FINANCIAL STATEMENTS 2019

Consolidated Financial Statements
for the Year Ended March 31, 2019,
and Independent Auditor's Report

In the Financial Statements 2019, we have posted the English consolidated financial statements, which are based on the Japanese consolidated financial statements with certain recombinations and recompositions for the convenience of readers outside Japan. For details, please refer to Note 1 on page 7.

Contents

Benesse Holdings, Inc.

Consolidated Balance Sheet

Benesse Holdings, Inc. and Subsidiaries
March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2019	2018	2019
CURRENT ASSETS:			
Cash and time deposits (Notes 3 and 4)	¥109,682	¥134,206	$ 988,126
Marketable securities (Notes 3, 4 and 5)	34,467	23,600	310,514
Trade receivables (Note 4):			
Accounts	33,245	30,798	299,505
Other	45,305	41,614	408,153
Due from affiliates	10	73	90
Inventories (Note 6)	30,949	29,704	278,820
Other current assets	12,407	8,451	111,774
Allowance for doubtful receivables (Note 4)	(1,755)	(1,547)	(15,811)
Total current assets	264,310	266,899	2,381,171
PROPERTY AND EQUIPMENT:			
Land	35,146	34,834	316,631
Buildings and leasehold improvements (Note 7)	92,639	90,889	834,586
Equipment, fixtures and other (Note 7)	33,389	32,508	300,801
Lease assets (Note 7)	89,567	79,471	806,910
Total	250,741	237,702	2,258,928
Accumulated depreciation	(103,388)	(98,306)	(931,423)
Net property and equipment	147,353	139,396	1,327,505
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 5)	11,023	11,645	99,306
Investments in associated companies (Note 4)	2,050	2,490	18,468
Goodwill and other intangible assets (Note 9)	16,457	11,950	148,261
Software (Note 7)	22,710	24,757	204,595
Asset for retirement benefits (Note 11)	2,806	1,566	25,279
Deferred tax assets (Note 17)	4,405	4,904	39,685
Other assets	33,569	32,989	302,424
Total investments and other assets	93,020	90,301	838,018
TOTAL	¥504,683	¥496,596	$4,546,694

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2019	2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 4 and 10)	¥ 19,186	¥ 5,000	$ 172,847
Trade payables (Note 4):			
Accounts	15,679	16,842	141,252
Other	25,017	26,464	225,378
Due to affiliates	852	842	7,676
Advances received	91,294	87,276	822,468
Income taxes payable (Note 4)	3,076	5,755	27,712
Other current liabilities	19,131	19,408	172,352
Total current liabilities	174,235	161,587	1,569,685
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Notes 4 and 10)	19,099	32,806	172,063
Lease obligations (Notes 4 and 8)	79,967	71,172	720,423
Guarantee deposits received from nursing home residents	36,077	36,923	325,018
Liability for retirement benefits (Note 11)	7,833	7,499	70,568
Deferred tax liabilities (Note 17)	1,262	457	11,369
Other long-term liabilities	11,110	11,029	100,091
Total long-term liabilities	155,348	159,886	1,399,532
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 4, 8 and 16)			
EQUITY (Notes 12 and 18)**:**			
Common stock—authorized, 405,282,040 shares in 2019 and 2018; issued, 102,483,603 shares in 2019 and 102,464,061 shares in 2018	13,662	13,624	123,081
Capital surplus	29,555	29,556	266,261
Stock acquisition rights	105	99	946
Retained earnings	152,165	154,246	1,370,856
Treasury stock—at cost—6,156,644 shares in 2019 and 6,156,103 shares in 2018	(21,360)	(21,358)	(192,432)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	1,372	1,719	12,360
Foreign currency translation adjustments	(5,748)	(5,404)	(51,785)
Defined retirement benefit plans (Note 11)	(267)	(1,218)	(2,405)
Total	169,484	171,264	1,526,882
Noncontrolling interests	5,616	3,859	50,595
Total equity	175,100	175,123	1,577,477
TOTAL	¥504,683	¥496,596	$4,546,694

Consolidated Statement of Income

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET SALES	¥439,432	¥434,497	$3,958,847
COST OF SALES (Notes 11 and 15)	249,050	249,993	2,243,694
Gross profit	190,382	184,504	1,715,153
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11, 14 and 15)	174,136	171,878	1,568,793
Operating income	16,246	12,626	146,360
OTHER INCOME (EXPENSES):			
Dividend income	143	141	1,288
Rent income	341	350	3,072
Interest expense—net (Note 10)	(4,275)	(3,998)	(38,514)
Foreign exchange (loss) gain	(758)	369	(6,829)
Gain on investments—net	350	190	3,153
Equity in net earnings of associated companies	324	192	2,919
Gain on sale of investment in a subsidiary		12,681	
Loss on impairment of long-lived assets (Note 7)	(467)	(874)	(4,207)
Other—net	180	(921)	1,623
INCOME BEFORE INCOME TAXES	12,084	20,756	108,865
INCOME TAXES (Note 17)**:**			
Current	5,723	8,142	51,559
Deferred	597	(513)	5,378
Total income taxes	6,320	7,629	56,937
NET INCOME	5,764	13,127	51,928
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	862	729	7,766
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 4,902	¥ 12,398	$ 44,162

	Yen		U.S. Dollars
	2019	2018	2019
PER SHARE OF COMMON STOCK (Notes 2.t and 21)**:**			
Basic net income	¥ 50.89	¥ 128.79	$ 0.46
Diluted net income	50.88	128.71	0.46
Cash dividends applicable to the year	72.50	95.00	0.65

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET INCOME	¥5,764	¥13,127	$51,928
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 11 and 19):			
Unrealized (loss) gain on available-for-sale securities	(333)	88	(3,000)
Foreign currency translation adjustments	(340)	(835)	(3,064)
Defined retirement benefit plans	940	(130)	8,468
Share of other comprehensive income in associates	3	17	27
Total other comprehensive income (loss)	270	(860)	2,431
COMPREHENSIVE INCOME	¥6,034	¥12,267	$54,359
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥5,162	¥11,560	$46,504
Noncontrolling interests	872	707	7,855

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2019

	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, 2017	96,188	¥13,600	¥29,479	¥115	¥150,991	¥ (21,736)	¥1,606	¥ (4,597)	¥ (1,074)	¥168,384	¥6,782	¥175,166
Issuance of new shares (Note 12)	11	24	24							48		48
Net income attributable to owners of the parent					12,398					12,398		12,398
Cash dividends, ¥95.0 per share					(9,143)					(9,143)		(9,143)
Purchases of treasury stock	(1)					(2)				(2)		(2)
Disposal of treasury stock	110		46	(42)		380				384		384
Change in the parent's ownership interest due to transactions with noncontrolling interests			7							7		7
Net change in the year				26			113	(807)	(144)	(812)	(2,923)	(3,735)
BALANCE, MARCH 31, 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

	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, 2018	$122,739	$266,270	$892	$1,389,604	$ (192,414)	$15,486	$ (48,685)	$ (10,973)	$1,542,919	$34,766	$1,577,685
Issuance of new shares (Note 12)	342	342							684		684
Net income attributable to owners of the parent				44,162					44,162		44,162
Cash dividends, $0.65 per share				(62,910)					(62,910)		(62,910)
Purchases of treasury stock					(18)				(18)		(18)
Change in the parent's ownership interest due to transactions with noncontrolling interests		(351)							(351)		(351)
Net change in the year			54			(3,126)	(3,100)	8,568	2,396	15,829	18,225
BALANCE, MARCH 31, 2019	$123,081	$266,261	$946	$1,370,856	$ (192,432)	$12,360	$ (51,785)	$ (2,405)	$1,526,882	$50,595	$1,577,477

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING ACTIVITIES:			
Income before income taxes	¥ 12,084	¥ 20,756	$ 108,865
Adjustments for:			
Depreciation and amortization	20,014	20,121	180,306
Loss on impairment of long-lived assets	467	874	4,207
Other noncash income and expenses—net	5,375	4,241	48,423
Gain on sale of investment in a subsidiary		(12,681)	
Changes in assets and liabilities, net of effects:			
(Decrease) increase in allowance for doubtful receivables and other reserves	(242)	1,073	(2,180)
Increase in trade accounts receivable	(2,626)	(2,423)	(23,658)
Increase in inventories	(1,455)	(4,641)	(13,108)
(Decrease) increase in trade accounts payable	(2,955)	2,705	(26,622)
Increase in advances received	2,413	6,651	21,739
(Increase) decrease in asset for retirement benefits	(1,240)	109	(11,171)
Other—net	(3,874)	342	(34,900)
Subtotal	27,961	37,127	251,901
Interest and dividends received	665	678	5,991
Interest paid	(4,759)	(4,460)	(42,874)
Income taxes—paid	(11,370)	(8,437)	(102,432)
Income taxes—refund	1,451	1,542	13,072
Net cash provided by operating activities	13,948	26,450	125,658
INVESTING ACTIVITIES:			
Decrease (increase) in time deposits—net	296	(867)	2,667
Purchases of marketable securities	(60,313)	(34,042)	(543,360)
Proceeds from sales of marketable securities	49,520	40,218	446,126
Purchases of property and equipment	(6,783)	(6,198)	(61,108)
Purchases of software	(6,192)	(5,766)	(55,784)
Purchases of investment securities	(1,560)	(470)	(14,054)
Proceeds from sales of investment securities	754	1,155	6,793
Proceeds from sale of interests in a subsidiary previously consolidated		12,910	
Cash decrease due to acquisition of controlling interest in a company	(3,879)		(34,946)
Other—net	(2,334)	(1,436)	(21,027)
Net cash (used in) provided by investing activities	(30,491)	5,504	(274,693)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	5,000		45,045
Repayments of long-term debt	(5,046)		(45,459)
Dividends paid	(6,987)	(9,150)	(62,946)
Repayments of lease obligations	(2,316)	(2,222)	(20,865)
Dividends paid to noncontrolling interests	(588)	(1,531)	(5,297)
Other—net	(148)	390	(1,334)
Net cash used in financing activities	(10,085)	(12,513)	(90,856)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(1,127)	(137)	(10,153)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(27,755)	19,304	(250,044)
CASH AND CASH EQUIVALENTS OF A NEWLY CONSOLIDATED SUBSIDIARY	2,108		18,991
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	138,305	119,001	1,245,991
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	¥112,658	¥138,305	$1,014,938
ADDITIONAL CASH FLOW INFORMATION:			

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Acquisition of controlling interests in a company:			
Current assets	¥ 2,205		$ 19,865
Long-term assets	3,999		36,027
Consolidation goodwill	3,989		35,937
Current liabilities	(3,280)		(29,550)
Long-term liabilities	(880)		(7,928)
Noncontrolling interest	(712)		(6,414)
Acquisition cost	5,321		47,937
Cash and cash equivalents of a newly consolidated subsidiary	(1,442)		(12,991)
Cash decrease due to acquisition of controlling interests in a company	¥ 3,879		$ 34,946
Proceeds from sale of interests in a subsidiary previously consolidated:			
Current assets		¥ 7,027	
Long-term assets		3,105	
Current liabilities		(4,468)	
Long-term liabilities		(530)	
Unrealized gain on available-for-sale securities		(51)	
Foreign currency translation adjustments		(29)	
Defined retirement benefit plans		13	
Noncontrolling interest		(2,118)	
Transfer expenses		300	
Gain on sale of investment in a subsidiary		12,681	
Selling price		15,930	
Transfer expenses		(300)	
Cash and cash equivalents of a subsidiary		(2,720)	
Proceeds from sale of interests in a subsidiary previously consolidated		¥12,910	
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Assets and obligations from finance lease transactions recognized in the consolidated balance sheet:			
Lease assets	¥10,539	¥7,361	$ 94,946
Lease obligations	11,376	7,809	102,486

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	Thousands of U.S. Dollars
Current assets (Note 20)*	¥2,162	$19,477
Long-term assets (Note 20)	332	2,991
Total assets (Note 20)	¥2,494	$22,468
Current liabilities (Note 20)	¥ 750	$ 6,757
Long-term liabilities (Note 20)	19	171
Total liabilities (Note 20)	¥ 769	$ 6,928

*Cash and cash equivalents amount of ¥2,108 million ($18,991 thousand) are included in cash and cash equivalents of a newly consolidated subsidiary.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Benesse Holdings, Inc. and Subsidiaries
Year Ended March 31, 2019

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 2018 consolidated financial statements to conform to the classifications used in 2019.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥111 to $1, the approximate rate of exchange at March 31, 2019. 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 40 (38 in 2018) 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, 2019 and 2018, such deferred profit amounted to ¥1,959 million ($17,649 thousand) and ¥1,607 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 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. Intangible assets that are determined not to have an indefinite life primarily consist of publishing rights. Publishing rights are amortized on a straight-line basis over 25 years.

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.

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. 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 corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

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. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥3,273 million which were previously classified as current assets, as of March 31, 2018, have been reclassified as investments and other assets, in the accompanying consolidated balance sheet.

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

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.

u. 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." 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.

Revenue from Contracts with Customers—On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers."

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.

Certain overseas subsidiaries that apply U.S. GAAP applied this accounting standard from the beginning of the annual period beginning on April 1, 2019, and are in the process of measuring the effects of applying the accounting standard in future applicable periods.

Leases—On January 13, 2016, the International Accounting Standards Board (IASB) issued IFRS 16, "Leases," and on February 25, 2016, FASB issued ASU 2016-02, "Leases," requiring recognition of substantially all lease assets and leases liabilities on the balance sheet.

Certain overseas subsidiaries that apply IFRS applied this accounting standard from the beginning of the annual period beginning on April 1, 2019, and certain overseas subsidiaries that apply U.S. GAAP expected to apply this accounting standard from the beginning of annual periods beginning on April

1, 2020, and are in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Note 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Cash and time deposits	¥109,682	¥134,206	$ 988,126
Marketable securities	34,467	23,600	310,514
Time deposits and short-term investments which mature or become due after more than three months from acquisition date	(18,075)	(11,383)	(162,837)
Investment fund and other	(13,416)	(8,118)	(120,865)
Cash and cash equivalents	¥112,658	¥138,305	$1,014,938

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 commercial papers, negotiable certificates of deposit, trust beneficiary rights, government and corporate bonds, and others including equity securities and trust fund investments with certain holding limits, which 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 quarterly, and are also reported 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, 2019 and 2018, 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, 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)	
March 31, 2018			
Cash and time deposits	¥134,206	¥134,206	
Trade receivables	72,485		
Allowance for doubtful receivables	(1,547)		
Net trade receivables	70,938	70,938	
Marketable and investment securities	32,685	32,685	
Total	¥237,829	¥237,829	
Trade payables	¥ 44,148	¥ 44,148	
Income taxes payable	5,755	5,755	
Long-term debt	37,806	37,902	¥ 96
Lease obligations	73,291	78,193	4,902
Total	¥161,000	¥165,998	¥4,998

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
March 31, 2019			
Cash and time deposits	$ 988,126	$ 988,126	
Trade receivables	707,748		
Allowance for doubtful receivables	(15,802)		
Net trade receivables	691,946	691,946	
Marketable and investment securities	382,766	382,757	$ (9)
Total	$2,062,838	$2,062,829	$ (9)
Trade payables	$ 374,306	$ 374,306	
Income taxes payable	27,712	27,712	
Long-term debt	344,910	345,541	$ 631
Lease obligations	741,811	793,000	51,189
Total	$1,488,739	$1,540,559	$51,820
Derivatives	$ (144)	$ (144)	

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
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥1,135	¥1,169	$10,225
Investments in partnerships	1,868	1,391	16,829
Investments in associated companies	2,050	2,490	18,468
Total	¥5,053	¥5,050	$45,522

(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, 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
March 31, 2018				
Time deposits	¥133,746			
Trade receivables	72,485			
Marketable and investment securities—Available-for-sale securities with fund investments and other:				
Government and corporate bonds	¥ 1,500	¥2,931		
Trust fund investments and other	22,100	969		
Total marketable and investment securities	¥ 23,600	¥3,900		

	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, 2019				
Time deposits	$969,468			
Trade receivables	707,748			
Marketable and investment securities—Available-for-sale securities with fund investments and other:				
Government and corporate bonds	$ 32,027	$21,036		
Trust fund investments and other	278,378	8,892	$910	$901
Total marketable and investment securities	$310,405	$29,928	$910	$901

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, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Current:			
Government and corporate bonds	¥ 3,566	¥ 1,500	$ 32,126
Trust fund investments and other	30,901	22,100	278,388
Total	¥34,467	¥23,600	$310,514
Non-current:			
Marketable equity securities	¥ 4,437	¥ 5,141	$ 39,973
Investments in equity instruments that do not have a quoted market price in an active market	1,135	1,169	10,225
Investments in partnerships	1,868	1,391	16,829
Government and corporate bonds	2,446	2,976	22,036
Trust fund investments and other	1,137	968	10,243
Total	¥11,023	¥11,645	$ 99,306

The costs and aggregate fair values of marketable and investment securities at March 31, 2019 and 2018, were as follows:

	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
March 31, 2018				
Securities classified as available-for-sale:				
Equity securities	¥ 2,841	¥2,312	¥12	¥ 5,141
Government and corporate bonds	4,403	78	5	4,476
Trust fund investments and other	23,105		37	23,068

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as:				
Trading				$ 9
Available-for-sale:				
Equity securities	$ 27,244	$13,306	$577	39,973
Government and corporate bonds	53,100	1,224	162	54,162
Trust fund investments and other	288,784	9	162	288,631

The proceeds and realized gains of the available-for-sale securities that were sold during the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Proceeds from sales	¥165	¥267	$1,486
Gross realized gains	¥ 16	¥ 43	$ 144
Gross realized losses	15		135
Net realized gain	¥ 1	¥ 43	$ 9

Note 6. INVENTORIES

Inventories at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Finished products	¥26,229	¥23,998	$236,297
Work in process	2,889	4,318	26,027
Raw materials and supplies	1,831	1,388	16,496
Total	¥30,949	¥29,704	$278,820

Note 7. LONG-LIVED ASSETS

The Company and its subsidiaries reviewed their long-lived assets for impairment as of March 31, 2019 and 2018. 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, 2019				
Unused	Land, software and others	¥175	$1,577	The assessed value of fixed assets
Language training business	Buildings and structures and others	61	550	The assessed value of fixed assets
English language classes for children business	Buildings and structures and others	55	495	The assessed value of fixed assets
Cram and prep school business	Buildings and structures and others	54	487	The assessed value of fixed assets
Management system	Software	41	369	The assessed value of fixed assets
Cram school business	Buildings and structures and others	17	153	The assessed value of fixed assets
Photo studio business	Buildings and structures and others	41	369	The assessed value of fixed assets
Residential care services business	Leases assets, buildings and structures and others	23	207	The assessed value of fixed assets
	Total	¥467	$4,207	
Year ended March 31, 2018				
Language training business and overseas study support business	Goodwill	¥718		The calculated value in use was ¥2,277 million and the discount rate used for computation of the present value of future cash flow was 12.3%
Correspondence course business in Taiwan	Software for internal use and others	99		The assessed value of fixed assets
Residential care services business	Buildings and structures and others	25		The assessed value of fixed assets
English language classes for children business	Buildings and structures and others	22		The assessed value of fixed assets
Cram and prep school business	Buildings and structures and others	10		The assessed value of fixed assets
	Total	¥874		

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	
	2019		2019	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 2,374	¥13,512	$ 21,388	$121,730
Due after one year	79,967	61,666	720,423	555,549
Total	¥82,341	¥75,178	$741,811	$677,279

Note 9. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Consolidation goodwill	¥10,355	¥ 7,686	$ 93,288
Goodwill associated with domestic consolidated subsidiaries	410	465	3,694
Goodwill associated with a foreign consolidated subsidiary	1,939	2,507	17,468
Others	3,753	1,292	33,811
Total	¥16,457	¥11,950	$148,261

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

Long-term debt at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loans from banks with interest rates			
ranging from 0.030% to 0.230% in 2019 and 0.030% to 0.130% in 2018:			
Collateralized	¥ 278		$ 2,505
Unsecured	38,007	¥37,806	342,405
Total	38,285	37,806	344,910
Less current portion	(19,186)	(5,000)	(172,847)
Long-term debt, less current portion	¥19,099	¥32,806	$172,063

Annual maturities of long-term debt, excluding finances leases (see Note 8), at March 31, 2019, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥19,186	$172,847
2021	13,943	125,613
2022	41	369
2023	5,021	45,234
2024	21	189
2025 and thereafter	73	658
Total	¥38,285	$344,910

The carrying amounts of assets pledged as collateral for above collateralized long-term debt at March 31, 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings, and leasehold improvements	¥115	$1,157
Land	333	3,339
Total	¥448	$4,496

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, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥24,557	¥23,634	$221,234
Current service cost	1,511	1,415	13,613
Interest cost	170	192	1,532
Actuarial (gains) losses	(1,366)	531	(12,306)
Benefits paid	(884)	(772)	(7,964)
Past service cost	82	169	739
Foreign currency translation difference for a foreign subsidiary	188	(34)	1,694
Decrease resulting from exclusion of subsidiaries from consolidation		(579)	
Other	(2)	1	(19)
Balance at end of year	¥24,256	¥24,557	$218,523

(2) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥18,524	¥17,975	$166,883
Expected return on plan assets	501	355	4,514
Actuarial (gains) losses	(232)	208	(2,090)
Contributions from the employer	726	742	6,540
Benefits paid	(409)	(367)	(3,685)
Decrease resulting from exclusion of subsidiaries from consolidation		(389)	
Others			
Balance at end of year	¥19,110	¥18,524	$172,162

(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
	2019	2018	2019
Funded defined benefit obligation	¥16,304	¥16,958	$146,883
Plan assets	(19,110)	(18,524)	(172,162)
Total	(2,806)	(1,566)	(25,279)
Unfunded defined benefit obligation	7,952	7,599	71,640
Net liability arising from defined benefit obligation	¥ 5,146	¥ 6,033	$ 46,361

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥7,952	¥7,599	$71,640
Asset for retirement benefits	(2,806)	(1,566)	(25,279)
Net liability arising from defined benefit obligation	¥5,146	¥6,033	$46,361

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 ¥186 million ($1,676 thousand) and ¥190 million for SERP for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥2,146	¥2,077	$19,333
Interest cost	170	192	1,532
Expected return on plan assets	(501)	(355)	(4,514)
Recognized actuarial losses	246	291	2,217
Amortization of prior service cost	25		225
Net periodic benefit costs	¥2,086	¥2,205	$18,793

Service cost includes ¥635 million ($5,720 thousand) and ¥662 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, 2019 and 2018, respectively.

The Companies have also paid additional retirement benefits to employees for the year ended March 31, 2018. These payments, which are not included in net periodic benefit costs above, are included in ¥218 million ($2,057 thousand) of other expenses for the year ended March 31, 2018.

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Prior service cost	¥ (57)	¥ (168)	$ (514)
Actuarial gains (amount before income tax effect)	1,380	2	12,432
Total	¥1,323	¥ (166)	$11,918

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized prior service cost (amount before income tax effect)	¥ (222)	¥ (165)	$ (2,000)
Unrecognized actuarial losses (amount before income tax effect)	(144)	(1,524)	(1,297)
Total	¥ (366)	¥ (1,689)	$ (3,297)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2019 and 2018, consisted of the following:

	2019	2018
Debt investments	31%	33%
Equity investments	20	20
General account	18	18
Cash and cash equivalents	8	5
Others	23	24
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, 2019 and 2018, were set forth as follows:

		2019	2018
Discount rate	The Company and domestic consolidated subsidiaries	Primarily 0.3%	Primarily 0.5%
	Foreign consolidated subsidiaries	Primarily 4.0%	Primarily 3.3%
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 7.1%
	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, 2019 and 2018, for directors, Audit & Supervisory Board members and Company officers at certain domestic subsidiaries was ¥67 million ($604 thousand) and ¥90 million, respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders.

Note 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 ($342 thousand) and ¥24 million as of March 31, 2019 and 2018, respectively.

c. Treasury Stock and Treasury Stock Acquisition Rights

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

Note 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) *Matters regarding Changes in Reportable Segments*

For the year ended March 31, 2019, as a result of organizational change effective April 1, 2018, in order to achieve long-term growth for the Group as a whole, the Group changed its reportable segments from Domestic Education Company, Overseas Business Company, Nursing Care and Childcare Company, and Language Learning Company to Domestic Education Business, Global Kodomo Challenge Business, Nursing Care and Childcare Business and Berlitz Business. Domestic Kodomo Challenge Business of Benesse Corporation and Benesse Music Publishing Co. previously included in the Domestic Education Company are determined to be included in Global Kodomo Challenge Business, Okayama Language Center, Simul International, Inc. and its subsidiaries previously included in the Language Learning Company are determined to be included in Others and Benesse Education Research and Development Institute that was transferred from Benesse Holdings, Inc. to Benesse Corporation, previously included in Reconciliations as a part of Corporate expense, is determined to be included in Domestic Education Business.

Moreover, segment information for the year ended March 31, 2018, has been restated based on the new classification after these changes.

(3) *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."

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

	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

	Millions of Yen								
	2018								
	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	¥182,028	¥52,221	¥111,812	¥51,306	¥397,367	¥37,130	¥434,497		¥434,497
Intersegment sales or transfers	287	13	85	1,788	2,173	23,700	25,873	¥ (25,873)	
Total	¥182,315	¥52,234	¥111,897	¥53,094	¥399,540	¥60,830	¥460,370	¥ (25,873)	¥434,497
Segment profit (loss)	¥ 9,092	¥ 2,328	¥ 8,851	¥ (4,000)	¥ 16,271	¥ 1,094	¥ 17,365	¥ (4,739)	¥ 12,626
Segment assets	163,126	42,873	162,759	32,933	401,691	22,601	424,292	72,304	496,596
Other:									
Increase in property and equipment and intangible assets	7,181	1,090	9,548	870	18,689	752	19,441	(22)	19,419
Depreciation	9,189	1,038	4,369	1,820	16,416	1,329	17,745	(11)	17,734
Amortization of goodwill	1,071		534	604	2,209	19	2,228		2,228
Loss on impairment of long-lived assets	32	99	25	718	874		874		874
Goodwill at March 31, 2018	3,878		4,421	2,359	10,658		10,658		10,658
Investment in equity method affiliates	820	69			889	1,670	2,559		2,559

	Thousands of U.S. Dollars								
	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	$1,730,306	$508,505	$1,054,054	$443,928	$3,736,793	$222,054	$3,958,847		$3,958,847
Intersegment sales or transfers	1,018	189	505	16,513	18,225	178,802	197,027	$ (197,027)	
Total	$1,731,324	$508,694	$1,054,559	$460,441	$3,755,018	$400,856	$4,155,874	$ (197,027)	$3,958,847
Segment profit (loss)	$ 90,595	$ 29,351	$ 102,667	$ (42,775)	$ 179,838	$ 4,990	$ 184,828	$ (38,468)	$ 146,360
Segment assets	1,551,396	386,820	1,569,045	259,694	3,766,955	198,640	3,965,595	581,099	4,546,694
Other:									
Increase in property and equipment and intangible assets	148,207	10,775	107,883	10,901	277,766	8,171	285,937	(1,414)	284,523
Depreciation	83,730	10,829	42,117	17,144	153,820	9,063	162,883	(117)	162,766
Amortization of goodwill	8,910		4,811	2,657	16,378		16,378		16,378
Loss on impairment of long-lived assets	1,883		198	550	2,631		2,631	1,576	4,207
Goodwill at March 31, 2019	61,964		35,018	17,468	114,450		114,450		114,450
Investment in equity method affiliates	2,081	631			2,712	16,387	19,099		19,099

Note: The details of reconciliations are as follows:

	Millions of Yen		Thousands of U.S. Dollars
Sales	2019	2018	2019
Intersegment eliminations	¥ (21,870)	¥ (25,873)	$ (197,027)
Total	¥ (21,870)	¥ (25,873)	$ (197,027)

	Millions of Yen		Thousands of U.S. Dollars
Profit (Loss)	2019	2018	2019
Intersegment eliminations	¥ (135)	¥ 38	$ (1,216)
Corporate expenses	(4,135)	(4,777)	(37,252)
Total	¥ (4,270)	¥ (4,739)	$ (38,468)

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.

	Millions of Yen		Thousands of U.S. Dollars
Assets	2019	2018	2019
Intersegment eliminations	¥ (14,057)	¥ (13,199)	$ (126,640)
Corporate assets	78,559	85,503	707,739
Total	¥ 64,502	¥ 72,304	$ 581,099

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

	Millions of Yen		Thousands of U.S. Dollars
Increase in Tangible and Intangible Fixed Assets	2019	2018	2019
Intersegment eliminations	¥ (322)	¥ (281)	$ (2,901)
Corporate assets	165	259	1,487
Total	¥ (157)	¥ (22)	$ (1,414)

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

	Millions of Yen		Thousands of U.S. Dollars
Depreciation	2019	2018	2019
Intersegment eliminations	¥ (253)	¥ (251)	$ (2,279)
Corporate expenses	240	240	2,162
Total	¥ (13)	¥ (11)	$ (117)

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						Thousands of U.S. Dollars	
2019			2018			2019		
Japan	Others	Total	Japan	Others	Total	Japan	Others	Total
¥367,040	¥72,392	¥439,432	¥361,644	¥72,853	¥434,497	$3,306,667	$652,180	$3,958,847

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

Note 14. ADVERTISING COSTS

Advertising costs charged to income were ¥33,130 million ($298,468 thousand) and ¥32,342 million for the years ended March 31, 2019 and 2018, respectively.

Note 15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,312 million ($11,820 thousand) and ¥1,035 million for the years ended March 31, 2019 and 2018, 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, 2019

	Millions of Yen			
	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			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts— Selling—U.S. dollars	$24,640		$ (144)	$ (144)

Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2019 and 2018

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

	Hedged Item	Millions of Yen 2018 Contract Amount	Millions of Yen 2018 Contract Amount Due after One Year
Interest rate and currency swap	Long-term debt	¥9,806	¥9,806

	Hedged Item	Thousands of U.S. Dollars 2019 Contract Amount	Thousands of U.S. Dollars 2019 Contract Amount Due after One Year
Interest rate and currency swap	Long-term debt	$88,342	$88,342

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 year ended March 31, 2019, and 30.9% for the year ended March 31, 2018.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Tax loss carryforwards	¥11,469	¥10,156	$103,324
Depreciation	4,565	4,700	41,126
Provision for employees' bonuses	2,005	2,183	18,063
Accrued expenses	1,664	1,700	14,991
Liability for retirement benefits	1,540	1,394	13,874
Trade receivables—accounts	1,199	1,279	10,802
Long-term payables—other	880	961	7,928
Foreign tax credit carryforwards	443	203	3,992
Asset retirement obligations	440	386	3,964
Advances received	425		3,830
Deferred consumption taxes	371	263	3,343
Inventories	369	427	3,324
Enterprise tax	363	516	3,270
Loss on impairment of long-lived assets	338	830	3,045
Social insurance premium	326	360	2,937
Payables—other	274	207	2,468
Deferred revenue	257	352	2,315
Unrealized profit on fixed assets	242	210	2,180
Loss on valuation of investment securities	167	136	1,505
Other	696	686	6,271
Total of tax loss carryforwards and temporary differences	28,033	26,949	252,552
Less valuation allowance for tax loss carryforwards	(10,158)		(91,513)
Less valuation allowance for temporary differences	(8,876)		(79,964)
Total valuation allowance	(19,034)	(18,320)	(171,477)
Total	8,999	8,629	81,075
Offset with deferred tax liabilities	4,594	3,725	41,390
Net deferred tax assets	¥ 4,405	¥ 4,904	$ 39,685
Deferred tax liabilities:			
Inventories	¥ 1,973	¥ 1,679	$ 17,775
Unrealized gain on available-for-sale securities	612	771	5,514
Intangible assets	1,146	261	10,324
Undistributed earnings of foreign subsidiaries and associated companies	755	658	6,802
Prepaid pension expenses	858	483	7,730
Other	512	330	4,614
Total	5,856	4,182	52,759
Offset with deferred tax assets	4,594	3,725	41,390
Net deferred tax liabilities	¥ 1,262	¥ 457	$ 11,369

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

	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, 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	$541	$2,162	$640	$2,378	$9,423	$88,180	$103,324
Less valuation allowances for tax loss carryforwards	442	2,162	640	2,378	9,423	76,468	91,513
Net deferred tax assets relating to tax loss carryforwards	99					11,712	11,811

For the tax loss carryforwards of ¥11,469 million ($103,324 thousands) (amount multiplied by effective statutory tax rate), deferred tax assets of ¥1,311 million ($11,811 thousands) have been recorded. 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, 2019 and 2018, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2019	2018
Normal effective statutory tax rate	30.6%	30.9%
Difference in burden of income taxes with the foreign consolidated subsidiaries	6.7	(1.7)
Change in the valuation allowance	5.8	(2.7)
Expense not deductible for income tax purposes	5.1	3.1
Amortization of goodwill	4.4	3.1
Per capita inhabitants' taxes	3.8	2.2
Foreign withholdings tax	2.0	1.5
Equity in net earnings of affiliated companies	0.8	(0.4)
Revenue exempt from income tax purposes	(1.9)	(1.0)
Tax credit under tax package incentivizing wage increases and productivity enhancements	(1.9)	
Foreign tax credit	(1.0)	(0.4)
Share of loss (profit) of entities accounted for using the equity method	(0.8)	(0.3)
Tax credit under the income growth promotion tax system		(1.9)
Adjustment of gain on sales of investments in a consolidated subsidiary		4.1
Decrease in deferred tax assets by change of tax rate		0.8
Other	(1.3)	(0.5)
Actual effective tax rate	52.3%	36.8%

Note 18. STOCK OPTION PLAN

The stock options that existed as of March 31, 2019, are as follows:

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

The stock option activity is as follows:

	2015 Stock Option	2016 Stock Option
	(Shares)	
Year Ended March 31, 2019		
Non-vested		
March 31, 2018—Outstanding		975
Granted		
Canceled		
Vested		975
March 31, 2019—Outstanding		
Vested		
March 31, 2018—Outstanding	2,079	
Vested		975
Exercised		
Canceled		
March 31, 2019—Outstanding	2,079	975
Exercise price	¥3,513	¥2,639
	($32)	($24)
Average stock price at exercise		
Fair value price at grant date	¥377	¥277
	($3)	($2)

Note 19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (237)	¥ 340	$ (2,135)
Reclassification adjustments to profit or loss	(248)	(215)	(2,234)
Amount before income tax effect	(485)	125	(4,369)
Income tax effect	152	(37)	1,369
Total	¥ (333)	¥ 88	$ (3,000)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (340)	¥ (786)	$ (3,064)
Reclassification adjustments to profit or loss		(49)	
Amount before income tax effect	(340)	(835)	(3,064)
Total	¥ (340)	¥ (835)	$ (3,064)
Defined retirement benefit plans:			
Adjustments arising during the year	¥1,057	¥ (484)	$ 9,522
Reclassification adjustments to profit or loss	266	318	2,396
Amount before income tax effect	1,323	(166)	11,918
Income tax effect	(383)	36	(3,450)
Total	¥ 940	¥ (130)	$ 8,468
Share of other comprehensive income in associates:			
Gains arising during the year	¥ 9	¥ 19	$ 81
Reclassification adjustments to profit or loss	(2)	(2)	(18)
Amount before income tax effect	7	17	63
Income tax effect	(4)		(36)
Total	¥ 3	¥ 17	$ 27
Total other comprehensive income (loss)	¥ 270	¥ (860)	$ 2,431

Note 20. BUSINESS COMBINATIONS

Business Combination by Acquisition

Classi Corporation

a. Outline of the business combination

(1)Name of acquired company and its business outline

Name of the acquired company: Classi Corporation ("Classi")

Business outline: Development and operation of learning platforms

(2)Major reason for the business combination

Classi was established in April 2014 as a joint venture between the Company and Softbank Corp. (now, Softbank Group Corp.). The provision of Classi, a cloud-based learning platform, enables a new kind of learning from four different perspectives: adaptive learning, active learning, communication, and learning log (portfolio). Notably, with its significant presence in the high school market, the Classi platform boasts the leading market share in Japan. To strengthen the relationship between the Company and Classi, Classi became a consolidated subsidiary of the Company.

(3)Date of business combination

January 1, 2019

(4)Legal form of business combination

Applying the control criteria, Classi became a consolidated subsidiary of the Company.

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

(6)Ratio of voting rights acquired
Ratio of voting rights held before change 50%
Ratio of voting rights held after change 50%

(7)Basis for determining the acquirer
The Company had a majority of the Board of Directors membership of Classi and provided the majority of the total amount of funding for Classi, therefore in accordance with applying the control criteria, Classi decided to provide the majority of total amount of funding of Classi.

b. The period for which the operations of the acquired company are included in the consolidated financial statements
From January 1, 2019 to March 31, 2019
Classi's operating results from April 1, 2018 to December 31, 2019, are included by equity method investment profit.

c. Acquisition cost of the acquired company and related details of each class of consideration

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost of acquired business—Fair value of Classi's stock at the time before business combination	¥862	$7,766

Acquisition cost of acquired business was accounted in accordance with "Accounting Standard for Business Combinations," and "Revised Guidance on Accounting Standard for Business Combination and Accounting Standard."

d. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization
Goodwill and negative goodwill is not incurred.

e. The assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥2,162	$19,477
Long-term assets	332	2,991
Total assets	¥2,494	$22,468
Current liabilities	¥ 750	$ 6,757
Long-term liabilities	19	171
Total liabilities	¥ 769	$ 6,928

f. Pro forma information (unaudited)
If this business combination had been completed as of April 1, 2018, the beginning of the current fiscal year, the effects on the consolidated statement of income for the year ended March 31, 2019, would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥1,453	$13,090
Operating income	419	3,775

Outline of the method of calculation for the effects above:

Difference between net sales and operating income that was estimated as though the business combination had been completed at the beginning of the fiscal year and net sales and operating income in the consolidated statement of income are presented as the estimated amounts of impact.

EDUCOM Corporation

On January 8, 2019, Classi, consolidated subsidiary of the Company, acquired 65.2% of the issued shares of EDUCOM Corporation (head office: Kasugai City, Aichi Prefecture). As a result, EDUCOM Corporation became a consolidated subsidiary of the Company.

a. Outline of the business combination

(1)Name of acquired company and its business outline

Name of the acquired company:	EDUCOM Corporation ("EDUCOM")
Business outline:	Development and sales of school support systems for public elementary and junior high schools

(2)Major reason for the business combination

Under its corporate slogan of "supporting the creation of healthy schools," EDUCOM provides EDUCOM Manager C4th, an integrated school support system that helps streamline the school business of teaching staff of elementary and junior high schools as well as education boards nationwide, as both a cloud-based and on-premise solution. The joint provision of services offered by EDUCOM, which has extensive knowledge of school business support spanning nearly 30 years, and Classi, which has assisted teachers and students with both school business and learning, especially in high schools, will reduce and streamline the workload of schools, thereby ensuring that teachers have time to spend with their students. In addition, we will provide high quality and in-depth school guidance services by linking and leveraging the teaching and learning support data of Classi, as well as the various school business data of EDUCOM.

(3)Date of business combination

January 1, 2019

(4)Legal form of business combination

Share acquisition by cash

(5)Name of the company after the combination

No change

(6)Ratio of voting rights acquired

65.2%

(7)Basis for determining the acquirer

Classi, consolidated subsidiary of the Company, acquired 65.2% of the issued shares of EDUCOM by cash.

b. The period for which the operations of the acquired company are included in the consolidated financial statements

From January 1, 2019 to March 31, 2019

c. Acquisition cost of the acquired company and related details of each class of consideration

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition–Cash	¥5,321	$47,937
Acquisition cost	¥5,321	$47,937

d. Major acquisition-related costs

	Millions of Yen	Thousands of U.S. Dollars
Advisory fees and others	¥ 20	$ 180

e. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(1)

	Millions of Yen	Thousands of U.S. Dollars
Amount of goodwill incurred	¥3,989	$35,937

The purchase price allocation has not yet been completed as of March 31, 2019. Therefore, the amount of goodwill is accounted for on a provisional basis.

(2)Reasons for the goodwill incurred

Goodwill is incurred from expected excess earnings power in the future arising from further business development.

(3)Method and period of amortization

Goodwill is amortized on a straight-line basis over 20 years.

f. The assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥2,205	$19,865
Long-term assets	3,999	36,027
Total assets	¥6,204	$55,892
Current liabilities	¥3,280	$29,550
Long-term liabilities	880	7,928
Total liabilities	¥4,160	$37,478

g. Amount allocated to intangible assets other than goodwill, and amortization period

(1)

	Millions of Yen	Thousands of U.S. Dollars
Amount allocated to intangible assets	¥2,821	$25,414

(2)Breakdown by type

	Millions of Yen	Thousands of U.S. Dollars
Customer-related assets	¥2,821	$25,414

(3)Period of amortization of goodwill

20 years

h. The purchase price allocation

The process for evaluating the fair value of assets and liabilities on the date of the above business combination is under examination and the purchase price allocation has not yet been completed as of March 31, 2019. Therefore, the purchase price allocation is accounted for on a provisional basis.

i. Pro forma information (unaudited)

If this business combination had been completed as of April 1, 2018, the beginning of the current fiscal year, the effects on the consolidated statement of income for the year ended March 31, 2019, would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥1,616	$14,559
Operating loss	(150)	(1,351)

Outline of the method of calculation for the effects above:

Difference between net sales and operating income that was estimated as though the business combination had been completed at the beginning of the fiscal year and net sales and operating income in the consolidated statement of income are presented as the estimated amounts of impact. In addition, amortization was estimated as though goodwill was recognized at the business combination date had arose at the beginning of the year ended March 31, 2019.

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, 2019 and 2018, 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, 2019				
Basic EPS— Net income available to common shareholders	¥ 4,902	96,321	¥ 50.89	$0.46
Effect of dilutive securities—Warrants		23		
Diluted EPS—Net income for computation	¥ 4,902	96,344	¥ 50.88	$0.46
Year Ended March 31, 2018				
Basic EPS— Net income available to common shareholders	¥12,398	96,262	¥128.79	
Effect of dilutive securities—Warrants		62		
Diluted EPS—Net income for computation	¥12,398	96,324	¥128.71	

Note 22. SUBSEQUENT EVENT

a. Borrowing of Significant Funds

The Company has borrowed funds under the following loan agreement executed with the Chugoku Bank, Limited.

(1)Use of funds: Long-term operating capital
(2)Contract date: April 26, 2019
(3)Lender: Chugoku Bank, Limited
(4)Loan amount: ¥5,000 million ($45,045 thousand)
(5)Execution date: April 26, 2019
(6)Interest rate: Fixed interest 0.13%
(7)Repayment method: Lump-sum repayment on April 28, 2023
(8)Assets pledged as collateral: None

b. Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2019, was approved at the Company's shareholders' meeting held on June 22, 2019:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 ($0.23) per share	¥2,408	$21,694

Independent Auditor's Report

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

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Benesse Holdings, Inc. and its subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Benesse Holdings, Inc. and its subsidiaries as of March 31, 2019, and the consolidated results of their operations and their 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.

Deloitte Touche Tohmatsu LLC

June 22, 2019

Member of
Deloitte Touche Tohmatsu Limited

Benesse

Benesse Holdings, Inc.

Corporate Communications &
Investor Relations Department

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