

(3) Risk Management for Financial Instruments

Credit risk management

The Companies manage credit risks of trade receivables as defined in the “Management Regulations for Receivables,” based on which the general manager of each department manages each receivable by type with regard to the counterparty, due date, the amount and the balance in order to recognize or mitigate any concerns over their collection at an early stage.

The Finance Department of the Companies manages the credit risk of security issuers by regularly monitoring the fair values, rating and credit standing in accordance with “Fund Management Regulations.”

Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

Market risk management

For fluctuation risks of foreign currency exchange rates, interest rates and market prices relating to marketable and investment securities, the Companies’ 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 periodically for those without market prices. With respect to securities transactions, the Companies’ Finance Department executes transactions in accordance with the provisions of the “Fund Management Regulations,” which regulate the authorization and transaction limit amounts, in order to monitor operating status on a regular basis. The results of the monitoring by the Companies’ Finance Department are reported to the CEO weekly and to the Board of Directors each time significant circumstances occur.

Fluctuation risks of foreign currency exchange rates relating to receivables in foreign currencies are hedged by foreign exchange forward contracts. In addition, a portion of short-term bank loans and long-term debt is financed by fixed interest to prevent fluctuation risk of the corresponding interest rates.

For fluctuation risks of foreign currency exchange rates relating to derivative transactions that are foreign exchange forward contracts, the authorization and credit limits amount are defined in “Derivative Transaction Regulations.” The Companies’ Finance Department also monitors foreign exchange forward contracts in terms of the balance and gain or loss on valuation, and reports to the CEO weekly and to the Board of Directors quarterly. The results of the monitoring by the Companies’ Finance Department are also reported to the Board of Directors each time significant circumstances occur.

Liquidity risk management
The Companies' Finance Department monitors liquidity risk by preparing an annual cash management plan based on reports from each department, and a monthly cash management plan through confirmation of daily cash receipts and payments. Subsidiaries perform similar procedures in accordance with the Company's procedures.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Such techniques include variable factors and the results of valuation may differ depending on prerequisites. The contract amounts of derivatives, which are shown in the following table, do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to market risk.

The table below shows the carrying amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2021 and 2020, and their fair values, as well as the differences between the carrying amounts and the fair values. Financial instruments whose fair values are deemed extremely difficult to assess are not included.

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

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
March 31, 2021			
Cash and time deposits	¥ 151,013	¥ 151,013	
Trade receivables	86,292		
Allowance for doubtful receivables	(1,413)		
Net trade receivables	84,879	84,879	
Marketable and investment securities	11,424	11,424	
Total	¥ 247,316	¥ 247,316	
Trade payables	¥ 41,386	¥ 41,386	
Income taxes payable	2,359	2,359	
Long-term debt	38,506	38,381	¥ (125)
Lease obligations	98,756	101,096	2,340
Total	¥ 181,007	¥ 183,222	¥ 2,215
Derivatives	¥ (128)	¥ (128)	

March 31, 2020			
Cash and time deposits	¥ 152,508	¥ 152,508	
Trade receivables	78,977		
Allowance for doubtful receivables	(1,099)		
Net trade receivables	77,878	77,878	
Marketable and investment securities	8,421	8,421	
Total	¥ 238,807	¥ 238,807	
Trade payables	¥ 41,318	¥ 41,318	
Income taxes payable	6,017	6,017	
Long-term debt	34,099	34,117	¥ 18
Lease obligations	89,512	94,635	5,123
Total	¥ 170,946	¥ 176,087	¥ 5,141
Derivatives	¥ (6)	¥ (6)	

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
March 31, 2021			
Cash and time deposits	$ 1,360,477	$ 1,360,477	
Trade receivables	777,405		
Allowance for doubtful receivables	(12,730)		
Net trade receivables	764,675	764,675	
Marketable and investment securities	102,920	102,920	
Total	$ 2,228,072	$ 2,228,072	
Trade payables	$ 372,847	$ 372,847	
Income taxes payable	21,252	21,252	
Long-term debt	346,901	345,775	$ (1,126)
Lease obligations	889,694	910,775	21,081
Total	$ 1,630,694	$ 1,650,649	$ 19,955
Derivatives	$ (1,153)	$ (1,153)	

Notes:
1. Trade receivables are stated net of each allowance for doubtful receivables.
2. Long-term debt and lease obligations are stated at the carrying amount, including current portion.
3. Derivatives are stated net of assets and liabilities. The figures in parentheses indicate net liabilities.

Cash and Time Deposits and Trade Receivables

The carrying values of cash and time deposits and trade receivables approximate fair value because of their short maturities.

Marketable and Investment Securities

While the fair values of equity securities are measured at the quoted market price of the stock exchange, the fair values of government and corporate bonds and trust fund investments and others are measured at the quoted market price of the stock exchange and also by the prices obtained from financial institutions. Fair value information for marketable and investment securities by classification is included in Note 6.

Trade Payables and Income Taxes Payable

The carrying values of trade payables and income taxes payable approximate fair value because of their short maturities.

Long-Term Debt and Lease Obligations

The fair values of long-term debt and lease obligations are determined by discounting the cash flows related to the bonds and debt at the Companies' assumed rate when a new similar bonds are issued and the assumed corporate borrowing rate, respectively.

Derivatives
Fair value information for derivatives is included in Note 17.

(*b*) *Carrying amount of financial instruments whose fair value cannot be reliably determined*

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market	¥ 6,821	¥ 6,725	$ 61,450
Investments in partnerships	2,196	2,101	19,784
Investments in associated companies	2,179	2,070	19,631
Total	¥ 11,196	¥10,896	$100,865

(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, 2021				
Time deposits	¥ 148,308			
Trade receivables	86,292			
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
March 31, 2020				
Time deposits	¥ 150,789			
Trade receivables	78,977			
Marketable and investment securities—				
Available-for-sale securities with fund investments and other:				
Government and corporate bonds	¥ 2,900	¥ 1,417		¥ 100
Trust fund investments and other		939		
Total marketable and investment securities	¥ 2,900	¥ 2,356		¥ 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, 2021				
Time deposits	$ 1,336,108			
Trade receivables	777,405			
Marketable and investment securities—				
Available-for-sale securities with fund investments and other:				
Government and corporate bonds	$ 26,937	$ 6,622		$ 901
Trust fund investments and other	27,027	9,342		
Total marketable and investment securities	$ 53,964	$ 15,964		$ 901

Please see Note 11 for annual maturities of long-term debt and Note 9 for obligations under finance leases.

Note 6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Current:			
Government and corporate bonds	¥ 2,951	¥ 2,905	$ 26,586
Trust fund investments and other	3,000		27,027
Total	¥ 5,951	¥ 2,905	$ 53,613
Non-current:			
Marketable equity securities	¥ 3,498	¥ 3,020	$ 31,514
Investments in equity instruments that do not have a quoted market price in an active market	6,821	6,726	61,450
Investments in partnerships	2,196	2,101	19,784
Government and corporate bonds	881	1,510	7,937
Trust fund investments and other	1,094	985	9,856
Total	¥ 14,490	¥ 14,342	$ 130,541

The costs and aggregate fair values of marketable and investment securities at March 31, 2021 and 2020, were as follows:

	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

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,746	¥ 469	¥ (195)	¥ 3,020
Government and corporate bonds	4,414	29	(28)	4,415
Trust fund investments and other	1,055		(70)	985

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2021				
Securities classified as:				
Available-for-sale:				
Equity securities	$ 22,126	$ 9,442	$ (54)	$ 31,514
Government and corporate bonds	34,036	739	(252)	34,523
Trust fund investments and other	36,532	351		36,883

The proceeds and realized gains and losses of the available-for-sale securities that were sold during the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Proceeds from sales	¥ 621	¥ 316	$ 5,595
Gross realized gains	¥ 323	¥ 45	$ 2,910
Gross realized losses		(62)	
Net realized gain (loss)	¥ 323	¥ (17)	$ 2,910

The impairment losses on available-for-sale equity securities for the years ended March 31, 2021 and 2020 were ¥27 million ($243 thousand) and ¥29 million, respectively.

Note 7. INVENTORIES

Inventories at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Finished products	¥ 26,066	¥ 23,773	$ 234,829
Work in process	3,592	4,427	32,360
Raw materials and supplies	1,876	1,885	16,901
Total	¥ 31,534	¥ 30,085	$ 284,090

Note 8. LONG-LIVED ASSETS

The Company and its subsidiaries reviewed their long-lived assets for impairment as of March 31, 2021 and 2020. As a result, the Company recognized impairment losses, which were as follows:

Use	Type	Millions of Yen	Thousands of U.S. Dollars	Recoverable Amounts
Year ended March 31, 2021				
Language training business	Technology-related assets—Other	¥283	$2,550	Nil (The estimated amount based on discounting anticipated future cash flows)
Business related to university entrance examinations	Software and others	127	1,144	The assessed value of fixed assets
English education business	Buildings and structures and others	91	820	The assessed value of fixed assets
Cram school business	Buildings and structures and others	14	126	The assessed value of fixed assets
Cram and prep school business	Buildings and structures and others	9	81	The assessed value of fixed assets
Residential care services business	Buildings and structures and others	6	54	The assessed value of fixed assets
	Total	¥530	$4,775	
Year ended March 31, 2020				
Language training business	Goodwill	¥1,586		Nil (The estimated amount based on discounting anticipated future cash flows)
English language classes for children business	Buildings and structures, goodwill, software and others	1,561		Nil (The estimated amount based on discounting anticipated future cash flows)
Cram and prep school business	Buildings and structures and others	317		The assessed value of fixed assets
Correspondence course business in Indonesia	Software	52		The assessed value of fixed assets
Photo studio business	Buildings and structures and others	48		The assessed value of fixed assets
Cram school business	Buildings and structures and others	8		The assessed value of fixed assets
	Total	¥3,572		

Note 9. LEASES

Lessee

A foreign subsidiary leases certain equipment, office space and other assets under noncancelable operating leases. The Company and a domestic subsidiary have lease contracts for certain land, buildings and other assets under noncancelable operating leases.

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

	Millions of Yen		Thousands of U.S. Dollars	
	2021		2021	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 3,145	¥12,132	$ 28,334	$109,298
Due after one year	95,611	54,429	861,360	490,351
Total	¥98,756	¥66,561	$889,694	$599,649

Note 10. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Consolidation goodwill	¥ 9,865	¥ 8,274	$ 88,874
Goodwill associated with domestic consolidated subsidiaries	312	356	2,811
Others	2,943	3,392	26,513
Total	¥ 13,120	¥ 12,022	$ 118,198

Note 11. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Long-term debt at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Bonds payable with interest rates ranging from 0.16% to 0.42% in 2021			
Unsecured	¥ 10,032		$ 90,379
Loans from banks with interest rates ranging from 0.130% to 2.160% in 2021 and 0.030% to 0.300% in 2020:			
Collateralized	147	¥ 200	1,324
Unsecured	28,327	33,899	255,198
Total	38,506	34,099	346,901
Less current portion	(249)	(13,943)	(2,243)
Long-term debt, less current portion	¥ 38,257	¥ 20,156	$ 344,658

Annual maturities of long-term debt, excluding finances leases (see Note 9), at March 31, 2021, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 249	$ 2,243
2023	5,082	45,784
2024	5,068	45,658
2025	53	478
2026	5,042	45,423
2027 and thereafter	23,012	207,315
Total	¥ 38,506	$ 346,901

The carrying amounts of assets pledged as collateral for above collateralized long-term debt at March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings, and leasehold improvements	¥ 110	$ 991
Land	334	3,009
Total	¥ 444	$ 4,000

Note 12. 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.

(1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥ 23,424	¥ 24,256	$ 211,027
Current service cost	1,381	1,435	12,441
Interest cost	118	141	1,063
Actuarial gains	(817)	(564)	(7,360)
Benefits paid	(962)	(1,115)	(8,667)
Foreign currency translation difference for a foreign subsidiary	(182)	(65)	(1,639)
Decrease resulting from exclusion of subsidiaries from consolidation		(662)	
Other	6	(2)	54
Balance at end of year	¥ 22,968	¥ 23,424	$ 206,919

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥ 18,642	¥ 19,110	$ 167,946
Expected return on plan assets	372	384	3,351
Actuarial gains	601	(376)	5,415
Contributions from the employer	698	731	6,288
Benefits paid	(569)	(579)	(5,126)
Decrease resulting from exclusion of subsidiaries from consolidation		(627)	
Others	14	(1)	126
Balance at end of year	¥ 19,758	¥ 18,642	$ 178,000

(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
	2021	2020	2021
Funded defined benefit obligation	¥ 14,725	¥ 15,404	$ 132,658
Plan assets	(19,758)	(18,642)	(178,000)
Total	(5,033)	(3,238)	(45,342)
Unfunded defined benefit obligation	8,243	8,020	74,261
Net liability arising from defined benefit obligation	¥ 3,210	¥ 4,782	$ 28,919

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits	¥ 8,243	¥ 8,020	$ 74,261
Asset for retirement benefits	(5,033)	(3,238)	(45,342)
Net liability arising from defined benefit obligation	¥ 3,210	¥ 4,782	$ 28,919

Berlitz Corporation has a SERP for the benefit of its Chairman of the Board, certain designated executives and their designated beneficiaries. Liability for retirement benefits above includes ¥171 million ($1,541 thousand) and ¥184 million for SERP for the years ended March 31, 2021 and 2020, respectively, which is disclosed in other current liabilities in the consolidated balance sheets.

(4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥ 2,038	¥ 2,076	$ 18,360
Interest cost	118	141	1,063
Expected return on plan assets	(372)	(384)	(3,351)
Recognized actuarial losses	34	110	307
Amortization of prior service cost	38	38	342
Net periodic benefit costs	¥ 1,856	¥ 1,981	$ 16,721

Service cost includes ¥657 million ($5,919 thousand) and ¥641 million of estimated prepaid retirement payment for employees in accordance with the prepaid retirement allowance plan of Benesse Corporation for the years ended March 31, 2021 and 2020, respectively.

The Companies have also paid additional retirement benefits to employees for the years ended March 31, 2021 and 2020. These payments, which are not included in net periodic benefit costs above, are included in ¥831 million ($7,486 thousand) and ¥134 million of other expenses for the years ended March 31, 2021 and 2020, 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, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Prior service cost	¥ 38	¥ 38	$ 342
Actuarial gains (amount before income tax effect)	1,452	293	13,081
Total	¥ 1,490	¥ 331	$ 13,423

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized prior service cost (amount before income tax effect)	¥ (148)	¥ (185)	$ (1,333)
Unrecognized actuarial gains (losses) (amount before income tax effect)	1,603	150	14,441
Total	¥1,455	¥ (35)	$ 13,108

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
Debt investments	33%	33%
Equity investments	11	8
General account	18	18
Cash and cash equivalents	4	11
Others	34	30
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, 2021 and 2020, were set forth as follows:

		2021	2020
Discount rate	The Company and domestic consolidated subsidiaries	Primarily 0.4%	Primarily 0.3%
	Foreign consolidated subsidiaries	Primarily 1.9%	Primarily 2.8%
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 6.4%
	Foreign consolidated subsidiaries	Primarily 2.0%	Primarily 2.0%

Retirement Benefits for Directors, Audit & Supervisory Board Members and Company Officers

The liability for retirement benefits at March 31, 2021 and 2020, for directors, Audit & Supervisory Board members and Company officers at certain domestic subsidiaries was ¥84 million ($757 thousand) and ¥78 million, respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders.

Note 13. 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.

With the issuance of shares under the restricted stock compensation plan, common stock and capital surplus each increased by ¥40 million ($361 thousand) and ¥38 million as of March 31, 2021 and 2020, 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.

Note 14. 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 reportable segments of the Benesse Group (the “Group”) are subject to regular review in order for the Board of Directors to decide on the allocation of management resources and evaluate results, and to obtain financial data separated from the constituents of each company.

The Group concentrates investment of management resources in the four fields of Domestic Education, Global Kodomo Challenge, Nursing Care and Childcare and Berlitz in order to achieve long-term growth for the Group as a whole.

Accordingly, the Group is made up of segments grouped by products and services based on these four businesses, and has designated the Domestic Education, Global Kodomo Challenge, Nursing Care and Childcare and Berlitz as its reportable segments.

In the Domestic Education Business, the Group engages in the correspondence course business targeting primary school students to high school students, school and teacher support business, cram and prep school business, children’s English language class business and other businesses.

In the Global Kodomo Challenge Business, the Group engages in the correspondence course business in Japan, China, Taiwan and Indonesia, targeting mainly infants.

In the Nursing Care and Childcare Business, the Group engages in the residential care services business (operation of nursing homes and elderly homes), home helper services business, training courses for nursing care personnel, a staff placement and personnel dispatch company specializing in medical and nursing care personnel, the daycare and afterschool childcare operations business and other businesses.

In the Berlitz business, the Group engages in the language instruction business; the ELS business, which provides educational services including language training to those who want to study abroad; the global leadership training business and other businesses.

(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.”

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

	Millions of Yen								
	2021								
	Reportable Segment								
	Domestic Education Business	Global Kodomo Challenge Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total	Reconcili-ations	Consolidat-ed
Sales:									
Sales to external customers	¥205,790	¥ 55,175	¥123,808	¥ 26,401	¥ 411,174	¥ 16,358	¥427,532		¥427,532
Intersegment sales or transfers	59	24	44	625	752	18,722	19,474	¥ (19,474)	
Total	¥205,849	¥ 55,199	¥123,852	¥ 27,026	¥ 411,926	¥ 35,080	¥447,006	¥ (19,474)	¥427,532
Segment profit (loss)	¥ 12,036	¥ 1,613	¥ 10,394	¥ (6,715)	¥ 17,328	¥ 350	¥ 17,678	¥ (4,588)	¥ 13,090
Segment assets	198,373	48,805	192,063	19,730	458,971	19,769	478,740	63,242	541,982
Other:									
Increase in property and equipment and intangible assets	12,520	1,473	13,864	820	28,677	550	29,227	17	29,244
Depreciation	8,618	1,553	5,373	1,110	16,654	727	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
Investment in equity method affiliates	131	82			213	2,046	2,259		2,259

	Millions of Yen								
	2020								
	Reportable Segment								
	Domestic Education Business	Global Kodomo Challenge Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total	Reconcili-ations	Consolidat-ed
Sales:									
Sales to external customers	¥200,394	¥ 56,555	¥122,868	¥ 45,020	¥424,837	¥ 23,740	¥448,577		¥448,577
Intersegment sales or transfers	97	33	46	2,196	2,372	18,813	21,185	¥ (21,185)	
Total	¥200,491	¥ 56,588	¥122,914	¥ 47,216	¥427,209	¥ 42,553	¥469,762	¥ (21,185)	¥448,577
Segment profit (loss)	¥ 14,042	¥ 2,654	¥ 11,375	¥ (3,153)	¥ 24,918	¥ 864	¥ 25,782	¥ (4,516)	¥ 21,266
Segment assets	181,048	45,691	182,944	22,906	432,589	18,989	451,578	65,848	517,426
Other:									
Increase in property and equipment and intangible assets	10,443	1,191	9,465	959	22,058	759	22,817	(157)	22,660
Depreciation	8,776	1,593	5,158	1,594	17,121	814	17,935	(13)	17,922
Amortization of goodwill	1,177		534	252	1,963		1,963		1,963
Loss on impairment of long-lived assets	1,886	52		1,586	3,524	48	3,572		3,572
Goodwill at March 31, 2020	5,276		3,354		8,630		8,630		8,630
Investment in equity method affiliates	123	73			196	1,946	2,142		2,142

	Thousands of U.S. Dollars								
	2021								
	Reportable Segment								
	Domestic Education Business	Global Kodomo Challenge Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total	Reconcili-ations	Consolidat-ed
Sales:									
Sales to external customers	$1,853,964	$ 497,072	$1,115,387	$ 237,847	$ 3,704,270	$ 147,370	$3,851,640		$3,851,640
Intersegment sales or transfers	531	216	397	5,630	6,774	168,667	175,441	$ (175,441)	
Total	$1,854,495	$ 497,288	$1,115,784	$ 243,477	$ 3,711,044	$ 316,037	$4,027,081	$ (175,441)	$3,851,640
Segment profit (loss)	$ 108,432	$ 14,532	$ 93,640	$ (60,496)	$ 156,108	$ 3,153	$ 159,261	$ (41,333)	$ 117,928
Segment assets	1,787,144	439,685	1,730,297	177,748	4,134,874	178,099	4,312,973	569,748	4,882,721
Other:									
Increase in property and equipment and intangible assets	112,793	13,270	124,901	7,387	258,351	4,955	263,306	153	263,459
Depreciation	77,640	13,991	48,405	10,000	150,036	6,550	156,586	(469)	156,117
Amortization of goodwill	10,991		3,036		14,027		14,027		14,027
Loss on impairment of long-lived assets	2,171		54	2,550	4,775		4,775		4,775
Goodwill at March 31, 2021	64,514		27,171		91,685		91,685		91,685
Investment in equity method affiliates	1,180	739			1,919	18,432	20,351		20,351

Note: The details of reconciliations are as follows:

Sales	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Intersegment eliminations	¥ (19,474)	¥ (21,185)	$ (175,441)
Total	¥ (19,474)	¥ (21,185)	$ (175,441)

Profit (Loss)	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Intersegment eliminations	¥ 303	¥ (126)	$ 2,730
Corporate expenses	(4,891)	(4,390)	(44,063)
Total	¥ (4,588)	¥ (4,516)	$ (41,333)

Notes: 1. Corporate expenses are mainly expenses of the Company that are not attributable to the reportable segments.

2. Segment profit (loss) is adjusted with operating income in the consolidated statement of income.

Assets	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Intersegment eliminations	¥ (15,042)	¥ (12,139)	$ (135,514)
Corporate assets	78,284	77,987	705,262
Total	¥ 63,242	¥ 65,848	$ 569,748

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 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Intersegment eliminations	¥ (330)	¥ (304)	$ (2,973)
Corporate assets	347	147	3,126
Total	¥ 17	¥ (157)	$ 153

Note: Capital investment in the Company is not attributable to reportable segments.

Depreciation	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Intersegment eliminations	¥ (291)	¥ (259)	$ (2,622)
Corporate expenses	239	246	2,153
Total	¥ (52)	¥ (13)	$ (469)

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

(4) Information about Geographical Areas

Sales

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

Millions of Yen 2020 Japan	Others	Total
¥ 380,782	¥ 67,795	¥ 448,577

Thousands of U.S. Dollars		
2021		
Japan	Others	Total
$ 3,400,478	$ 451,162	$ 3,851,640

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

Note 15. ADVERTISING COSTS

Advertising costs charged to income were ¥33,212 million ($299,207 thousand) and ¥34,039 million for the years ended March 31, 2021 and 2020, respectively.

Note 16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,610 million ($14,505 thousand) and ¥1,566 million for the years ended March 31, 2021 and 2020, respectively.

Note 17. DERIVATIVES

The Company enters into foreign currency exchange contracts to hedge foreign currency exchange risk associated with certain assets denominated in foreign currencies.

It is the Company's policy to use derivatives only for the purpose of reducing market risks associated with assets. The Company does not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign currency exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract.

Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

The execution and control of derivatives are managed by the Companies' Finance Department applying internal control policies that regulate the authorization and credit limit amounts. Each derivative transaction is reported to the CEO weekly and reported to the Board of Directors quarterly, and is also reported to the Board of Directors each time significant circumstances occur. Prior to entering into derivative contracts, foreign subsidiaries confer with independent advisers to assess the reasonableness of the contracts and obtain the Board of Directors' approval, and each derivative transaction is periodically reported to the Board of Directors.

Derivative Transactions to Which Hedge Accounting Is Not Applied at March 31, 2021 and 2020

	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)

	Millions of Yen			
	2020			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts— Selling—U.S. dollars	¥ 5,375		¥ (6)	¥ (6)

	Thousands of U.S. Dollars			
	2021			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts— Selling—U.S. dollars	$111,243		$(1,153)	$(1,153)

Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2020

		Millions of Yen	
		2020	
	Hedged Item	Contract Amount	Contract Amount Due after One Year
Interest rate and currency swap	Long-term debt	¥ 9,806	¥ 9,806

The above interest rate and currency swap used to hedge long-term debt denominated in a foreign currency with a variable interest rate, which qualifies for hedge accounting and meets specific matching criteria, is not measured at market value. Rather, the long-term debt is recorded at a yen amount under the swap agreement and interest expense is calculated and recorded using a fixed interest rate.

The fair value of these interest rates and currency swaps is included in long-term debt as described in Note 5.

Note 18. 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, 2021 and 2020.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Tax loss carryforwards	¥ 8,268	¥ 8,302	$ 74,486
Depreciation	5,689	5,056	51,252
Provision for employees' bonuses	2,465	2,274	22,207
Accrued expenses	1,933	1,575	17,414
Liability for retirement benefits	1,810	1,636	16,306
Long-term payables—other	822	877	7,405
Loss on valuation of investment securities	699	767	6,297
Loss on impairment of long-lived assets	628	687	5,658
Payables—other	614	264	5,532
Foreign tax credit carryforwards	600	645	5,406
Asset retirement obligations	588	496	5,297
Deferred consumption taxes	522	406	4,703
Social insurance premium	375	353	3,378
Inventories	360	371	3,243
Trade receivables—accounts	356	360	3,207
Deferred revenue	331	361	2,982
Prepaid expenses	299	270	2,694
Enterprise tax	291	477	2,622
Unrealized profit on fixed assets	268	259	2,415
Advances received	255	320	2,297
Other	767	666	6,910
Total of tax loss carryforwards and temporary differences	27,940	26,422	251,711
Less valuation allowance for tax loss carryforwards	(7,598)	(8,209)	(68,450)
Less valuation allowance for temporary differences	(11,615)	(11,063)	(104,639)
Total valuation allowance	(19,213)	(19,272)	(173,089)
Total	8,727	7,150	78,622
Offset with deferred tax liabilities	3,553	3,044	32,009
Net deferred tax assets	¥ 5,174	¥ 4,106	$ 46,613
Deferred tax liabilities:			
Prepaid pension expenses	¥ 1,517	¥ 983	$ 13,666
Intangible assets	859	1,019	7,738
Undistributed earnings of foreign subsidiaries and associated companies	666	750	6,000
Unrealized gain on available-for-sale securities	509	298	4,585
Inventories	258	270	2,323
Other	425	365	3,832
Total	4,234	3,685	38,144
Offset with deferred tax assets	3,553	3,044	32,009
Net deferred tax liabilities	¥ 681	¥ 641	$ 6,135

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2021 and 2020, were as follows:

	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

	Millions of Yen						
March 31, 2020	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	¥ 63	¥ 196	¥ 83	¥ 971	¥ 296	¥ 6,693	¥ 8,302
Less valuation allowances for tax loss carryforwards	43	196	83	971	275	6,641	8,209
Net deferred tax assets relating to tax loss carryforwards	20				21	52	93

	Thousands of U.S. Dollars						
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	$ 1,315	$ 577	$8,486	$ 2,477	$ 8,703	$ 52,928	$ 74,486
Less valuation allowances for tax loss carryforwards	1,270	577	8,477	2,315	4,505	51,306	68,450
Net deferred tax assets relating to tax loss carryforwards	45		9	162	4,198	1,622	6,036

For the tax loss carryforwards of ¥8,268 million ($74,486 thousand) and ¥8,302 million (amount multiplied by effective statutory tax rate), deferred tax assets of ¥670 million ($6,036 thousand) and ¥93 million have been recorded as of March 31, 2021 and 2020, respectively. Net deferred tax assets relating to tax loss carryforwards were determined to be recoverable as future taxable income is anticipated, and therefore valuation allowance has not been recognized.

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2021 and 2020, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2021	2020
Normal effective statutory tax rate	30.6 %	30.6 %
Expense not deductible for income tax purposes	12.9	3.3
Difference in burden of income taxes with the foreign consolidated subsidiaries	10.0	2.2
Per capita inhabitants' taxes	7.2	2.9
Amortization of goodwill	7.1	3.6
Foreign withholdings tax	4.1	1.8
Share of loss (profit) of entities accounted for using the equity method	(0.6)	(0.2)
Equity in net earnings of affiliated companies	(1.3)	
Foreign tax credit	(2.1)	(0.6)
Revenue exempt from income tax purposes	(3.4)	(1.5)
Change in the valuation allowance	(5.5)	6.6
Income taxes—refund	(17.5)	
Impairment loss on goodwill		4.3
Adjustment of gain on sales of investments in subsidiaries and an affiliate		1.5
Other	(0.4)	
Actual effective tax rate	41.1 %	54.5 %

Note 19. STOCK OPTION PLAN

The stock options that existed as of March 31, 2021, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2015 Stock Option	3 directors	1,477	August 3, 2015	¥ 3,513	From August 4, 2017 to August 3, 2022
	17 selected employees	1,873			
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
	(Shares)	
Year Ended March 31, 2021		
Non-vested		
March 31, 2020—Outstanding		
Granted		
Canceled		
Vested		
March 31, 2021—Outstanding		
Vested		
March 31, 2020—Outstanding	2,079	975
Vested		
Exercised		
Canceled		
March 31, 2021—Outstanding	2,079	975
Exercise price	¥3,513 ($32)	¥2,639 ($24)
Average stock price at exercise		
Fair value price at grant date	¥377 ($3)	¥277 ($2)

Note 20. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 1,401	¥ (1,133)	$ 12,622
Reclassification adjustments to profit or loss	(508)	(115)	(4,577)
Amount before income tax effect	893	(1,248)	8,045
Income tax effect	(207)	330	(1,865)
Total	¥ 686	¥ (918)	$ 6,180
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 176	¥ (300)	$ 1,585
Reclassification adjustments to profit or loss	428	(408)	3,856
Amount before income tax effect	604	(708)	5,441
Income tax effect	(13)		(117)
Total	¥ 591	¥ (708)	$ 5,324
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 1,425	¥ 187	$ 12,838
Reclassification adjustments to profit or loss	65	144	586
Amount before income tax effect	1,490	331	13,424
Income tax effect	(447)	(98)	(4,027)
Total	¥ 1,043	¥ 233	$ 9,397
Share of other comprehensive income (loss) in associates:			
Gains arising during the year	¥ 28	¥ 2	$ 252
Reclassification adjustments to profit or loss	(5)	(4)	(45)
Amount before income tax effect	23	(2)	207
Income tax effect	(8)		(72)
Total	¥ 15	¥ (2)	$ 135
Total other comprehensive income (loss)	¥ 2,335	¥ (1,395)	$ 21,036

Note 21. BUSINESS COMBINATIONS

Transaction under Common Control and Others

On February 26, 2021, Classi Corporation, a consolidated subsidiary of the Company, acquired additional shares of EDUCOM Corporation. As a result, EDUCOM Corporation became a wholly owned subsidiary of Classi Corporation.

a. Outline of transaction
   (1) Name of consolidated subsidiary and its business outline
       Name of consolidated subsidiary: EDUCOM Corporation
       Business outline: Development and sales of school support systems for public elementary and junior high schools
   (2) Date of additional acquisition of the consolidated subsidiary's share
       Deemed date of acquisition: March 31, 2021
   (3) Percentage of additional voting rights acquired
       Percentage of voting rights held before additional acquisition: 65.2%
       Percentage of additional voting rights acquired: 34.8%
       Percentage of voting rights held after additional acquisition: 100.0%
   (4) Legal form of business combination
       Share acquisition by cash
   (5) Name of the company after the combination
       No change

(6) Other information of the deal
The Company paid cash to acquire all of the shares of EDUCOM Corporation held by non-controlling interests, which was mutually agreed between shareholders, thereby making it into a wholly owned subsidiary. This move was made to improve the Group management efficiency and strengthen governance.

b. Overview of accounting treatment applied
The share acquisition was accounted for as a transaction with non-controlling interests under the classification of transactions under common control in accordance with ASBJ Statement No. 21 of January 16, 2019, and ASBJ Guidance No. 10 of January 16, 2019. This transaction is deemed as an integral part of the acquisition of EDUCOM Corporation made by Classi Corporation in 2019, and goodwill recognized for additionally acquired equity interests after acquiring control was determined as if the goodwill had been recognized at the time of acquisition of control. In addition, cash flows related to the additional acquisition is recorded as acquisition of additional interests of a consolidated subsidiary under cash flows from investing activities.

c. Matters related to additional acquisition of the subsidiary's shares
(1) Acquisition cost of the acquired company and breakdown

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition–Cash	¥ 2,988	$ 26,919
Acquisition cost	2,988	26,919

(2) Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization
(a) Amount of goodwill incurred ¥1,745 million ($15,721 thousand)
(b) Reasons for goodwill incurred
The Company recorded goodwill due to the difference between the additional acquisition cost of EDUCOM Corporation, and the decreasing amount of non-controlling interests.
(c) Method and period of amortization
Amortized equally over 20 years from the date the Company obtained control

Note 22. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2021 and 2020, is as follows. Diluted EPS for the year ended March 31, 2021, is not disclosed because there are no potentially dilutive shares outstanding.

	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, 2021				
Basic EPS—Net income available to common shareholders	¥ 3,123	96,374	¥ 32.40	$ 0.29
Year Ended March 31, 2020				
Basic EPS—Net income available to common shareholders	¥ 6,289	96,346	¥ 65.28	
Effect of dilutive securities—Warrants		5		
Diluted EPS—Net income for computation	¥ 6,289	96,351	¥ 65.27	

Note 23. SUBSEQUENT EVENTS

a. Business Combination by Acquisition

On June 1, 2021, the Company acquired all issued shares of Proto Medical Care Co. Ltd. (head office: Chiyoda-ku, Tokyo; "Proto Medical Care"). As a result, Proto Medical Care and its subsidiaries MARUFUJI (head office: Ota-ku, Tokyo) and SILVER HEART (head office: Kuki City, Saitama Prefecture) 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: Proto 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

Proto Medical Care's corporate goal is "CHANGING COMPANY～A company that continues to change for the future～." It operates "Heart Page," one of the largest directory of nursing care service providers, "Kaigo Kyujin Navi," a recruitment and outplacement website for nursing, 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. Proto 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 Proto Medical Care a consolidated subsidiary, the Company will increase the speed of its expansion in the nursing care field. As a leader in the field, the Company 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 1, 2021 (Deemed date of acquisition: June 30, 2021)

(d) Legal form of business combination

Share acquisition by 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 Proto Medical Care by cash.

(2) 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	$ 38,288
Acquisition cost	4,250	38,288

(3) Major acquisition-related costs

	Millions of Yen	Thousands of U.S. Dollars
Advisory fees and others	¥ 44	$ 396

(4) Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization
Not yet determined at this time.

(5) The assets acquired and the liabilities assumed at the acquisition date
Not yet determined at this time.

b. Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2021, was approved at the Company's shareholders' meeting held on June 26, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 ($0.23) per share	¥ 2,410	$ 21,712

Independent Auditor's Report

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

Deloitte.

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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, 2021, 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, 2021, 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.

Valuation of goodwill and customer-related assets	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As described in Note 3. "SIGNIFICANT ACCOUNTING ESTIMATES" and Note 21. "BUSINESS COMBINATION," goodwill and other intangible assets of 13,120 million yen were recorded in the consolidated balance sheet of Benesse Holdings, Inc. (the "Company") as of March 31, 2021, and included goodwill of 5,061 million yen and customer-related assets of 2,504 million yen relating to the acquisition of 65.2% and 34.8% of issued shares of EDUCOM Corporation ("EDUCOM") owned by Classi Corporation ("Classi"), one of the Company's consolidated subsidiaries, as of January 8, 2019 and February 26, 2021, respectively. EDUCOM develops and sells school support systems for public elementary and junior high schools. The goodwill and the customer-related assets of EDUCOM comprised 49.7% and 85.1% of the goodwill and the other intangible assets on the Company's consolidated balance sheet, respectively. Since the business combination for the year ended March 31, 2019, the Company has identified indications of impairment mainly because relatively large amounts of the acquisition cost of EDUCOM's shares were allocated to the goodwill and other intangible assets. When determining whether there is an impairment loss, the entire EDUCOM business, including the goodwill and customer-related assets, is treated as one asset group. Estimates of EDUCOM's future cash flows are based on medium-term management plan approved by the management of both, EDUCOM and Classi. Significant assumptions used to estimate future cash flows include the number of schools that would newly implement a school support system, EDUCOM's market share and the percentage of existing customers that continue their contracts. These assumptions rely on management's projection to determine the number of schools that would newly implement a school support system, the forecast of EDUCOM's market share and the percentage of existing customers that continue their contracts at a certain rate. As the appropriateness of the valuation of the goodwill and customer-related assets depends on the reasonableness of management's assumptions in the estimated future cash flows abovementioned, we identified the significant assumptions used to determine the valuation of goodwill and customer-related assets as a key audit matter.	Our audit procedures for examining the valuation of the goodwill and customer-related assets included the following, among others: • Regarding the estimated future cash flows, we tested the consistency of the estimated future cash flows by comparing them with the management-approved medium-term management plan. • We tested the accuracy of the estimates of the number of schools that would newly implement a school support system by comparing the management's estimates in the previous years with the actual number of schools that implemented school support systems as published by external institutions. We also tested the accuracy of management's estimate of EDUCOM's market share by comparing management's estimates in the previous years with the actual market share. • We obtained an understanding of how the medium-term management plan, which is the basis for future cash flows estimates, was developed, and then examined whether the projection of increase in the number of schools implementing EDUCOM's school support system was reasonable by comparing the forecasts in the previous years with the actual results of increase in the number of schools that implemented the system. • Among customers that would be expected to implement a school support system in the next year onwards, we inspected contracts or other evidences for those customers that had already placed an order. • Regarding the estimates of the percentage of customers who continue their contracts, we tested the accuracy of those estimates by comparing the estimates in the previous years with the actual results.

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

June 26, 2021