Financial Statements 2020

Benesse Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
for the Year Ended March 31, 2020,
and Independent Auditor's Report

Consolidated Balance Sheet

Benesse Holdings, Inc. and Subsidiaries
March 31, 2020

ASSETS	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
CURRENT ASSETS:			
Cash and time deposits (Notes 3 and 4)	¥152,508	¥109,682	$1,399,156
Marketable securities (Notes 3, 4 and 5)	2,905	34,467	26,651
Trade receivables (Note 4):			
Accounts	30,210	33,245	277,156
Other	48,758	45,305	447,321
Due from affiliates	9	10	83
Inventories (Note 6)	30,085	30,949	276,009
Other current assets	9,978	12,407	91,542
Allowance for doubtful receivables (Note 4)	(1,099)	(1,755)	(10,083)
Total current assets	273,354	264,310	2,507,835
PROPERTY AND EQUIPMENT:			
Land	35,120	35,146	322,202
Buildings and leasehold improvements (Note 7)	91,617	92,639	840,523
Equipment, fixtures and other	34,201	33,389	313,771
Lease assets (Note 7)	99,587	89,567	913,642
Total	260,525	250,741	2,390,138
Accumulated depreciation	(110,136)	(103,388)	(1,010,422)
Net property and equipment	150,389	147,353	1,379,716
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 5)	14,342	11,023	131,578
Investments in associated companies (Note 4)	2,070	2,050	18,991
Goodwill and other intangible assets (Notes 7 and 9)	12,022	16,457	110,294
Software (Note 7)	23,812	22,710	218,459
Asset for retirement benefits (Note 11)	3,238	2,806	29,706
Deferred tax assets (Note 17)	4,106	4,405	37,670
Other assets	34,093	33,569	312,779
Total investments and other assets	93,683	93,020	859,477
TOTAL	¥517,426	¥504,683	$4,747,028

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 4 and 10)	¥ 13,943	¥ 19,186	$ 127,917
Trade payables (Note 4):			
Accounts	15,685	15,679	143,899
Other	24,761	25,017	227,165
Due to affiliates	872	852	8,000
Advances received	95,701	91,294	877,991
Income taxes payable (Note 4)	6,017	3,076	55,202
Other current liabilities	20,554	19,131	188,569
Total current liabilities	177,533	174,235	1,628,743
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Notes 4 and 10)	20,156	19,099	184,917
Lease obligations (Notes 4 and 8)	86,424	79,967	792,881
Guarantee deposits received from nursing home residents	38,668	36,077	354,752
Liability for retirement benefits (Note 11)	7,914	7,833	72,606
Deferred tax liabilities (Note 17)	641	1,262	5,881
Other long-term liabilities	10,750	11,110	98,624
Total long-term liabilities	164,553	155,348	1,509,661
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 4, 8 and 16)			
EQUITY (Notes 12 and 18):			
Common stock—authorized, 405,282,040 shares in 2020 and 2019; issued, 102,513,199 shares in 2020 and 102,483,603 shares in 2019	13,700	13,662	125,688
Capital surplus	29,593	29,555	271,495
Stock acquisition rights	105	105	963
Retained earnings	153,130	152,165	1,404,862
Treasury stock—at cost—6,157,838 shares in 2020 and 6,156,644 shares in 2019	(21,362)	(21,360)	(195,982)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	467	1,372	4,285
Foreign currency translation adjustments	(6,456)	(5,748)	(59,228)
Defined retirement benefit plans (Note 11)	(34)	(267)	(312)
Total	169,143	169,484	1,551,771
Noncontrolling interests	6,197	5,616	56,853
Total equity	175,340	175,100	1,608,624
TOTAL	¥517,426	¥504,683	$4,747,028

Consolidated Statement of Income

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET SALES	¥448,577	¥439,432	$4,115,385
COST OF SALES (Notes 11 and 15)	249,980	249,050	2,293,394
Gross profit	198,597	190,382	1,821,991
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11, 14 and 15)	177,331	174,136	1,626,890
Operating income	21,266	16,246	195,101
OTHER INCOME (EXPENSES):			
Dividend income	146	143	1,339
Rent income	340	341	3,119
Interest expense—net (Note 10)	(4,925)	(4,275)	(45,183)
Foreign exchange gain (loss)	213	(758)	1,954
Gain on investments—net	184	350	1,688
Equity in net earnings of associated companies	132	324	1,211
Gain on sale of investment in subsidiaries and an affiliate—net	3,302		30,294
Loss on impairment of long-lived assets (Note 7)	(3,572)	(467)	(32,771)
Other—net	(857)	180	(7,862)
INCOME BEFORE INCOME TAXES	16,229	12,084	148,890
INCOME TAXES (Note 17):			
Current	9,024	5,723	82,789
Deferred	(187)	597	(1,716)
Total income taxes	8,837	6,320	81,073
NET INCOME	7,392	5,764	67,817
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,103	862	10,120
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 6,289	¥ 4,902	$ 57,697

	Yen		U.S. Dollars
	2020	2019	2020
PER SHARE OF COMMON STOCK (Notes 2.t and 21):			
Basic net income	¥ 65.28	¥ 50.89	$ 0.60
Diluted net income	65.27	50.88	0.60
Cash dividends applicable to the year	50.00	72.50	0.46

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥7,392	¥ 5,764	$67,817
OTHER COMPREHENSIVE (LOSS) INCOME (Notes 11 and 19):			
Unrealized loss on available-for-sale securities	(918)	(333)	(8,422)
Foreign currency translation adjustments	(708)	(340)	(6,496)
Defined retirement benefit plans	233	940	2,138
Share of other comprehensive (loss) income in associates	(2)	3	(18)
Total other comprehensive (loss) income	(1,395)	270	(12,798)
COMPREHENSIVE INCOME	¥5,997	¥ 6,034	$55,019
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥4,908	¥ 5,162	$45,028
Noncontrolling interests	1,089	872	9,991

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2020

	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, 2018	96,308	¥13,624	¥29,556	¥ 99	¥154,246	¥(21,358)	¥1,719	¥(5,404)	¥(1,218)	¥171,264	¥3,859	¥175,123
Issuance of new shares (Note 12)	20	38	38							76		76
Net income attributable to owners of the parent					4,902					4,902		4,902
Cash dividends, ¥72.5 per share					(6,983)					(6,983)		(6,983)
Purchases of treasury stock	(1)					(2)				(2)		(2)
Change in the parent's ownership interest due to transactions with noncontrolling interests			(39)							(39)		(39)
Net change in the year				6			(347)	(344)	951	266	1,757	2,023
BALANCE, MARCH 31, 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 12)	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

	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, 2019	$125,339	$271,146	$963	$1,396,009	$(195,963)	$12,588	$(52,733)	$ (2,450)	$1,554,899	$51,523	$1,606,422
Cumulative effects of changes in accounting policies				(4,651)					(4,651)		(4,651)
Restated balance	125,339	271,146	963	1,391,358	(195,963)	12,588	(52,733)	(2,450)	1,550,248	51,523	1,601,771
Issuance of new shares (Note 12)	349	349							698		698
Net income attributable to owners of the parent				57,697					57,697		57,697
Cash dividends, $0.46 per share				(44,193)					(44,193)		(44,193)
Purchases of treasury stock					(19)				(19)		(19)
Net change in the year						(8,303)	(6,495)	2,138	(12,660)	5,330	(7,330)
BALANCE, MARCH 31, 2020	$125,688	$271,495	$963	$1,404,862	$(195,982)	$ 4,285	$(59,228)	$ (312)	$1,551,771	$56,853	$1,608,624

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 16,229	¥ 12,084	$ 148,890
Adjustments for:			
Depreciation and amortization	19,995	20,014	183,440
Loss on impairment of long-lived assets	3,572	467	32,771
Other noncash income and expenses—net	5,536	5,375	50,789
Gain on sale of investment in subsidiaries and an affiliate	(3,302)		(30,294)
Changes in assets and liabilities, net of effects:			
Increase (decrease) in allowance for doubtful receivables and other reserves	165	(242)	1,514
Decrease (increase) in trade accounts receivable	2,252	(2,626)	20,661
Decrease (increase) in inventories	775	(1,455)	7,110
Increase (decrease) in trade accounts payable	438	(2,955)	4,018
Increase in advances received	5,170	2,413	47,431
Increase in asset for retirement benefits	(539)	(1,240)	(4,945)
Other—net	220	(3,874)	2,019
Subtotal	50,511	27,961	463,404
Interest and dividends received	695	665	6,376
Interest paid	(5,437)	(4,759)	(49,881)
Income taxes—paid	(6,556)	(11,370)	(60,147)
Income taxes—refund	2,766	1,451	25,376
Net cash provided by operating activities	41,979	13,948	385,128
INVESTING ACTIVITIES:			
(Increase) decrease in time deposits—net	(498)	296	(4,569)
Purchases of marketable securities	(2,008)	(60,313)	(18,422)
Proceeds from sales of marketable securities	21,883	49,520	200,761
Purchases of property and equipment	(5,956)	(6,783)	(54,642)
Purchases of software	(8,442)	(6,192)	(77,450)
Purchases of investment securities	(5,980)	(1,560)	(54,862)
Proceeds from sales of investment securities	737	754	6,761
Proceeds from sale of interests in subsidiaries previously consolidated	3,866		35,468
Cash decrease due to acquisition of controlling interests in a company	(268)	(3,879)	(2,459)
Other—net	(1,909)	(2,334)	(17,513)
Net cash provided by (used in) investing activities	1,425	(30,491)	13,073
FINANCING ACTIVITIES:			
Proceeds from long-term debt	15,000	5,000	137,615
Repayments of long-term debt	(19,186)	(5,046)	(176,018)
Dividends paid	(4,820)	(6,987)	(44,220)
Repayments of lease obligations	(3,084)	(2,316)	(28,294)
Other—net	(572)	(736)	(5,248)
Net cash used in financing activities	(12,662)	(10,085)	(116,165)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(519)	(1,127)	(4,761)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,223	(27,755)	277,275
CASH AND CASH EQUIVALENTS OF A NEWLY CONSOLIDATED SUBSIDIARY		2,108	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	112,658	138,305	1,033,560
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	¥ 142,881	¥ 112,658	$ 1,310,835

(Continued)

Consolidated Statement of Cash Flows

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
ADDITIONAL CASH FLOW INFORMATION:			
Proceeds from sale of interests in subsidiaries previously consolidated:			
Current assets	¥ 1,739		$ 15,954
Long-term assets	603		5,532
Current liabilities	(688)		(6,312)
Long-term liabilities	(146)		(1,339)
Accumulated other comprehensive income (loss)	(3)		(28)
Transfer expenses	109		1,000
Gain on sale of investment in subsidiaries and an affiliate	3,332		30,569
Selling price	4,946		45,376
Transfer expenses	(109)		(1,000)
Cash and cash equivalents of subsidiaries	(971)		(8,908)
Proceeds from sale of interests in subsidiaries previously consolidated	¥ 3,866		$ 35,468
Acquisition of controlling interests in a company:			
Current assets		¥ 2,205	
Long-term assets		3,999	
Consolidation goodwill		3,989	
Current liabilities		(3,280)	
Long-term liabilities		(880)	
Noncontrolling interest		(712)	
Acquisition cost		5,321	
Cash and cash equivalents of a newly consolidated subsidiary		(1,442)	
Cash decrease due to acquisition of controlling interests in a company		¥ 3,879	
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Assets and obligations from finance lease transactions recognized in the consolidated balance sheet:			
Lease assets	¥ 9,553	¥ 10,539	$ 87,642
Lease obligations	10,283	11,376	94,339

On January 8, 2019, Classi Corporation, previously accounted for by applying the equity method, became a consolidated subsidiary of the Company, applying the control criteria. Increases in assets and liabilities as a result of the consolidation are as follows:

	Millions of Yen
Current assets*	¥ 2,162
Long-term assets	332
Total assets	¥ 2,494
Current liabilities	¥ 750
Long-term liabilities	19
Total liabilities	¥ 769

* Cash and cash equivalents amount of ¥2,108 million are included in cash and cash equivalents of a newly consolidated subsidiary for the year ended March 31, 2019.

See notes to consolidated financial statements.

(Concluded)

Notes to Consolidated Financial Statements

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2020

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 2019 consolidated financial statements to conform to the classifications used in 2020.

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 ¥109 to $1, the approximate rate of exchange at March 31, 2020. 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 (40 in 2019) 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, 2020 and 2019, such deferred profit amounted to ¥2,176 million ($19,963 thousand) and ¥1,959 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 intangible assets in domestic subsidiaries are amortized on a straight-line basis over 5 to 20 years for goodwill and 20 years for customer-related intangible 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 9 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.
As a result, lease assets under property and equipment increased by ¥1,027 million ($9,422 thousand), other current liabilities increased by ¥511 million ($4,688 thousand) and lease obligations under long-term liabilities increased by ¥577 million ($5,294 thousand), in the consolidated balance sheet as of March 31, 2020.
The impact of applying this standard on the consolidated statement of income and per share information for the year ended March 31, 2020 was immaterial.
The beginning balance of retained earnings in the consolidated statement of changes in equity for the year ended March 31, 2020 decreased by ¥68 million ($624 thousand) as the cumulative effect was reflected in net assets as of April 1, 2019.
In the consolidated statement of cash flows for the year ended March 31, 2020, cash flows from operating activities increased by ¥523 million ($4,798 thousand) and cash flows from financing activities decreased by the same amount.
Right-of-use assets newly recognized in accordance with the application of this standard are included in lease assets.

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 eight 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 five years within the average remaining service period. Past service costs are amortized on a straight-line basis primarily over eight 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, Audit & Supervisory Board Members and Company Officers—Bonuses to directors, Audit & Supervisory Board members 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, etc. 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.

Berlitz Corporation recognized the cumulative effect of applying ASC 606 as an adjustment to the beginning balance of retained earnings as of April 1, 2019 in accordance with the transitional measure.

The impact of applying this standard on the consolidated statement of income and per share information for the year ended March 31, 2020 was immaterial.

The beginning balance of retained earnings in the consolidated statement of changes in equity for the year ended March 31, 2020 decreased by ¥439 million ($4,028 thousand) as the cumulative effect was reflected in net assets as of April 1, 2019.

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.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018.

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. 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, 2021, and are in the process of measuring the effects of applying the accounting standard in future applicable periods.

Note 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2020 and 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Cash and time deposits	¥ 152,508	¥ 109,682	$ 1,399,156
Marketable securities	2,905	34,467	26,651
Time deposits and short-term investments which mature or become due after more than three months from acquisition date	(12,521)	(18,075)	(114,871)
Investment fund and other	(11)	(13,416)	(101)
Cash and cash equivalents	¥ 142,881	¥ 112,658	$ 1,310,835

Note 4. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Companies focus on liquidity and safety in regards 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. Trade 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 and interest rate and currency swaps in order to earn returns and manage exposure to market risk from changes in foreign currency exchange rates of dividend income from foreign subsidiaries and long-term debt denominated in foreign currencies. Foreign exchange forward contracts and interest rate and currency swaps are exposed to credit risks of counterparties and the market risk of fluctuation in foreign currency exchange rates and interest rates. Marketable and investment securities mainly comprise equity securities, investment partnerships and trust fund investments with certain holding limits, 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. Long-term debt denominated in a foreign currency with a variable interest rate is exposed to fluctuation risks of the foreign currency exchange and 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. “Management Regulations for Receivables” of subsidiaries are established pursuant to the “Management Regulations for Receivables” of Benesse Corporation, a subsidiary of the Company.

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 and its foreign subsidiaries do 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 and the risks relating to long-term debt denominated in a foreign currency with a variable interest rate is hedged by an interest and currency swap. 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 and risks resulting from changes in interest rates relating to derivative transactions that are foreign exchange forward contracts and interest and currency swaps, 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, 2020 and 2019, 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, 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)	
March 31, 2019			
Cash and time deposits	¥ 109,682	¥ 109,682	
Trade receivables	78,560		
Allowance for doubtful receivables	(1,754)		
Net trade receivables	76,806	76,806	
Marketable and investment securities	42,487	42,486	¥ (1)
Total	¥ 228,975	¥ 228,974	¥ (1)
Trade payables	¥ 41,548	¥ 41,548	
Income taxes payable	3,076	3,076	
Long-term debt	38,285	38,355	¥ 70
Lease obligations	82,341	88,023	5,682
Total	¥ 165,250	¥ 171,002	¥ 5,752
Derivatives	¥ (16)	¥ (16)	

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
March 31, 2020			
Cash and time deposits	$ 1,399,156	$ 1,399,156	
Trade receivables	724,560		
Allowance for doubtful receivables	(10,083)		
Net trade receivables	714,477	714,477	
Marketable and investment securities	77,257	77,257	
Total	$ 2,190,890	$ 2,190,890	
Trade payables	$ 379,064	$ 379,064	
Income taxes payable	55,202	55,202	
Long-term debt	312,834	313,000	$ 166
Lease obligations	821,212	868,211	46,999
Total	$ 1,568,312	$ 1,615,477	$ 47,165
Derivatives	$ (55)	$ (55)	

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. The fair value of the interest rate and currency swap, which qualify for hedge accounting and meet specific matching criteria, is included in the fair value of the long-term debt as the related hedged-items.
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 5.

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 debt at the Companies' assumed corporate borrowing rate.

Certain long-term debt denominated in a foreign currency with a variable interest rate is hedged by an interest and currency swap. Since the swap qualifies for hedge accounting and meets specific matching criteria, it 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 the long-term debt is determined based on the assumption that the long-term debt is debt denominated in Japanese yen with a fixed rate.

Derivatives
Fair value information for derivatives is included in Note 16.

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥ 6,725	¥ 1,135	$ 61,697
Investments in partnerships	2,101	1,868	19,275
Investments in associated companies	2,070	2,050	18,991
Total	¥ 10,896	¥ 5,053	$ 99,963

(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, 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
March 31, 2019				
Time deposits	¥ 107,611			
Trade receivables	78,560			
Marketable and investment securities—				
Available-for-sale securities with fund investments and other:				
Government and corporate bonds	¥ 3,555	¥ 2,335		
Trust fund investments and other	30,900	987	¥ 101	¥ 100
Total marketable and investment securities	¥ 34,455	¥ 3,322	¥ 101	¥ 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, 2020				
Time deposits	$ 1,383,385			
Trade receivables	724,560			
Marketable and investment securities—				
Available-for-sale securities with fund investments and other:				
Government and corporate bonds	$ 26,606	$ 13,000		$ 917
Trust fund investments and other		8,615		
Total marketable and investment securities	$ 26,606	$ 21,615		$ 917

Please see Note 10 for annual maturities of long-term debt and Note 8 for obligations under finance leases.

Note 5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Current:			
Government and corporate bonds	¥ 2,905	¥ 3,566	$ 26,651
Trust fund investments and other		30,901	
Total	¥ 2,905	¥ 34,467	$ 26,651
Non-current:			
Marketable equity securities	¥ 3,020	¥ 4,437	$ 27,706
Investments in equity instruments that do not have a quoted market price in an active market	6,726	1,135	61,706
Investments in partnerships	2,101	1,868	19,275
Government and corporate bonds	1,510	2,446	13,854
Trust fund investments and other	985	1,137	9,037
Total	¥ 14,342	¥ 11,023	$ 131,578

The costs and aggregate fair values of marketable and investment securities at March 31, 2020 and 2019, were as follows:

	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

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as:				
Trading				¥ 1
Available-for-sale:				
Equity securities	¥ 3,024	¥ 1,477	¥ 64	4,437
Government and corporate bonds	5,894	136	18	6,012
Trust fund investments and other	32,055	1	18	32,038

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	$ 25,192	$ 4,303	$ (1,789)	$ 27,706
Government and corporate bonds	40,496	266	(257)	40,505
Trust fund investments and other	9,679		(642)	9,037

The proceeds and realized gains and losses of the available-for-sale securities that were sold during the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Proceeds from sales	¥ 316	¥ 165	$ 2,899
Gross realized gains	¥ 45	¥ 16	$ 413
Gross realized losses	(62)	(15)	(569)
Net realized (loss) gain	¥ (17)	¥ 1	$ (156)

The impairment losses on available-for-sale equity securities for the year ended March 31, 2020 were ¥29 million ($266 thousand).

Note 6. INVENTORIES

Inventories at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Finished products	¥ 23,773	¥ 26,229	$ 218,101
Work in process	4,427	2,889	40,615
Raw materials and supplies	1,885	1,831	17,293
Total	¥ 30,085	¥ 30,949	$ 276,009

Note 7. LONG-LIVED ASSETS

The Company and its subsidiaries reviewed their long-lived assets for impairment as of March 31, 2020 and 2019. 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, 2020	Language training business	Goodwill	¥ 1,586	$ 14,551	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	14,321	Nil (The estimated amount based on discounting anticipated future cash flows)
	Cram and prep school business	Buildings and structures and others	317	2,908	The assessed value of fixed assets
	Correspondence course business in Indonesia	Software	52	477	The assessed value of fixed assets
	Photo studio business	Buildings and structures and others	48	440	The assessed value of fixed assets
	Cram school business	Buildings and structures and others	8	74	The assessed value of fixed assets
		Total	¥ 3,572	$ 32,771	
Year ended March 31, 2019	Unused	Land, software and others	¥ 175		The assessed value of fixed assets
	Language training business	Buildings and structures and others	61		The assessed value of fixed assets
	English language classes for children business	Buildings and structures and others	55		The assessed value of fixed assets
	Cram and prep school business	Buildings and structures and others	54		The assessed value of fixed assets
	Management system	Software	41		The assessed value of fixed assets
	Cram school business	Buildings and structures and others	17		The assessed value of fixed assets
	Photo studio business	Buildings and structures and others	41		The assessed value of fixed assets
	Residential care services business	Lease assets, buildings and structures and others	23		The assessed value of fixed assets
		Total	¥ 467		

Note 8. 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	
	2020		2020	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 3,088	¥ 11,953	$ 28,331	$ 109,661
Due after one year	86,424	55,053	792,881	505,073
Total	¥ 89,512	¥ 67,006	$ 821,212	$ 614,734

Note 9. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Consolidation goodwill	¥ 8,274	¥ 10,355	$ 75,908
Goodwill associated with domestic consolidated subsidiaries	356	410	3,266
Goodwill associated with a foreign consolidated subsidiary		1,939	
Others	3,392	3,753	31,120
Total	¥ 12,022	¥ 16,457	$ 110,294

Note 10. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Long-term debt at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans from banks with interest rates ranging from 0.030% to 0.300% in 2020 and 0.030% to 0.230% in 2019:			
Collateralized	¥ 200	¥ 278	$ 1,835
Unsecured	33,899	38,007	310,999
Total	34,099	38,285	312,834
Less current portion	(13,943)	(19,186)	(127,917)
Long-term debt, less current portion	¥ 20,156	¥ 19,099	$ 184,917

Annual maturities of long-term debt, excluding finances leases (see Note 8), at March 31, 2020, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 13,943	$ 127,917
2022	41	376
2023	5,021	46,064
2024	5,021	46,064
2025	21	193
2026 and thereafter	10,052	92,220
Total	¥ 34,099	$ 312,834

The carrying amounts of assets pledged as collateral for above collateralized long-term debt at March 31, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings, and leasehold improvements	¥ 113	$ 1,037
Land	334	3,064
Total	¥ 447	$ 4,101

Note 11. 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, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 24,256	¥ 24,557	$ 222,532
Current service cost	1,435	1,511	13,165
Interest cost	141	170	1,294
Actuarial gains	(564)	(1,366)	(5,174)
Benefits paid	(1,115)	(884)	(10,229)
Past service cost		82	
Foreign currency translation difference for a foreign subsidiary	(65)	188	(597)
Decrease resulting from exclusion of subsidiaries from consolidation	(662)		(6,073)
Other	(2)	(2)	(19)
Balance at end of year	¥ 23,424	¥ 24,256	$ 214,899

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 19,110	¥ 18,524	$ 175,321
Expected return on plan assets	384	501	3,523
Actuarial gains	(376)	(232)	(3,450)
Contributions from the employer	731	726	6,706
Benefits paid	(579)	(409)	(5,312)
Decrease resulting from exclusion of subsidiaries from consolidation	(627)		(5,752)
Others	(1)		(8)
Balance at end of year	¥ 18,642	¥ 19,110	$ 171,028

(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
	2020	2019	2020
Funded defined benefit obligation	¥ 15,404	¥ 16,304	$ 141,322
Plan assets	(18,642)	(19,110)	(171,028)
Total	(3,238)	(2,806)	(29,706)
Unfunded defined benefit obligation	8,020	7,952	73,577
Net liability arising from defined benefit obligation	¥ 4,782	¥ 5,146	$ 43,871

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits	¥ 8,020	¥ 7,952	$ 73,577
Asset for retirement benefits	(3,238)	(2,806)	(29,706)
Net liability arising from defined benefit obligation	¥ 4,782	¥ 5,146	$ 43,871

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 ¥184 million ($1,687 thousand) and ¥186 million for SERP for the years ended March 31, 2020 and 2019, 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, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥ 2,076	¥ 2,146	$ 19,046
Interest cost	141	170	1,294
Expected return on plan assets	(384)	(501)	(3,523)
Recognized actuarial losses	110	246	1,008
Amortization of prior service cost	38	25	349
Net periodic benefit costs	¥ 1,981	¥ 2,086	$ 18,174

Service cost includes ¥641 million ($5,881 thousand) and ¥635 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, 2020 and 2019, respectively.

The Companies have also paid additional retirement benefits to employees for the year ended March 31, 2020. These payments, which are not included in net periodic benefit costs above, are included in ¥134 million ($1,229 thousand) of other expenses for the year ended March 31, 2020.

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost	¥ 38	¥ (57)	$ 349
Actuarial gains (amount before income tax effect)	293	1,380	2,688
Total	¥ 331	¥ 1,323	$ 3,037

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost (amount before income tax effect)	¥ (185)	¥ (222)	$ (1,697)
Unrecognized actuarial gains (losses) (amount before income tax effect)	150	(144)	1,376
Total	¥ (35)	¥ (366)	$ (321)

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	2020	2019
Debt investments	33%	31%
Equity investments	8	20
General account	18	18
Cash and cash equivalents	11	8
Others	30	23
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, 2020 and 2019, were set forth as follows:

		2020	2019
Discount rate	The Company and domestic consolidated subsidiaries	Primarily 0.3%	Primarily 0.3%
	Foreign consolidated subsidiaries	Primarily 2.8%	Primarily 4.0%
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 6.4%	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, 2020 and 2019, for directors, Audit & Supervisory Board members and Company officers at certain domestic subsidiaries was ¥78 million ($716 thousand) and ¥67 million, respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders.

12. 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 ¥38 million ($349 thousand) and ¥38 million as of March 31, 2020 and 2019, 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.

13. 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, school and teacher support business, cram and prep school business, English language classes for children business and other businesses for primary school students to high school students.

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								
	2020								
	Reportable Segment								
	Domestic Education Business	Global Kodomo Challenge Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total	Reconciliations	Consolidated
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

	Millions of Yen								
	2019								
	Reportable Segment								
	Domestic Education Business	Global Kodomo Challenge Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 192,064	¥ 56,444	¥ 117,000	¥ 49,276	¥ 414,784	¥ 24,648	¥ 439,432		¥ 439,432
Intersegment sales or transfers	113	21	56	1,833	2,023	19,847	21,870	¥ (21,870)	
Total	¥ 192,177	¥ 56,465	¥ 117,056	¥ 51,109	¥ 416,807	¥ 44,495	¥ 461,302	¥ (21,870)	¥ 439,432
Segment profit (loss)	¥ 10,056	¥ 3,258	¥ 11,396	¥ (4,748)	¥ 19,962	¥ 554	¥ 20,516	¥ (4,270)	¥ 16,246
Segment assets	172,205	42,937	174,164	28,826	418,132	22,049	440,181	64,502	504,683
Other:									
Increase in property and equipment and intangible assets	16,451	1,196	11,975	1,210	30,832	907	31,739	(157)	31,582
Depreciation	9,294	1,202	4,675	1,903	17,074	1,006	18,080	(13)	18,067
Amortization of goodwill	989		534	295	1,818		1,818		1,818
Loss on impairment of long-lived assets	209		22	61	292		292	175	467
Goodwill at March 31, 2019	6,878		3,887	1,939	12,704		12,704		12,704
Investment in equity method affiliates	231	70			301	1,819	2,120		2,120

	Thousands of U.S. Dollars								
	2020								
	Reportable Segment								
	Domestic Education Business	Global Kodomo Challenge Business	Nursing Care and Childcare Business	Berlitz Business	Reportable Segment Total	Others	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 1,838,477	$ 518,853	$ 1,127,229	$ 413,028	$ 3,897,587	$ 217,798	$ 4,115,385		$ 4,115,385
Intersegment sales or transfers	890	303	422	20,146	21,761	172,596	194,357	$ (194,357)	
Total	$ 1,839,367	$ 519,156	$ 1,127,651	$ 433,174	$ 3,919,348	$ 390,394	$ 4,309,742	$ (194,357)	$ 4,115,385
Segment profit (loss)	$ 128,826	$ 24,349	$ 104,358	$ (28,927)	$ 228,606	$ 7,926	$ 236,532	$ (41,431)	$ 195,101
Segment assets	1,660,991	419,183	1,678,385	210,147	3,968,706	174,211	4,142,917	604,111	4,747,028
Other:									
Increase in property and equipment and intangible assets	95,807	10,927	86,835	8,798	202,367	6,963	209,330	(1,440)	207,890
Depreciation	80,514	14,614	47,321	14,624	157,073	7,468	164,541	(119)	164,422
Amortization of goodwill	10,798		4,899	2,312	18,009		18,009		18,009
Loss on impairment of long-lived assets	17,303	477		14,551	32,331	440	32,771		32,771
Goodwill at March 31, 2020	48,404		30,770		79,174		79,174		79,174
Investment in equity method affiliates	1,128	670			1,798	17,853	19,651		19,651

Note: The details of reconciliations are as follows:

Sales	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars 2020
Intersegment eliminations	¥ (21,185)	¥ (21,870)	$ (194,357)
Total	¥ (21,185)	¥ (21,870)	$ (194,357)

Profit (Loss)	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars 2020
Intersegment eliminations	¥ (126)	¥ (135)	$ (1,156)
Corporate expenses	(4,390)	(4,135)	(40,275)
Total	¥ (4,516)	¥ (4,270)	$ (41,431)

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 2020	Millions of Yen 2019	Thousands of U.S. Dollars 2020
Intersegment eliminations	¥ (12,139)	¥ (14,057)	$ (111,367)
Corporate assets	77,987	78,559	715,478
Total	¥ 65,848	¥ 64,502	$ 604,111

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 2020	Millions of Yen 2019	Thousands of U.S. Dollars 2020
Intersegment eliminations	¥ (304)	¥ (322)	$ (2,789)
Corporate assets	147	165	1,349
Total	¥ (157)	¥ (157)	$ (1,440)

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

Depreciation	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars 2020
Intersegment eliminations	¥ (259)	¥ (253)	$ (2,376)
Corporate expenses	246	240	2,257
Total	¥ (13)	¥ (13)	$ (119)

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

(5) Information about Geographical Areas

Sales

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

Millions of Yen 2019		
Japan	Others	Total
¥ 367,040	¥ 72,392	¥ 439,432

Thousands of U.S. Dollars		
2020		
Japan	Others	Total
$ 3,493,413	$ 621,972	$ 4,115,385

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

Note 14. ADVERTISING COSTS

Advertising costs charged to income were ¥34,039 million ($312,284 thousand) and ¥33,130 million for the years ended March 31, 2020 and 2019, respectively.

Note 15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,566 million ($14,367 thousand) and ¥1,312 million for the years ended March 31, 2020 and 2019, respectively.

Note 16. 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, 2020 and 2019

	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)

	Millions of Yen			
	2019			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts— Selling—U.S. dollars	¥ 2,735		¥ (16)	¥ (16)

	Thousands of U.S. Dollars			
	2020			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts— Selling—U.S. dollars	$ 49,312		$ (55)	$ (55)

Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2020 and 2019

		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

		Millions of Yen	
		2019	
	Hedged Item	Contract Amount	Contract Amount Due after One Year
Interest rate and currency swap	Long-term debt	¥ 9,806	¥ 9,806

		Thousands of U.S. Dollars	
		2020	
	Hedged Item	Contract Amount	Contract Amount Due after One Year
Interest rate and currency swap	Long-term debt	$ 89,963	$ 89,963

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 4.

Note 17. 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, 2020 and 2019.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Tax loss carryforwards	¥ 8,302	¥ 11,469	$ 76,165
Depreciation	5,056	4,565	46,385
Provision for employees' bonuses	2,274	2,005	20,862
Liability for retirement benefits	1,636	1,540	15,009
Accrued expenses	1,575	1,664	14,450
Long-term payables—other	877	880	8,046
Loss on valuation of investment securities	767	167	7,037
Loss on impairment of long-lived assets	687	338	6,303
Foreign tax credit carryforwards	645	443	5,917
Asset retirement obligations	496	440	4,550
Enterprise tax	477	363	4,376
Deferred consumption taxes	406	371	3,725
Inventories	371	369	3,404
Deferred revenue	361	257	3,312
Trade receivables—accounts	360	1,199	3,303
Social insurance premium	353	326	3,239
Advances received	320	425	2,936
Prepaid expenses	270	186	2,477
Payables—other	264	274	2,422
Unrealized profit on fixed assets	259	242	2,376
Other	666	510	6,110
Total of tax loss carryforwards and temporary differences	26,422	28,033	242,404
Less valuation allowance for tax loss carryforwards	(8,209)	(10,158)	(75,312)
Less valuation allowance for temporary differences	(11,063)	(8,876)	(101,495)
Total valuation allowance	(19,272)	(19,034)	(176,807)
Total	7,150	8,999	65,597
Offset with deferred tax liabilities	3,044	4,594	27,927
Net deferred tax assets	¥ 4,106	¥ 4,405	$ 37,670
Deferred tax liabilities:			
Inventories	¥ 270	¥ 1,973	$ 2,477
Unrealized gain on available-for-sale securities	298	612	2,734
Intangible assets	1,019	1,146	9,349
Undistributed earnings of foreign subsidiaries and associated companies	750	755	6,881
Prepaid pension expenses	983	858	9,018
Other	365	512	3,349
Total	3,685	5,856	33,808
Offset with deferred tax assets	3,044	4,594	27,927
Net deferred tax liabilities	¥ 641	¥ 1,262	$ 5,881

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2020 and 2019, were as follows:

	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

	Millions of Yen						
March 31, 2019	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	¥ 60	¥ 240	¥ 71	¥ 264	¥ 1,046	¥ 9,788	¥ 11,469
Less valuation allowances for tax loss carryforwards	49	240	71	264	1,046	8,488	10,158
Net deferred tax assets relating to tax loss carryforwards	11					1,300	1,311

	Thousands of U.S. Dollars						
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	$ 578	$ 1,798	$ 761	$ 8,908	$ 2,716	$ 61,404	$ 76,165
Less valuation allowances for tax loss carryforwards	395	1,798	761	8,908	2,523	60,927	75,312
Net deferred tax assets relating to tax loss carryforwards	183				193	477	853

For the tax loss carryforwards of ¥8,302 million ($76,165 thousand) and ¥11,469 million (amount multiplied by effective statutory tax rate), deferred tax assets of ¥93 million ($853 thousand) and ¥1,311 million have been recorded as of March 31, 2020 and 2019, 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, 2020 and 2019, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2020	2019
Normal effective statutory tax rate	30.6 %	30.6 %
Change in the valuation allowance	6.6	5.8
Impairment loss on goodwill	4.3	
Amortization of goodwill	3.6	4.4
Expense not deductible for income tax purposes	3.3	5.1
Per capita inhabitants' taxes	2.9	3.8
Difference in burden of income taxes with the foreign consolidated subsidiaries	2.2	6.7
Foreign withholdings tax	1.8	2.0
Adjustment of gain on sales of investments in subsidiaries and an affiliate	1.5	
Revenue exempt from income tax purposes	(1.5)	(1.9)
Tax credit under tax package incentivizing wage increases and productivity enhancements		(1.9)
Foreign tax credit	(0.6)	(1.0)
Share of loss (profit) of entities accounted for using the equity method	(0.2)	(0.8)
Equity in net earnings of affiliated companies	(0.0)	0.8
Other	0.0	(1.3)
Actual effective tax rate	54.5 %	52.3 %

Note 18. STOCK OPTION PLAN

The stock options that existed as of March 31, 2020, are as follows:

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

The stock option activity is as follows:

	2015 Stock Option	2016 Stock Option
	(Shares)	
Year Ended March 31, 2020		
Non-vested		
March 31, 2019—Outstanding		
Granted		
Canceled		
Vested		
March 31, 2020—Outstanding		
Vested		
March 31, 2019—Outstanding	2,079	975
Vested		
Exercised		
Canceled		
March 31, 2020—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 ($3)

Note 19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized loss on available-for-sale securities:			
Losses arising during the year	¥ (1,133)	¥ (237)	$ (10,394)
Reclassification adjustments to profit or loss	(115)	(248)	(1,055)
Amount before income tax effect	(1,248)	(485)	(11,449)
Income tax effect	330	152	3,027
Total	¥ (918)	¥ (333)	$ (8,422)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (300)	¥ (340)	$ (2,753)
Reclassification adjustments to profit or loss	(408)		(3,743)
Amount before income tax effect	(708)	(340)	(6,496)
Total	¥ (708)	¥ (340)	$ (6,496)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 187	¥ 1,057	$ 1,716
Reclassification adjustments to profit or loss	144	266	1,321
Amount before income tax effect	331	1,323	3,037
Income tax effect	(98)	(383)	(899)
Total	¥ 233	¥ 940	$ 2,138
Share of other comprehensive (loss) income in associates:			
Gains arising during the year	¥ 2	¥ 9	$ 18
Reclassification adjustments to profit or loss	(4)	(2)	(36)
Amount before income tax effect	(2)	7	(18)
Income tax effect	(0)	(4)	(0)
Total	¥ (2)	¥ 3	$ (18)
Total other comprehensive (loss) income	¥ (1,395)	¥ 270	$ (12,798)

Note 20. BUSINESS COMBINATIONS

Finalization of Provisional Accounting Treatment for Business Combination
On January 8, 2019, Classi Corporation, a consolidated subsidiary of the Company, acquired EDUCOM Corporation. The purchase price allocation accounted for on a provisional basis for the year ended March 31, 2019 was completed in the year ended March 31, 2020. There is no significant revision to the initial allocation of the purchase price.
Business Divestiture
The Company transferred all the shares of consolidated subsidiary Simul International, Inc. (head office: Chuo-ku, Tokyo; “Simul”) to TAKARA & COMPANY LTD. (head office: Toshima-ku, Tokyo; “TAKARA”) on March 31, 2020.

a. Outline of the business divestiture
   (1) Name of the party who succeeded divested business
       TAKARA & COMPANY LTD.
   (2) Details of the transferred businesses
       The businesses operated by Simul and its two subsidiaries are as follows:
       - Interpreting services, translation services
       - Operation of an academy to train interpreters and translators
       - Staffing and referral of interpreting and translation personnel
       - Provision and operation of equipment for interpreting and conferences
   (3) Major reason for the business divestiture
       Currently, while following a profit growth-focused strategy in the Shinkenzemi business, one of its

mainstay operations, the Company is pursuing transformation of its business portfolio to a more well-balanced earnings structure, including by realizing stable growth in the Nursing Care and Childcare Business. The Company positions the proactive implementation of M&As as a core strategy for achieving this transformation, and is working on a process of concentrating on core businesses at the same time as actively considering M&As to build a third earnings pillar and M&As to create discontinuous growth in existing businesses.

Under these conditions, the Company has carefully considered the strategic role of Simul within the Benesse Group and Simul's future business strategies. As a result, the Company has reached at the conclusion that accelerating Simul's business growth with the support of TAKARA would be the most effective way of driving Simul's development further.

(4) Date of the business divestiture
March 31, 2020
Operating results of Simul and its two subsidiaries from April 1, 2019 to March 31, 2020 are included in the consolidated financial statements for the year ended March 31, 2020.

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

Legal form of the business divestiture:	Share transfer with cash as the only consideration for the shares
Number of shares transferred:	1,420,000 shares (shareholding ratio: 100.0%)
Transfer price:	¥4,946 million ($45,376 thousand)

b. Outline of accounting treatment applied

(1) Amount of transfer profit or loss
Gain on sale of investment in subsidiaries and an affiliate ¥3,332 million ($30,569 thousand)

(2) Appropriate book value of the assets and liabilities of transferred businesses and breakdown

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 1,739	$ 15,954
Long-term assets	603	5,532
Total assets	¥ 2,342	$ 21,486
Current liabilities	¥ 688	$ 6,312
Long-term liabilities	146	1,339
Total liabilities	¥ 834	$ 7,651

(3) Accounting treatment
The difference between the carrying amount of the transferred shares on the consolidated balance sheet and the proceeds from the sale of shares is recognized as "gain on sale of investment in subsidiaries and an affiliate" included in other income.

c. Name of reportable segment of divested businesses
They are not included in the specific reportable segments, but in "Others."

d. Amount of profit regarding divested businesses, which was recorded in the consolidated statement of income for the year ended March 31, 2020

	Millions of Yen	Thousands of U.S. Dollars
Sales	¥ 6,240	$ 57,248
Operating income	292	2,679

Note 21. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share (“EPS”) for the years ended March 31, 2020 and 2019, is as follows:

	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, 2020				
Basic EPS—Net income available to common shareholders	¥ 6,289	96,346	¥ 65.28	$ 0.60
Effect of dilutive securities—Warrants		5		
Diluted EPS—Net income for computation	¥ 6,289	96,351	¥ 65.27	$ 0.60
Year Ended March 31, 2019				
Basic EPS—Net income available to common shareholders	¥ 4,902	96,321	¥ 50.89	
Effect of dilutive securities—Warrants		23		
Diluted EPS—Net income for computation	¥ 4,902	96,344	¥ 50.88	

Note 22. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2020, was approved at the Company’s shareholders’ meeting held on June 27, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 ($0.23) per share	¥ 2,409	$ 22,101

Independent Auditor's Report

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

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

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, 2020, 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, 2020, 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.

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.

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 27, 2020