

ANNUAL REPORT 2000

For the Year Ended March 31, 2000



Benesse

Consolidated Financial Highlights

Years ended March 31, 2000 and 1999	Millions of Yen		Percentage Change	Thousands of U.S. Dollars
	2000	1999		2000
For the Year:				
Net Sales	¥260,964	¥259,852	0.4%	\$2,461,925
Operating Income	32,954	30,981	6.4	310,887
Income before Income Taxes and Minority Interests	29,746	31,501	(5.6)	280,623
Net Income	16,413	16,036	2.4	154,840
At Year-End:				
Total Assets	¥297,828	¥280,620	6.1%	\$2,809,698
Shareholders' Equity	160,302	146,933	9.1	1,512,283
Per Share of Common Stock:				
	Yen			U.S. Dollars
Net Income	¥ 309	¥ 302		\$ 2.92
Shareholders' Equity	3,015	2,763		28.44
Cash Dividends Applicable to the Year	58	48		0.55
Ratios:				
	Percentage			
Equity Ratio	53.8	52.4		
Return on Equity	10.7	11.5		
Employees				
	Employees			
	8,234	7,891		

- Notes: 1. U.S. dollar figures are translated, for convenience only, at the rate of ¥106 to U.S.\$1, the effective rate of exchange prevailing on March 31, 2000.
2. Fiscal years herein are designated by the calendar year in which the business term ends. Thus, the fiscal year 1999, ended March 31, 2000, is noted as 2000.
3. In previous years, unrecognized past service costs under the contributory defined benefit pension plan were expensed in the term in which they were funded. Due to a change in accounting policy during the year ended March 31, 2000, the unrecognized past service costs are accounted for as a liability and charged to income on an accrual basis. As a result of this change, the Company and its domestic consolidated subsidiaries have recognized past service costs of ¥3.4 billion (US\$32,075 thousand).
4. The computation of Net Income per Share of Common Stock is based on the weighted average number of shares of common stock outstanding during each year.
5. Return on Equity is calculated based on the average of total shareholders' equity at the beginning and end of each fiscal year.

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Corporate Philosophy

“Benesse” is a new word coined from the Latin words “bene” meaning “good” or “well,” and “esse” meaning “to live,” or “to be.” As such, the name “Benesse” expresses our corporate philosophy: to help people live well.

Benesse Corporation is determined to help people live with aspirations, coming closer, step-by-step, to making one’s dreams and ideals a reality, and moreover, turning the process itself into a pleasure and source of happiness.

The Benesse Charter (Instituted April 1998)

Preamble

To realize the above, we will dedicate ourselves to “total commitment to the customer.” This means always viewing our Company from the customers’ perspectives and constantly asking ourselves how we can best serve them. As each customer is distinctive, the needs of each vary widely. These individual needs cannot be met using mass standardized production processes. Thus, we will develop a Company system that responds to customers’ expectations on a one-to-one basis and thereby earns their loyalty and trust. Our business will be structured to enable us to provide individualized and timely products and services, make direct links to customers, expand our base of continuing customers and provide products in the most effective media.

In addition, we will develop the “World” concept, on which we will create a Company business structure that allows us to consistently supply products and services that exceed each individual customer’s expectations. The “World” will be cultivated by offering a range of interrelated products and services that provide a sense of comfort to the customer. We are determined to expand the enormous potential of this concept and business structure to its full extent. The result will be the creation of an entirely new type of company built around a completely original publishing concept for the 21st century, with the mission of creating a groundbreaking publishing company. The guiding principle is to establish a highly original business structure that is not based on short-term sales and unit volume, but on “total commitment to the customer.”



A Message from the President

Fiscal 1999, ended March 31, 2000, marks the first fiscal year of the customer-based in-house company system at Benesse Corporation. While reorganizing our former product-based organization to better focus on customers, we prioritized management that emphasizes cash flow and realized an improvement in business earnings by streamlining and withdrawing from unprofitable businesses.

We aggressively promoted these management reforms amid dramatic changes in our operating environment. Education in Japan is facing unprecedented change brought about by large-



scale reforms in the educational system. Expectations for participation of the private sector and the community in the education process are increasing, and the role of private-sector companies is likely to increase. I believe this will favorably influence our operations and create new business opportunities.

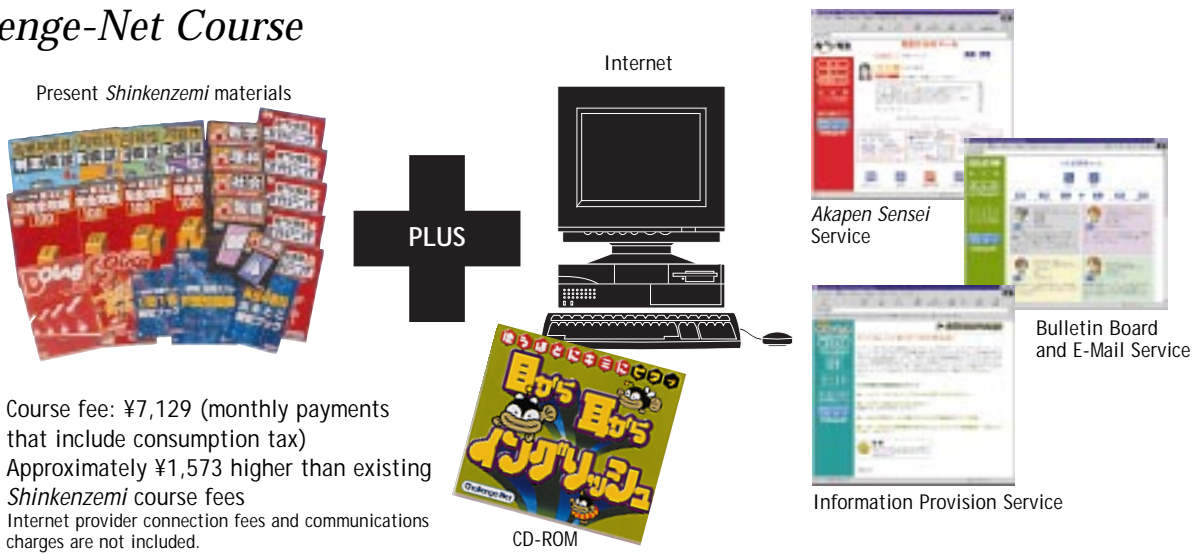
In addition, the Public Nursing Insurance Law went into effect in April 2000, raising expectations for our nursing care services for senior citizens. I believe this area of business will be another source of growth for Benesse Corporation.

In this era of change, we are aiming for further growth by reinforcing customer relationships, as our business is based on people.

Operating Environment

- **Accelerating trend toward the lower birthrate and an aging society**
- **Prolonged downturn in Japanese economy, worst ever unemployment rate**
 - ⊗ Reduction in financing of secondary educational expenses outside schools
- **Reform of educational system**
 - ⊗ New educational curriculums for elementary and junior high schools to be implemented in fiscal 2002
 - Commencement of English conversation classes at elementary schools during unstructured classes, which will be introduced.
 - Expansion of information education using computers
 - Internet access for all elementary, junior high and senior high school classrooms will be ready by 2005.
 - ⊗ Implementation of university entrance examination system reforms in fiscal 2001
 - Diversification of entrance examination system from emphasis on test scores to character
- **Full-scale e-business, increase in strategic alliances among companies**

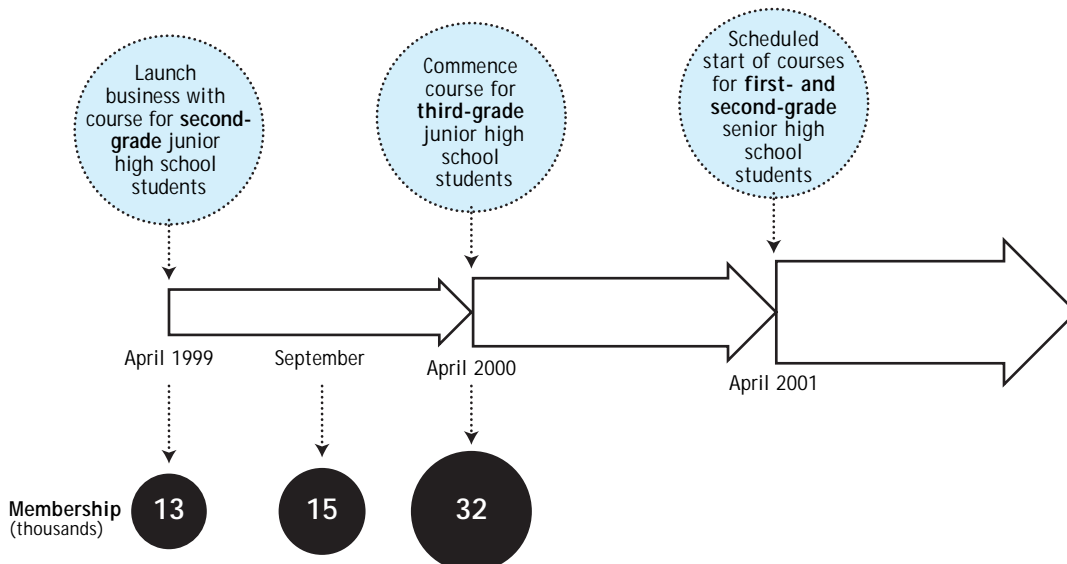
Challenge-Net Course



Challenge-Net Course— New *Shinkenzerami* Study Course Uses Personal Computers and the Internet

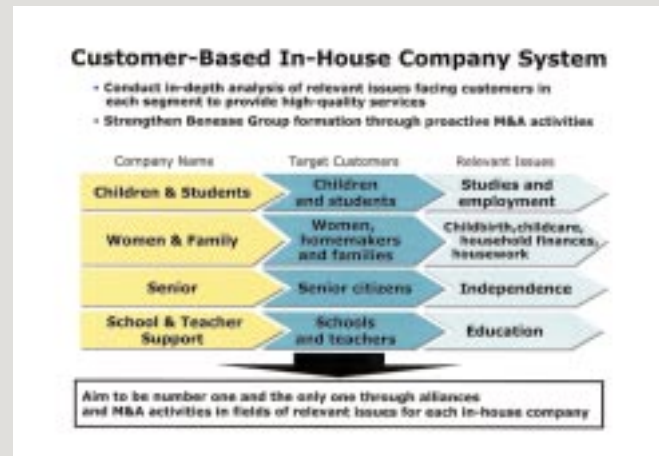
As information-based education using personal computers expands in elementary, junior high and senior high schools, demand for courses that use personal computers and the Internet is increasing. With the diffusion of inexpensive personal computers and lower communications charges, Internet usage in the home is anticipated to sharply increase.

Business Expansion that Limits Investment Risk: Progressively Open Courses by Grade



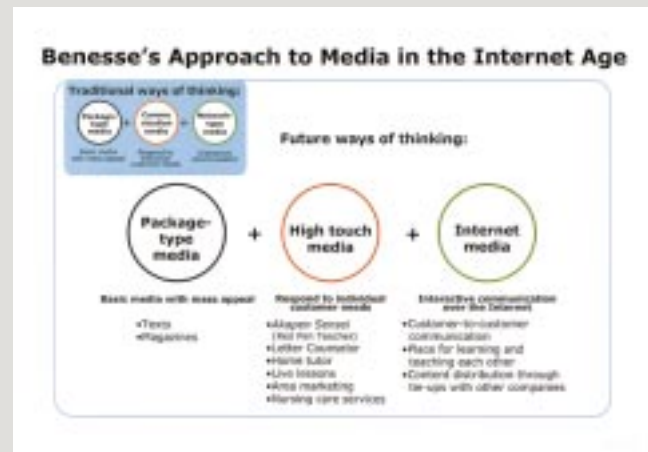
The Essential Nature of Our Business

Benesse Corporation aims to be a company with many supporters in Japan and throughout the world. Our performance targets are not based on such quantitative measures as sales and profit growth. Without following temporary trends, we support the lifelong needs of people. Our goal is to encourage individuals to live their lives fully, not to provide goods and services as ends in themselves. We hope to support all people—from infants to the elderly—in their quest for self-improvement.



Customer Relationships that Last

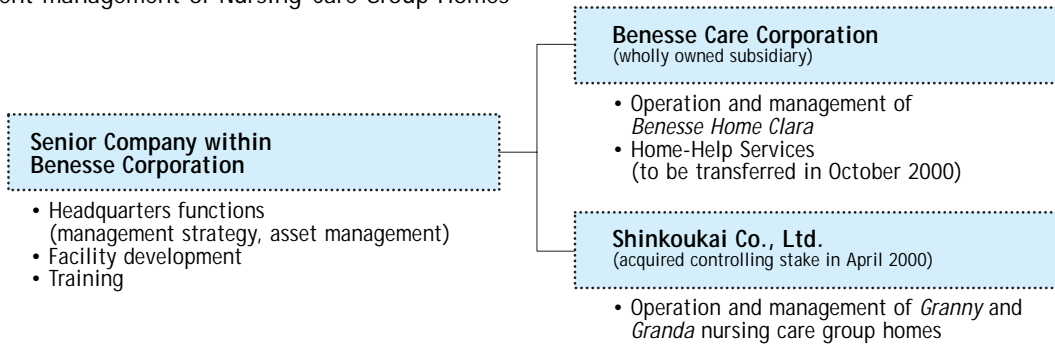
Benesse Corporation intends to maximize its relationships with customers to expand its cadre of supporters. Our business model is based on excellent long-term customer relationships, not short-term transactions. Success depends on effective brand building, and I hope to create a community based on the Benesse brand—a community of mutual understanding and trust between Benesse and its customers. It is a community built in the realm of our ideas and philosophical message rather than physical space. Consequently, we must consider what media, or tools, are necessary to deliver our message.



Recognizing the importance of *High touch media*, Benesse Corporation has incorporated *High touch media* in *Package-type media* comprising basic services. In *Shinken-zemi* for instance, we have incorporated a warm human touch to services conducted by such external staff as *Akapep Sensei* (Red Pen Teacher), Letter Counselor and Seminar Reporter.

Reinforce Structure to Expand Senior Citizen Welfare Operations

Operate senior citizen welfare services through subsidiaries, leading to flexibility in hiring staff and smooth expansion and efficient management of Nursing-Care Group Homes

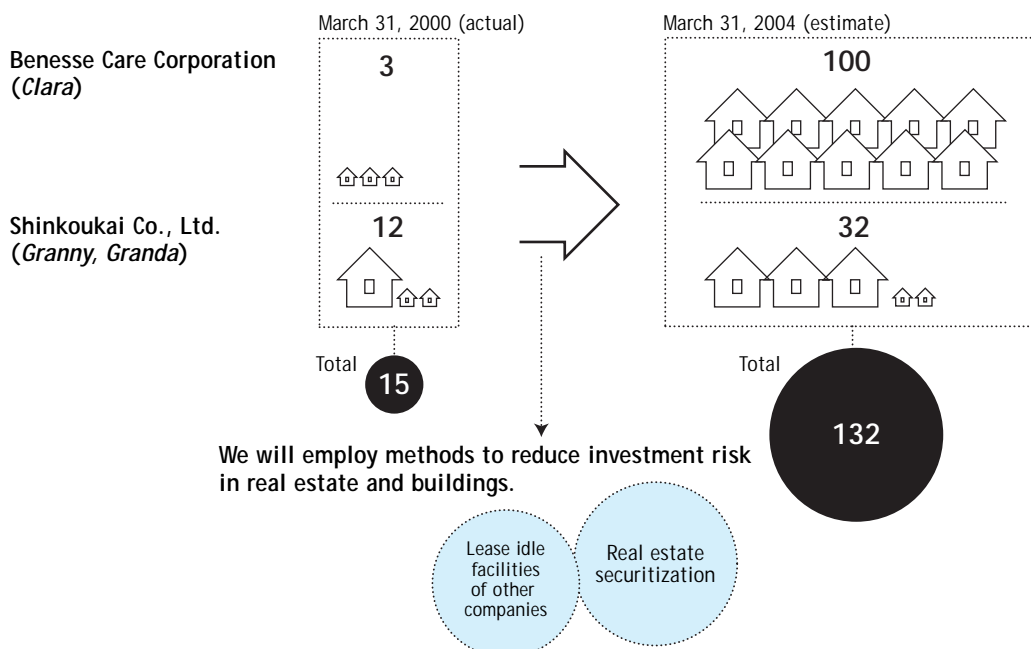


Spin Off Senior Citizen Welfare Operations and Accelerate Expansion of Nursing-Care Group Home Operations

Benesse Corporation is making aggressive efforts to expand Senior Citizen Welfare Operations by transferring a portion of operations to consolidated subsidiary Benesse Care Corporation and acquiring a controlling stake in Shinkoukai Co., Ltd.

The Benesse Group provides senior citizen welfare services focused on nursing care group homes, and aims to offer comprehensive nursing care services, including day services and home-help services, based on its nursing homes.

Expansion Plans Call for 100 *Benesse Home Clara* by March 31, 2004, for a Total of 132 Nursing-Care Group Homes in the Benesse Group.



In addition, I believe the Internet is an effective tool in the new era of communications.

The Internet is an excellent medium for managing a community, as it provides an easy way for communications between the Company and customers, and among customers themselves.

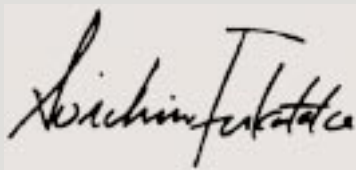
In the future Benesse Corporation, we will not provide magazines and other products as stand-alone services. Instead we will provide comprehensive services built on the three areas of *Package-type media*, *High touch media* and *Internet media*.

Benesse Corporation will position businesses that possess these three media as core businesses. The reason behind this is that we believe we will be able to build closer relationships with customers through these three media. We aim to expand business by focusing on these core businesses and entering peripheral areas. A portal site on the Internet will play the role of bridging core and peripheral businesses. I would like to bring a range of services, provided and introduced by Benesse Corporation, to the portal site to help all people, from infants to the elderly, realize their quest for self-improvement. To do so, Benesse Corporation will aggressively promote alliances with other companies regarding relevant issues in the business fields of each in-house company.

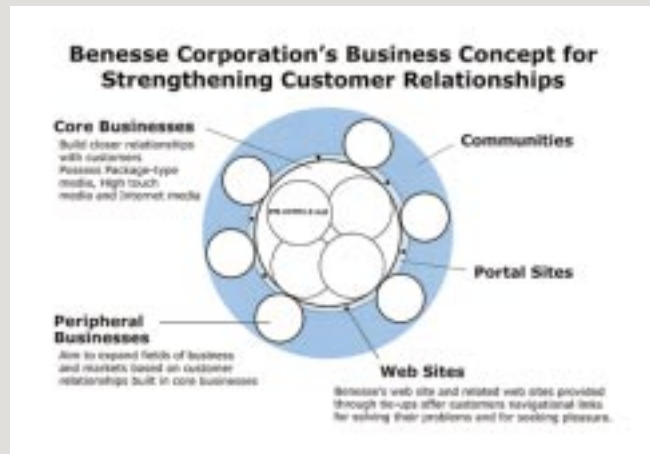
Based on these initiatives, Benesse Corporation aims for further business growth, building on customer relationships in core businesses and expanding peripheral businesses through its portal site.

We appreciate your continued support.

August 2000



Soichiro Fukutake
President and Chief Executive Officer



Development of Sesame English™ Using *Sesame Street* Characters

In 1999, Berlitz International, Inc. developed Sesame English™, an English study program for children, in cooperation with the Children’s Television Workshop™(CTW), which holds the rights to *Sesame Street*.



Children have fun, interactive English lessons with Tingo, a new *Sesame Street* character, created especially for Sesame English™.



SESAME ENGLISH™

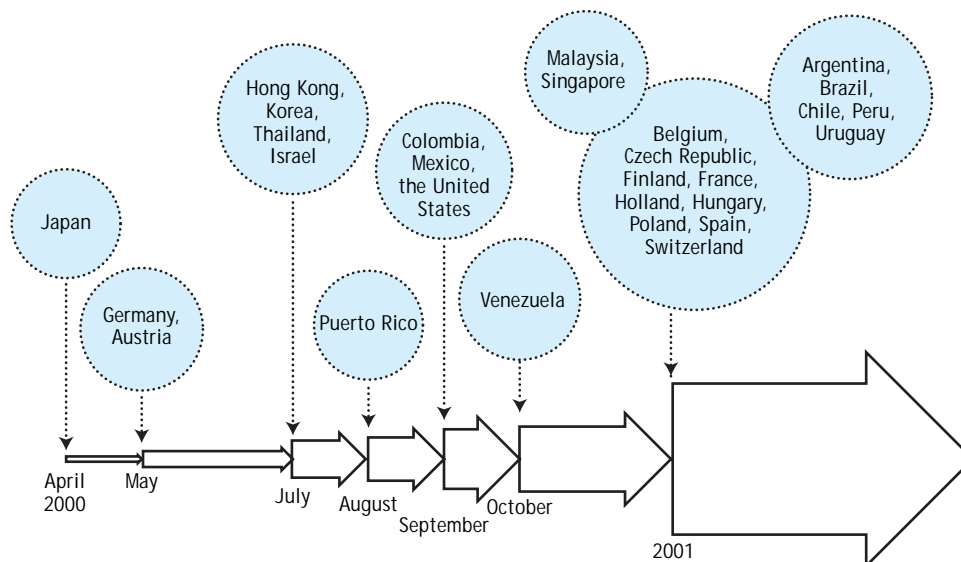
With its cute, lovable characters, *Sesame Street* is popular in 144 countries around the world, including its birthplace, the United States.

Berlitz International, Inc. to Expand English Courses for Children

Berlitz International, Inc. is focusing efforts on expanding its English classes for children, Berlitz Kids™, by using *Sesame Street* characters.

Berlitz Kids™ mainly offers small group lessons for children up to 11 years old. Courses are provided at our Language Centers as well as kindergartens, schools and local public facilities.

Launch of Sesame English™ Lessons Around the World



Business Results for Fiscal 1999 and Forecast of Results for Fiscal 2000

Strong Results in Correspondence Course Segment and Restructuring Supported Record Performance

In fiscal 1999, ended March 31, 2000, economic conditions in Japan remained severe due to stagnant consumer spending, despite emerging signs of improvement from the effects of large-scale economic stimulus measures implemented by the government.

Amid this operating environment, Benesse Corporation and its consolidated subsidiaries and affiliated

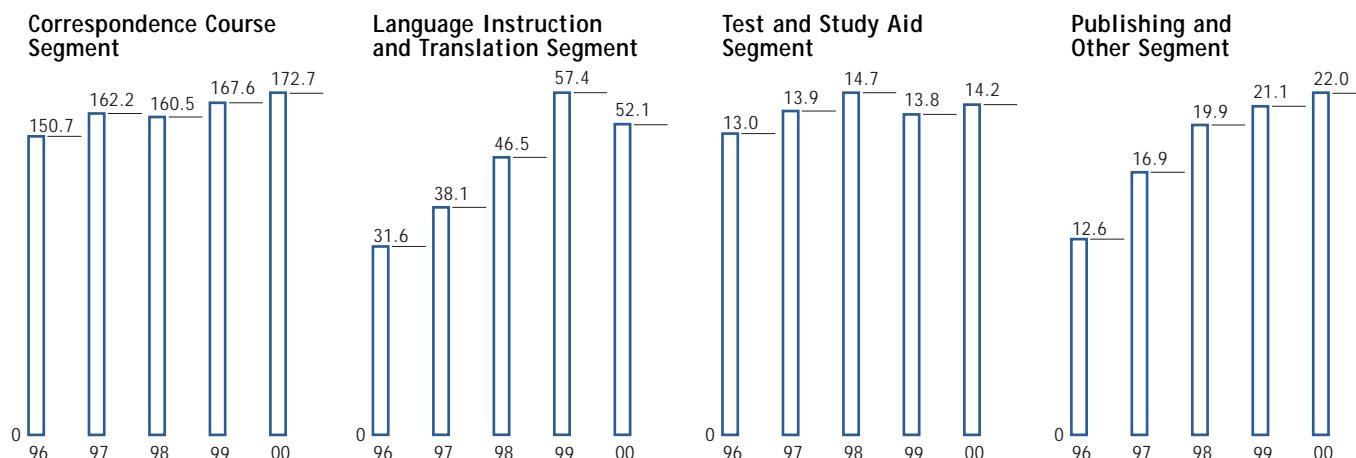
companies made concerted efforts to aggressively reform management to promote further business growth. In April 1999, the Company implemented a customer-based in-house company system to thoroughly promote customer-oriented management that emphasizes cash flow.

Operating losses from unprofitable businesses decreased ¥2.3 billion as a result of the restructuring of these businesses.

Years ended March 31	Millions of Yen					
	Net Sales			Operating Income		
	2000	1999	YoY Increase	2000	1999	YoY Increase
Correspondence Course Segment						
Language Instruction	1,246	1,814	(568)	231	(224)	455
<i>English Challenge</i>	1,600	3,316	(1,716)	547	280	267
Chinese Language Activities	48	123	(75)	(75)	(232)	157
<i>Career-Up Zemi</i>	2,317	2,514	(197)	(92)	(637)	545
Subtotal	5,211	7,767	(2,556)	611	(813)	1,424
Test and Study Aid Segment						
Junior High School and Student Pocketbook	0	606	(606)	0	(326)	326
Subtotal	0	606	(606)	0	(326)	326
Publishing and Other Segment						
<i>Goody Magazine</i>	14	188	(174)	16	(418)	434
Books (General and Children's)	65	584	(519)	(50)	364	(414)
<i>Kenbunjuku</i>	50	150	(100)	(182)	(621)	439
Other	212	475	(263)	(35)	(138)	103
Subtotal	341	1,397	(1,056)	(251)	(813)	562
Total	5,552	9,770	(4,218)	360	(1,952)	2,312

Note: The "Other" category within the Publishing and Other Segment includes study materials for the preparation of STEP, study materials sold in stores and training and travel services.

Net Sales by Segment (Billions of Yen)



Outlook

Demand was brisk for our core *Shinken-zemi* home study correspondence courses, thanks to efforts to improve products and services to increase customer satisfaction. Performance of preschool courses for children aged one to six and their parents was particularly strong, and more graduates from preschool courses moved on to elementary school courses. As a result, the number of *Shinken-zemi* members as of April increased by 190 thousand to 4,200 thousand compared with the same period a year earlier. Consolidated net sales edged up 0.4% to ¥261.0 billion on account of favorable demand in *Shinken-zemi*, expansion in Senior Citizen Welfare Operations and an increase in external sales by consolidated subsidiaries.

The Company streamlined businesses with poor prospects for profitability, including language instruction and *Career-Up Zemi* in the Correspondence Course Segment, as well as *Goody* magazine, and general and children's books in the Publishing and Other Segment, and made efforts to improve the earnings structure. As a result, we were able to slash ¥2.3 billion in deficits on an operating income basis despite a decrease of ¥4.2 billion in total sales.

As a result of these efforts, operating income advanced 6.4% to ¥33.0 billion and net income rose 2.4% to ¥16.4 billion, marking five continuous years of sales and profit growth since the Company was listed on the stock market.

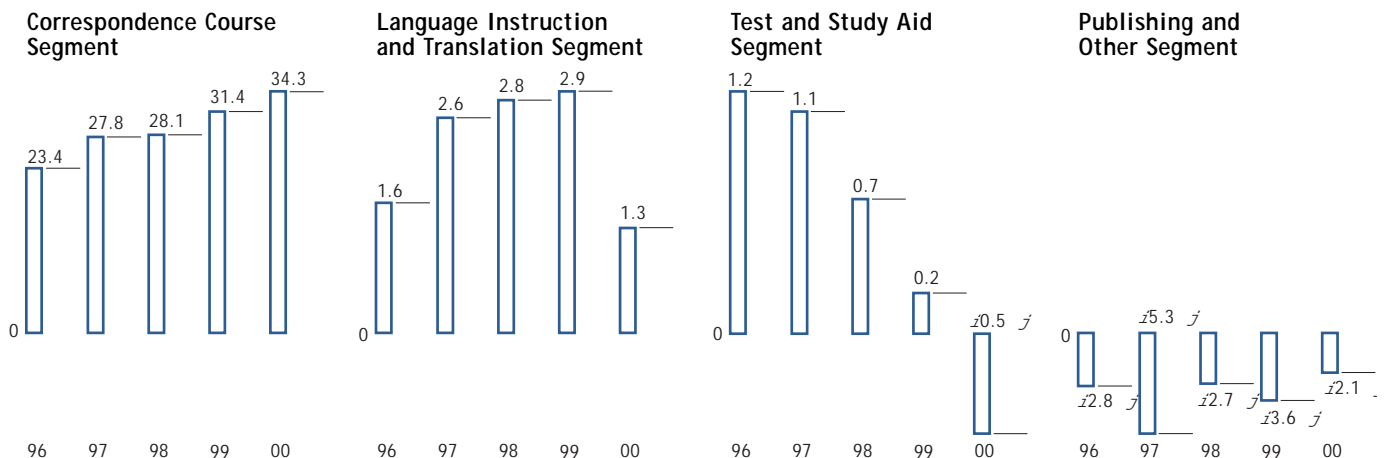
Benesse Corporation does not announce forecasts of operating results on a consolidated basis to avoid speculation on the performance of consolidated subsidiary Berlitz International, Inc. ("BI"), which is listed on the New York Stock Exchange, and BI does not announce its forecast of business results for the next fiscal year, as providing inconclusive information has the potential to mislead the investment decisions of investors and shareholders. Furthermore, BI releases business results on a quarterly basis.

In fiscal 2000, ending March 31, 2001, we forecast non-consolidated net sales of ¥197.7 billion, virtually unchanged from the term under review. Management bases this forecast on projections that continued brisk performance at such existing businesses as the Correspondence Course Segment will be offset by the transfer of a portion of Senior Citizen Welfare Operations to consolidated subsidiary Benesse Care Corporation.

The Company will make aggressive investments in promising business fields based on plans to expand Internet courses in the Correspondence Course Segment, advance into tutor services and English conversation classes for children and increase *Benesse Home Clara* nursing homes in Senior Citizen Welfare Operations. Consequently, growth in income is expected to slow.

As a result, we forecast ordinary income to edge up 0.1% to ¥32.0 billion and net income to increase 6.5% to ¥17.8 billion.

Operating Income (Loss) by Segment (Billions of Yen)



Review of Operations

Correspondence Course Segment

The core Correspondence Course Segment comprises *Shinkenzeremi* home study correspondence courses for preschool children through senior high school students, as well as correspondence courses for university students and adults seeking professional certification, employment or foreign language skills. The segment accounted for 66.2% of consolidated net sales.

Shinkenzeremi Courses

Business Strategy Aims for Further Growth of *Shinkenzeremi*

Amid declining birthrates in Japan since the 1980s, *Shinkenzeremi* has continued to grow by providing high-quality products and services tailored to each individual customer and expanding the lineup of courses for students by school year.

The penetration rate of the target customer population by whole *Shinkenzeremi* courses surpassed 21%—a difficult environment in which to achieve further growth only through existing products and services.

However, the Japanese education system is entering a significant period of change. Revisions to the university entrance examination system, which will come into effect in fiscal 2001, aim to diversify the system's focus on quantitative scores to also emphasize personal character. In addition, new educational curriculums will be introduced at elementary and junior high schools from fiscal 2002 and senior high schools from fiscal 2003. Plans call for bolstering information education with computers and starting English conversation lessons at elementary schools.

In response to these changes, Benesse Corporation is focusing efforts on developing and providing new products and services for *Shinkenzeremi* by utilizing various tools to improve its response to the individual needs of each member. The provision of such new products and services will enable the Company to increase satisfaction of existing members and at the same time engage customers that until now have not been interested in *Shinkenzeremi*. We believe the value of the *Shinkenzeremi* brand will increase as a result.

The Declining Birthrate

According to Ministry of Health and Welfare statistics, the population aged from one to eighteen years is projected to decrease approximately 6% in five years, from 23.6 million in 1999 to 22.3 million in 2004.

Age	Thousands of People					
	1999	2000	2001	2002	2003	2004
1-6	7,192	7,223	7,246	7,292	7,323	7,356
7-12	7,584	7,416	7,302	7,214	7,187	7,181
13-15	4,315	4,175	4,047	3,937	3,818	3,715
16-18	4,550	4,511	4,439	4,312	4,171	4,042
Total	23,641	23,325	23,034	22,755	22,499	22,294

Note: Figures are based on "Population Projections for Japan, January 1997" published by the National Institute of Population and Social Security Research, Ministry of Health and Welfare. Data are estimated as of October 1 of each year with 1995 as the base year.



Preschool Courses

Five courses for children aged one to six and their parents

Courses provide instructional materials tailored for each stage of development to help children learn social skills and acquire intellectual curiosity as they play.



The lower elementary school courses make learning at a desk fun and expand interest in surrounding nature and society for children in grades one through three.



Elementary School Courses

Six courses for children grades one through six

The upper elementary school courses help children in grades four to six foster academic abilities and build confidence in preparation for junior high school.

Penetration Rate by Course

(%)	1996	1997	1998	1999	2000
Senior High School Courses	19.4	20.2	20.1	21.2	20.3
Junior High School Courses	20.7	20.8	20.7	21.3	20.8
Elementary School Courses	15.5	15.5	15.9	18.0	18.1
Preschool Courses	16.6	20.8	22.7	23.0	25.3
Total	17.4	18.6	19.5	20.6	21.1

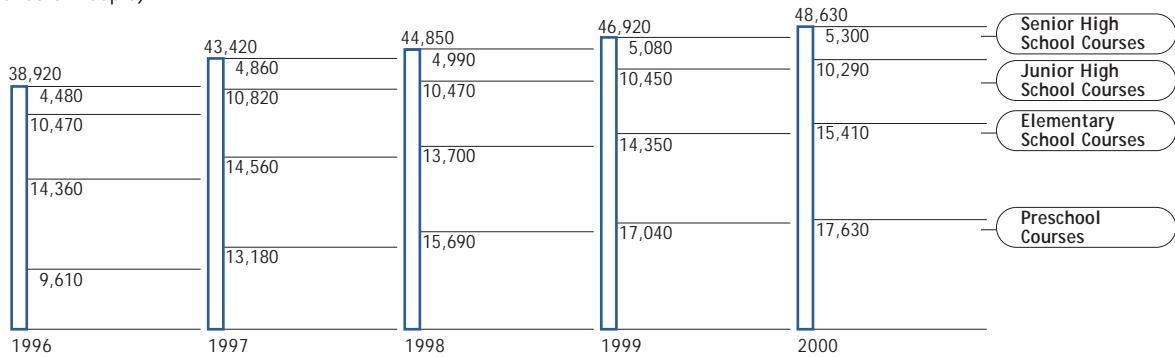
* Penetration rates are as of April of each year
 ** Penetration rate for Senior High School Courses is calculated based on the number of senior high school students seeking to advance to university or junior college. (The Company estimates)

Average Monthly Tuition by Course

Year ended March 31, 2000	(Yen)
Senior High School Courses	6,231
Junior High School Courses	4,929
Elementary School Courses	
Upper Elementary School Courses	4,158
Lower Elementary School Courses	2,637
Preschool Courses	1,499

Enrollment by Course Years ended March 31

(Thousands of People)



Junior High School Courses

Three courses for junior high school students

Materials help students prepare for and review regular schoolwork and study for examinations. Courses provide information to support students in preparation for entrance examinations. Consultation is also provided for general concerns faced by junior high school students.

Senior High School Courses

Three courses for senior high school students seeking to enter universities

Courses help students study for university entrance examinations and provide information for academic counseling. Courses can be offered by subject, and subjects may be taken separately.



Efforts in New Businesses

- * *Shinkenzemi Challenge-Net Course* for second- and third-grade junior high school students (see page 3)

This course adds services via the Internet to existing correspondence course materials and services. Plans call for opening courses for first- and second-grade senior high school students in April 2001.

- * English Conversation Classes for preschool children through sixth-grade elementary school students

Plans call for establishing English conversation classrooms upon the commencement of English conversation classes at elementary schools. It is under testing for commercialization.

- * Tutor Services for *Shinkenzemi* members

A service that organizes university students who were *Shinkenzemi* members and dispatches them as home tutors. Plans call for providing instruction mainly using *Shinkenzemi* correspondence course materials. It is under testing for commercialization.

Other Correspondence Courses

Advancing Research and Development of New Businesses

In Other Correspondence Courses, Benesse Corporation aggressively promoted the review of unprofitable businesses and closure of courses with poor prospects of profitability.

Main courses closed during fiscal 1999:

<i>Career-Up Zemi</i>	English Language Courses:	8 of 13 courses
	Chinese Language Courses:	All three courses
	Certification and hobby courses:	19 of 35 courses
<i>English Challenge</i>	<i>Active Kids</i> :	Lower elementary school courses

Benesse Corporation is making efforts to develop new products and services for university students, so those who have graduated from *Shinkenzemi* will continue to use the Company's products and services. Building a member-based community of university students using the Internet, we are testing our ideas of providing a place for the exchange of information among members, products that support employment and educational activities, and opportunities to work part-time, such as home tutors. As conversational ability has become more important in learning English, we are working to develop self-learning materials that utilize voice recognition technology for preschool children through university students.



Courses to Prepare for Civil Service Exams



Introductory Systems Administrator Seminar

Main Products of Other Correspondence Courses

<i>Career-Up Zemi</i>	21 courses that help university students and adults gain certification, study for career advancement and learn foreign languages
<i>Pocket Challenge</i>	Computer memorization aid that helps junior and senior high school <i>Shinken-zemi</i> members
<i>English Challenge</i>	Correspondence courses to help fifth- and sixth-grade elementary and first- and second-grade junior high school students obtain English conversation skills



Pocket Challenge



TOEIC® Test Seminars

Language Instruction and Translation Segment

The Language Instruction and Translation Segment comprises consolidated subsidiaries Berlitz International, Inc. (“BI”), Simul International, Inc. (“Simul”) and Okayama Language Center. Main businesses include language instruction, translation and interpretation services. Total sales for this Segment accounted for 20.0% of consolidated net sales.

Berlitz International, Inc.

The world’s largest language education company, BI manages or franchises 467 centers in 57 countries. BI offers Language Services including language instruction, publishing, and study abroad services under the ELS Educational Services name (and, until January 2000, through the Berlitz on Campus program) (“ELS/BOC”) as well as Berlitz GlobalNET translation services.

Since Benesse Corporation purchased BI in 1993, BI has expanded its scope of operations by providing high-quality language services. With income gradually improving, however, BI has not begun to significantly contribute to consolidated operating results on an income basis. In response, BI established concrete measures for medium-term business development that focus on increasing profitability.

Business Development Measures—Initiatives to Thoroughly Review and Strengthen Core Language Services

- * Spin Off Language Services and GlobalNET into two subsidiaries
- * Strengthen Language Services
 - Commence language classes for children that use the *Sesame Street* brand
- * Reinforce corporate sales
- * Review language center locations and expand the number of centers
 - Consolidate and liquidate existing language centers and promote efficient operation of facilities
- * Expand franchises

Simul International, Inc.

Simul has provided interpretation services continuously for the G7 summit conferences. Simul has won high evaluation and the trust of clients as a provider of simultaneous interpretation services for international conferences on business and government affairs in Japan.

Business Development—Strategically Improving Brand Value

With a focus on the interpretation business, Simul engages in the training of professional interpreters and translators at its Simul Academy and provides language instruction to corporations and associations.

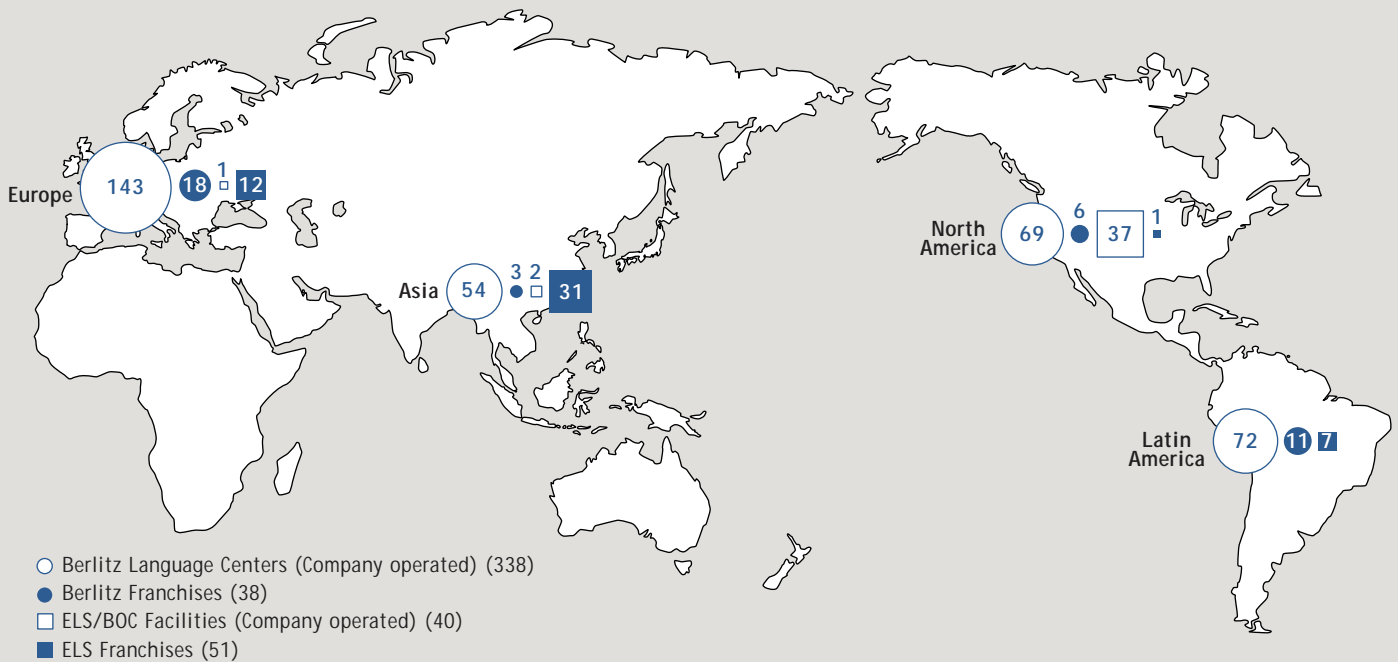
Simul holds the leading position in the interpretation industry in Japan—Simul is synonymous with interpretation. Simul is concentrating efforts on increasing its brand value to expand business. Business specialization, responsiveness to rapid internationalization and changing trends, customer trust in service quality and strengthened competitiveness are essential to increasing brand value.

Strengthening services and improving quality, Simul aims to maintain its number one position in the industry as a company indispensable to international communication.

Number of Language Centers Operated by BI and its Subsidiaries and Franchises

As of December 31,	1995	1996	1997	1998	1999
Berlitz					
Language Centers (Company operated)	323	325	334	332	338
Franchises	—	13	14	30	38
ELS/BOC					
Facilities (Company operated)	—	—	26	40	40
Franchises	—	—	50	49	51
Total	323	338	424	451	467

Location and Number of Language Centers Operated by BI and its Subsidiaries and Franchises (December 31, 1999)



Test and Study Aid Segment

The Test and Study Aid Segment develops and provides products and services that support schools and teachers, and centers on senior high schools. The segment accounted for 5.4% of consolidated net sales. Meeting the specific needs of educators, the core *Shinken Simulated Exams* and *Study Support* help teachers counsel students along individual educational and career paths.

Changes in Operating Environment

Amid a trend of substantial change, a variety of reforms are planned for the Japanese educational system.

2002	Beginning of five-weekday school schedule Introduction of new educational curriculums at elementary and junior high schools <ul style="list-style-type: none"> • Establishment of comprehensive approach to course work Start of English conversation classes at elementary school • Expansion of information education using computers
2003	Introduction of new educational curriculums at senior high schools <ul style="list-style-type: none"> • Establishment of comprehensive approach to course work along student interests and career paths • Establishment of compulsory subject for computer training Change to independent administration of national universities
2006	Start of university entrance examinations under new curriculums

(Source: Course of Study, March 1999)

Benesse Corporation looks upon educational reforms as excellent business opportunities. At schools, the provision of as much information as possible and measures to address new issues that arise are necessary to respond to changes in the educational system. Maximizing accumulated know-how in helping schools and teachers, Benesse Corporation will provide products and services that meet the diverse needs of educators.

Business Development

Senior High School Operations

Schools are gradually switching from counseling that emphasized passing entrance examinations to counseling that addresses students' diverse academic paths. In response to this change, Benesse Corporation is improving its existing products centered on *Shinken Simulated Exams* and *Study Support*, while developing new products and services. In April 2000, we released *Course Map*, counseling support materials for exploring diverse academic and career paths ranging from entering universities to finding employment.

Elementary School, Junior High School and Pocketbook Operations

In October 1998, we transferred our junior high school and pocketbook operations to Okayama Fukutake Publishing Co., Ltd., a consolidated subsidiary.

The market related to education for junior high school students is projected to shift from a period of mature stabilization to a period of contraction as a result of lower birthrates. With the introduction of new educational curriculums, however, a market related to information education using computers is being formed. Consequently, we believe this represents a new business opportunity outside the framework of former products and services.

We will propose a new study style for elementary and junior high schools, and at the same time advance the creation of a model business structure in response to changes in the operating environment.



Study Support

Questionnaires are given to students to analyze levels of achievement and mark-based study materials are used for measuring academic ability. Student information is provided to help teachers give effective individual counseling.



Proficiency Test of English Communication

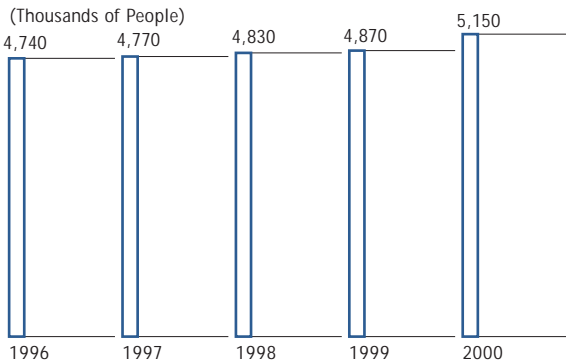
Practical English ability is measured with absolute and objective evaluation scales.



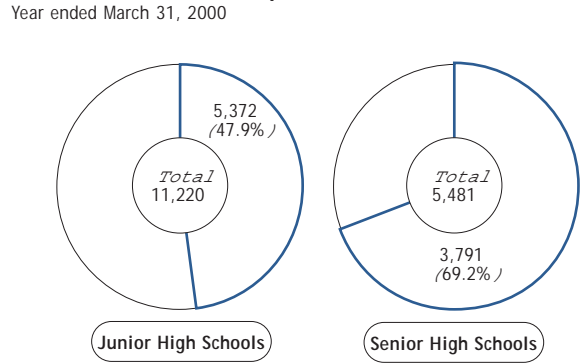
Course Planning

Study materials and aptitude tests are provided to help students independently choose academic and career paths.

Number of Students Taking *Shinken Simulated Exams* and Other Exams Years ended March 31



Percentage of Existing School Customers to Total Schools in Japan Year ended March 31, 2000



Shinken Simulated Exams

The most commonly used simulated exams for university entrance examinations in Japan, administered at senior high schools



Course Map

Students are given aptitude tests and academic ability tests. Based on the test results, students receive help in exploring diverse academic and career paths from entering universities to finding employment.



Publishing and Other Segment

The Publishing and Other Segment covers a wide range of activities, including magazine and book publishing, Senior Citizen Welfare Operations, and telemarketing and information processing operations handled by consolidated subsidiaries. This segment made up 8.4% of consolidated net sales.

Publishing Operations

Increasing Profitability

In Publishing Operations, Benesse Corporation has continued to aggressively review and withdraw from unprofitable businesses since 1998. Main businesses that were restructured include such general publications as complete works, paperbacks and books, such children's publications as picture books and children's literature, and study materials sold in bookstores.

Although net sales declined, we successfully eliminated deficits by streamlining these businesses.

As of March 31, 2000, restructuring of these unprofitable businesses is nearing completion.

Shift to New Business Structure

Engaged in a variety of efforts, Publishing Operations is shifting to a new business structure.

Publishing Operations aims to evolve from single publications for the general public into a sustainable business model that targets women in the home.

Benesse Corporation has continued to support women and their families with the magazines *Tamago Club* and *Hiyoko Club* for expectant mothers and mothers of infants and young children, as well as the lifestyle information magazine *THANK YOU!*. In addition to these businesses, we would like to provide women who have finished rearing their children with information and services necessary for lifestyle planning and leading a worthwhile life.

Beyond its existing magazine business, the Company will engage in direct sales to customers who are mainly readers of its magazines. Our direct sales business will place importance on helping solve various issues in response to the individual needs of each customer.

Benesse Corporation will aim for further growth in Publishing Operations by providing individual and sustainable products and services in its core magazine and direct sales businesses.

THANK YOU!
 Tamago Club
 Hiyoko Club
 Tamahiyo Kokko Club



Tamahiyo Mook

Average Monthly Number of Issues by Magazine

	Thousands of Issues			
	1997	1998	1999	2000
Tamago Club	260	260	260	260
Hiyoko Club	300	300	300	320
Tamahiyo Kokko Club	200	200	200	200
THANK YOU!	420	300	380	430



Compact Dictionaries for Adults

Other Dictionaries:
 Dictionaries for Elementary and
 Junior High School Students 8
 Senior High School and General
 Use Dictionaries 7



Benesse Women's Park,
 a members-only portal site
 for women
 URL: <http://www.benesse.co.jp/women>

Senior Citizen Welfare Operations

The Benesse Group offers nursing-care group homes, a core business, training courses and home-help services.

Nursing-Care Group Homes

Benesse Corporation manages *Benesse Home Clara* nursing homes, and opened the *Clara Saginuma* nursing home in Kawasaki, Kanagawa Prefecture in July 1999. The facility has 47 private rooms. In accordance with the implementation of the Public Nursing Insurance Law, *Clara* nursing-care services were authorized to receive insurance compensation. During the fiscal year ending March 31, 2001, we plan to open 17 *Clara* nursing homes of the same scale as *Clara Saginuma*. Benesse Corporation transferred nursing-care group home operations to wholly owned Benesse Care Corporation in April 2000 in an aim to accelerate business expansion.

Also in April 2000, we acquired a controlling stake in Shinkoukai Co., Ltd. and added 12 *Granny* and *Granda* nursing home facilities. To meet the diverse needs of users, we are making efforts to aggressively expand the lineup and number of our nursing home facilities. In addition, we would like to foster these facilities as bases for the nursing-care services.

Training Courses

As Senior Citizen Welfare Operations expands, acquiring nursing care staff that can provide high-quality services is becoming an imperative issue.

Since 1995, Benesse Corporation has nurtured skilled home helpers for work in nursing homes and residences through its *Home-Helper Level-Two Training Course*. The course combines correspondence home study, small-group classroom work and practical training for students to acquire professional knowledge, technical skills and mental preparation for engaging in bodily health care. During the fiscal year ended March 31, 2000, more than 7,000 people enrolled in the course at 18 locations nationwide. Since it started in 1995, more than 18,000 people have completed the course. We work to make sure there is a sufficient supply of nursing care staff, mainly by organizing high-quality home helpers nurtured through our original training.

Home-Help Services

To provide services that precisely satisfy the needs of users and their families, Benesse Corporation describes its services directly to the customer and receives confirmation prior to concluding a contract tailored to their needs. During the fiscal year ended March 31, 2000, the Company was providing services at 14 centers across Japan, all of which have been authorized to receive insurance compensation under the Public Nursing Insurance Law. We offer day services in Sendai City, and will examine providing compound services in line with customer desires. Plans call for transferring home-help services operations from Benesse Corporation to Benesse Care Corporation in October 2000.



Clara Yamahana (Sapporo)



Clara Okayama (Okayama)

Location of Benesse Nursing Care Centers and Benesse Home Clara June 30, 2000

- Benesse Nursing-Care Centers: 14
- Benesse Home Clara: 5



Clara Sagamiono (Sagami-hara, Kanagawa)



Clara Minami Osawa (Hachioji, Tokyo)



Clara Saginuma (Kawasaki, Kanagawa)

Other Businesses

Other businesses include childcare services through Benesse Corporation and telemarketing and information processing services through consolidated subsidiaries.

Telemarketing Japan, Inc.

Telemarketing Japan, Inc. (TMJ), a consolidated subsidiary, was established in 1992 when *Shinkenzei's* customer service department became an independent company. With expansion of the telemarketing market, sales outside the Benesse Group have grown. In the fiscal year ended March 31, 2000, 52.7% of its total sales were to clients outside the Benesse Group. Main clients include Japanese and foreign insurance companies, securities companies and communications companies.

Based on the business concept of supporting improvements in the services and marketing efficiency of its client corporations, TMJ proposes and supports the implementation of direct relationship marketing (DRM) for its client corporations. In addition, TMJ aims to be a continuous relation marketing agency that operates customer contact centers, at which customers freely choose such communications tools as the Internet. Not just a call center agency, TMJ plans to provide solutions services for client corporations that accurately grasp customer opinions by aggressively engaging customers. TMJ will also help client corporations develop excellent relationships with customers so they can continuously provide products and services that match customer needs.



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Consolidated Five-Year Summary

Years ended March 31	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
For the Year:						
Net Sales	¥260,964	¥259,852	¥241,571	¥231,132	¥207,777	\$2,461,925
Cost of Sales	120,687	120,698	111,039	101,659	88,319	1,138,557
Selling, General and Administrative Expenses	107,323	108,173	101,598	103,264	96,100	1,012,481
Operating Income	32,954	30,981	28,934	26,209	23,358	310,887
Income before Income Taxes and Minority Interests	29,746	31,501	26,994	25,079	21,122	280,623
Income Taxes	13,783	15,483	14,778	13,167	11,451	130,028
Net Income	16,413	16,036	12,250	11,787	10,118	154,840
Per Share of Common Stock:						
	Yen					U.S. Dollars
Net Income	¥ 309	¥ 302	¥ 226	¥ 259	¥ 344	\$ 2.92
Retroactively Adjusted	309	302	226	216	191	2.92
Cash Dividends Applicable to the Year	58	48	43	35	25	0.55
Retroactively Adjusted	58	48	43	29	14	0.55
At Year-End:						
	Millions of Yen					Thousands of U.S. Dollars
Capital Expenditures	¥ 11,105	¥ 5,416	¥ 7,138	¥ 8,147	¥ 6,529	\$ 104,764
Depreciation and Amortization	9,199	8,841	7,897	6,808	7,167	86,783
	Yen					U.S. Dollars
Total Assets	¥297,828	¥280,620	¥277,298	¥265,444	¥258,847	\$2,809,698
Shareholders' Equity	160,302	146,933	131,794	126,615	116,505	1,512,283
	Yen					U.S. Dollars
Shareholders' Equity per Share of Common Stock	¥ 3,015	¥ 2,763	¥ 2,478	¥ 2,787	¥ 3,847	\$ 28.44
Retroactively Adjusted	3,015	2,763	2,478	2,323	2,137	28.44
Number of Shares of Common Stock Issued (in thousands)	53,177	53,177	53,177	45,426	30,284	

Notes: 1. U.S. dollar figures are translated, for convenience only, at the rate of ¥106 to U.S.\$1, the effective rate of exchange prevailing on March 31, 2000.

2. Benesse Corporation and its consolidated subsidiaries, except Berlitz International, Inc., adopted tax allocation accounting, beginning with the fiscal year ended March 31, 1999, and Berlitz International, Inc. has applied accounting for allocation of income taxes.

3. In previous years, unrecognized past service costs under the contributory defined benefit pension plan were expensed in the term in which they were funded. Due to a change in accounting policy during the year ended March 31, 2000, the unrecognized past service costs are accounted for as a liability and charged to income on an accrual basis.

As a result of this change, the Company and its domestic consolidated subsidiaries have recognized past service costs of ¥3.4 billion (US\$32,075 thousand).

4. The computation of Net Income per Share of Common Stock is based on the weighted average number of shares of common stock outstanding during each year.

5. The computation of the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at the fiscal year-end is retroactively adjusted for the effect of a 1:1.5 stock split made on May 20, 1996, and a 1:1.2 stock split made on May 20, 1997.

6. On January 7, 1998, Benesse Corporation cancelled 1,334,000 shares of common stock.

7. Certain reclassifications of previously recorded amounts have been made to conform with the 2000 presentation, in accordance with new guidelines for the creation of consolidated financial statements.

Non-Consolidated Five-Year Summary

Years ended March 31	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
For the Year:						
Net Sales	¥197,668	¥192,696	¥187,326	¥188,386	¥172,696	\$1,864,792
Correspondence Course Segment	172,728	167,628	160,455	162,213	150,685	1,629,509
Test and Study Aid Segment	12,564	12,571	14,644	13,866	12,817	118,528
Publishing and Other Segment	12,376	12,497	12,227	12,307	9,194	116,755
Cost of Sales	81,672	80,433	78,602	76,344	67,111	770,491
Selling, General and Administrative Expenses	86,060	86,160	84,471	89,284	84,791	811,887
Operating Income	29,936	26,103	24,253	22,758	20,794	282,415
Ordinary Income	31,959	28,111	24,874	22,671	20,080	301,500
Net Income	16,722	13,862	10,924	10,895	9,321	157,755
Per Share of Common Stock:						
	Yen					U.S. Dollars
Net Income	¥ 314	¥ 261	¥ 202	¥ 240	¥ 317	\$ 2.96
Retroactively Adjusted	314	261	202	200	176	2.96
	Millions of Yen					Thousands of U.S. Dollars
Capital Expenditures	¥ 7,967	¥ 3,698	¥ 5,147	¥ 5,903	¥ 5,289	\$ 75,160
(Software)	3,803	1,927	1,859	2,472	2,430	35,877
Depreciation and Amortization	5,367	5,200	5,079	4,589	4,804	50,632
(Software)	2,093	1,754	1,595	1,338	1,250	19,745
At Year-End:						
Total Assets	¥257,432	¥239,368	¥225,148	¥232,190	¥224,540	\$2,428,604
Current Assets	96,874	85,732	74,276	99,811	91,986	913,906
Fixed Assets	160,558	153,636	150,872	132,379	132,554	1,514,698
Current Liabilities	85,287	81,957	78,592	81,174	75,672	804,594
Long-term Liabilities	15,219	14,161	16,500	24,820	31,895	143,575
Shareholders' Equity	156,926	143,250	130,056	126,196	116,973	1,480,434
Common Stock	13,600	13,600	13,600	13,600	13,600	128,302
Retained Earnings	111,211	97,535	84,341	80,481	72,333	1,049,160
	Yen					U.S. Dollars
Shareholders' Equity per Share of Common Stock	¥ 2,951	¥ 2,694	¥ 2,446	¥ 2,778	¥ 3,863	\$ 27.84
Retroactively Adjusted	2,951	2,694	2,446	2,315	2,146	27.84
Equity Ratio (%)	61.0	59.8	57.8	54.4	52.1	
Number of Employees	1,584	1,513	1,410	1,334	1,327	

Notes: 1. U.S. dollar figures are translated, for convenience only, at the rate of ¥106 to U.S.\$1, the effective rate of exchange prevailing on March 31, 2000.

2. Benesse Corporation adopted tax allocation accounting, beginning with the fiscal year ended March 31, 1999.

3. In previous years, unrecognized past service costs under the contributory defined benefit pension plan were expensed in the term in which they were funded. Due to a change in accounting policy during the year ended March 31, 2000, the unrecognized past service costs are accounted for as a liability and charged to income on an accrual basis.

As a result of this change, the Company has recognized past service costs of ¥2,537 million (US\$23,934 thousand).

4. The computation of Net Income per Share of Common Stock is based on the weighted average number of shares of common stock outstanding during each year.

5. The computation of the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at the fiscal year-end is retroactively adjusted for the effect of a 1:1.5 stock split made on May 20, 1996, and a 1:1.2 stock split made on May 20, 1997.

6. On January 7, 1998, Benesse Corporation cancelled 1,334,000 shares of common stock.

7. Certain reclassifications of previously recorded amounts have been made to conform with the 2000 presentation, in accordance with new guidelines for the creation of non-consolidated financial statements.

Financial Review

OPERATING RESULTS

1. Net Sales and Segment Information

Net Sales

In fiscal 1999, ended March 31, 2000, consolidated net sales for the Benesse Group increased ¥1.1 billion, or 0.4%, to ¥261.0 billion (US\$2,462 million), an all-time high.

Net sales for Benesse Corporation grew ¥5.0 billion to ¥197.7 billion (US\$1,865 million) as a result of robust demand for core *Shinkenzeni* courses. Net sales for domestic consolidated subsidiaries rose ¥2.8 billion to ¥12.6 billion (US\$119 million) on account of increased sales to companies outside the Group by Telemarketing Japan, Inc. Net sales for foreign consolidated subsidiary Berlitz International, Inc. amounted to ¥50.7 billion (US\$478 million), a decrease of ¥6.6 billion compared with the previous fiscal year. This decline reflects an adverse impact of ¥7.7 billion when translating U.S. dollar results into yen.

Segment Information

The following discussion is based on segment information. Net sales for each segment are to outside customers and exclude intersegment sales.

Correspondence Course Segment

In the Correspondence Course Segment, total net sales grew ¥5.1 billion, or 3.0%, to ¥172.7 billion (US\$1,629 million). Total operating income expanded ¥2.9 billion, or 9.1%, to ¥34.3 billion (US\$323 million).

A breakdown of net sales for the segment by product is as follows:

Years ended March 31	Millions of Yen		Percentage Change
	2000	1999	
<i>Shinkenzeni</i> Courses			
Senior High School Courses	¥32,784	¥29,768	10.1%
Junior High School Courses	50,724	51,297	(1.1)
Elementary School Courses	51,753	48,789	6.1
Preschool Courses	26,448	24,836	6.5
Subtotal	161,709	154,690	4.5
Other Correspondence Courses			
	11,013	12,934	(14.9)
Total	¥172,722	¥167,624	3.0%

Total sales for *Shinkenzeni* Courses were up ¥7.0 billion, or 4.5%, to ¥161.7 billion (US\$1,526 million), owing to sustained demand for preschool courses and growth in sales for senior high and elementary school courses. The primary factor behind sales growth was a 1,710 thousand, or 3.7%, increase during the term in total cumulative enrollment in *Shinkenzeni*.

In Other Correspondence Courses, the Company phased out unprofitable courses, resulting in a ¥1.9 billion, or 14.9%, decline in sales to ¥11.0 billion (US\$104 million).

Language Instruction and Translation Segment

In the Language Instruction and Translation Segment, total net sales amounted to ¥52.1 billion (US\$491 million), a decrease of ¥5.3 billion, or 9.2%, compared with the previous fiscal year. Total operating income fell ¥1.7 billion, or 56.6%, to ¥1.3 billion (US\$12 million).

The primary factors behind the decline in revenues and profits in the Segment were a fall in the number of students from Asia and Latin America in the ELS/BOC operations of Berlitz International, Inc. ("BI"), and the adverse effects of the yen rising against the U.S. dollar. Foreign exchange fluctuations had an adverse impact on net sales of ¥7.7 billion.

BI revenues by business segment are as follows:

Years ended December 31	Thousands of U.S. Dollars		Percentage Change
	1999	1998	
Language Services			
Instruction	\$277,081	\$267,923	3.4%
ELS/BOC	56,285	65,683	(14.3)
Publishing	12,936	14,787	(12.5)
Franchising	1,439	1,270	13.3
Other	3,090	2,404	28.5
Subtotal	350,831	352,067	(0.4)
GlobalNET	95,350	84,236	13.2
Total	\$446,181	\$436,303	2.3%

Test and Study Aid Segment

In the Test and Study Aid Segment, total net sales grew ¥0.4 billion, or 3.0%, to ¥14.2 billion (US\$134 million). However, an operating loss of ¥0.5 billion (US\$5 million) was recorded, compared with operating income of ¥0.2

billion in the previous period.

The increase in sales for the Segment was the result of a ¥50-per-unit price increase on the core product *Shinken Simulated Exams* and an increase in the number of *Study Support* materials sold.

The decrease in profits for the Segment resulted from the addition of marketing personnel expenses of branches due to Benesse Corporation's introduction of an in-house company system.

Publishing and Other Segment

In the Publishing and Other Segment, total net sales advanced ¥0.9 billion, or 4.1%, to ¥22.0 billion (US\$207 million). A total operating loss of ¥2.1 billion (US\$20 million) was posted, an improvement of ¥1.5 billion compared with the previous fiscal year.

Net sales of the Segment by operation are as follows:

Years ended March 31	Millions of Yen		Percentage Change
	2000	1999	
Publishing Operations	¥ 8,965	¥ 9,189	(2.4)%
Senior Citizen Welfare Operations	1,331	822	61.9
Other Operations	11,671	11,085	5.3
Total	¥21,967	¥21,096	4.1%

Despite increases in advertising revenue and sales of *THANK YOU!* magazine, total sales from Publishing Operations edged down ¥0.2 billion, or 2.4%, to ¥9.0 billion (US\$85 million), owing to the aggressive streamlining of and withdrawal from unprofitable businesses, including the discontinued publication of *Goody* magazine and consolidation of book publications.

Total sales from Senior Citizen Welfare Operations climbed ¥0.5 billion, or 61.9%, to ¥1.3 billion (US\$13 million) as a result of steady growth in sales of training courses, Home-Help services and Nursing-Care Group Homes ahead of the implementation of the Public Nursing Insurance Law in April 2000.

Other Operations recorded total sales of ¥11.7 billion (US\$110 million), an increase of ¥0.6 billion, or 5.3%. Increased sales to companies outside the Group by Telemarketing Japan, Inc. offset lower earnings due to streamlining of and withdrawal from unprofitable businesses by Benesse Corporation.

The primary reasons behind the reduction in the operating loss for the Segment were reductions in the cost of sales to net sales of *Tamago Club* and *Hiyoko Club* magazines, in addition to aggressive streamlining of unprofitable businesses by Benesse Corporation.

Total Sales by Segment	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
Years ended March 31						
Net Sales	¥260,964	¥259,852	¥241,571	¥231,132	¥207,777	\$2,461,925
Correspondence Course	172,722	167,624	160,455	162,219	150,685	1,629,453
Language Instruction and Translation	52,075	57,351	46,510	38,130	31,573	491,274
Test and Study Aid	14,200	13,781	14,713	13,925	12,955	133,962
Publishing and Other	21,967	21,096	19,893	16,858	12,564	207,236

Total Operating Income (Loss) by Segment	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
Years ended March 31						
Operating Income (Loss)	¥32,954	¥30,981	¥28,934	¥26,209	¥23,358	\$310,887
Correspondence Course	34,280	31,408	28,108	27,804	23,368	323,396
Language Instruction and Translation	1,280	2,947	2,840	2,625	1,588	12,076
Test and Study Aid	(501)	204	675	1,114	1,215	(4,726)
Publishing and Other	(2,104)	(3,575)	(2,685)	(5,332)	(2,812)	(19,849)

Note: Total Operating Income (Loss) for each segment is before eliminations in consolidated totals.

Percentages to Net Sales

Years ended March 31	%				
	2000	1999	1998	1997	1996
Net Sales:					
Correspondence Course	66.2%	64.5%	66.4%	70.2%	72.5%
Language Instruction and Translation	20.0	22.1	19.3	16.5	15.2
Test and Study Aid	5.4	5.3	6.1	6.0	6.2
Publishing and Other	8.4	8.1	8.2	7.3	6.1
Total	100.0	100.0	100.0	100.0	100.0
Cost of Sales	46.3	46.4	46.0	44.0	42.5
Gross Profit	53.7	53.6	54.0	56.0	57.5
Selling, General and Administrative Expenses	41.1	41.7	42.0	44.7	46.3
Operating Income	12.6	11.9	12.0	11.3	11.2
Net Other Income (Expenses)	(1.2)	0.2	(0.8)	(0.5)	(1.1)
Income before Income Taxes and Minority Interests	11.4	12.1	11.2	10.8	10.1
Income Taxes	5.3	5.9	6.1	5.7	5.5
Minority Interests in Net Income	0.2	0.0	0.0	(0.0)	(0.0)
Net Income	6.3	6.2	5.1	5.1	4.9

2. Costs and Expenses

In fiscal 1999, cost of sales decreased ¥10 billion to ¥120.7 billion, nearly unchanged from the previous fiscal year. The cost of sales to net sales decreased 0.1 percentage point to 46.3%, owing to the discontinuation of *Goody* magazine and withdrawal from general books and children's books, as a result of aggressively streamlining unprofitable businesses with high costs of sales to net sales.

Selling, general and administrative (SG&A) expenses edged down ¥0.9 billion, or 0.8%, to ¥107.3 billion (US\$1,012 million). SG&A expenses to net sales declined 0.6 percentage point to 41.1%, owing to reductions in advertising and sales promotion expenses that resulted from cuts in television commercials and efficient direct marketing, despite an increase in personnel expenses from a rise in employees of Benesse Corporation.

Cost of Sales and SG&A Expenses

Years ended March 31	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
Net Sales	¥260,964	¥259,852	¥241,571	¥231,132	¥207,777	\$2,461,925
Cost of Sales	120,687	120,698	111,039	101,659	88,319	1,138,557
Gross Profit	140,277	139,154	130,532	129,473	119,458	1,323,368
SG&A Expenses	107,323	108,173	101,598	103,264	96,100	1,012,481
Operating Income	32,954	30,981	28,934	26,209	23,358	310,887

3. Earnings

Operating Income

Operating income grew ¥2.0 billion, or 6.4%, to ¥33.0 billion (US\$311 million). Operating income to net sales increased 0.7 percentage point to 12.6%.

Other Income and Expenses

Other income fell ¥2.0 billion, or 33.2%, to ¥4.0 billion (US\$38 million), and other expenses rose ¥1.7 billion, or 31.3%, to ¥7.2 billion (US\$68 million).

The primary factors behind the decrease in other income were the absence of a gain on the sale of shares in La Petite Academy, Inc. by Benesse Holdings International, Inc., which was recorded in the previous term, and a decline in interest and dividend income.

Other expenses increased mainly as a result of Benesse Corporation and its domestic consolidated subsidiaries changing accounting methods for contributory defined benefit pension plans. In previous years, unrecognized past service costs under the contributory defined benefit pension plan were expensed in the term in which they were funded. Due to a change in accounting policy during the year ended March 31, 2000, the unrecognized past service costs are accounted for as a liability and charged to income on an accrual basis. This change resulted in a one-time charge to record ¥3.4 billion in expenses on recognition of past service costs of pension,

and a ¥0.6 billion loss on adjustment for deferred revenues on lessons paid for but not expected to be taken, owing to a change in its method of accounting at Berlitz International, Inc. As a result, the Company and its consolidated subsidiaries recorded other net expenses of ¥3.2 billion (US\$30 million), compared with other net income of ¥0.5 billion a year earlier.

Income before Income Taxes and Minority Interests

Income before income taxes and minority interests declined ¥1.8 billion, or 5.6%, to ¥29.7 billion (US\$281 million).

Income Taxes

Income taxes decreased ¥1.7 billion, or 11.0%, to ¥13.8 billion (US\$130 million).

Net Income

Net income rose ¥0.4 billion, or 2.4%, to ¥16.4 billion (US\$155 million), leading to an increase of 0.1 percentage point in net income to net sales to 6.3%.

Net income per share of common stock increased ¥7 to ¥309. Return on total assets was 5.7%, unchanged from the previous fiscal year, and return on equity declined 0.8 percentage point to 10.7%.

Income Analysis

Years ended March 31	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
Operating Income	¥32,954	¥30,981	¥28,934	¥26,209	¥23,358	\$310,887
Other Income (Expenses)	(3,208)	520	(1,940)	(1,130)	(2,236)	(30,264)
Income before Income Taxes and Minority Interests	29,746	31,501	26,994	25,079	21,122	280,623
Net Income	16,413	16,036	12,250	11,787	10,118	154,840
Net Income per Share of Common Stock (Yen, U.S. Dollars)	309	302	226	216	191	2.92
Return on Equity (%)	10.7	11.5	9.5	9.7	10.1	
Return on Total Assets (%)	5.7	5.7	4.5	4.5	4.1	

Notes: 1. The Company and its consolidated subsidiaries, except BI, adopted tax allocation accounting, beginning with the fiscal year ended March 31, 1999, and BI has applied accounting for allocation of income taxes.

2. In previous years, unrecognized past service costs under the contributory defined benefit pension plan were expensed in the term in which they were funded. Due to a change in accounting policy during the year ended March 31, 2000, the unrecognized past service costs are accounted for as a liability and charged to income on an accrual basis. As a result of this change, the Company and its domestic consolidated subsidiaries have recognized past service costs of ¥3.4 billion (US\$32,075 thousand).

3. The computation of Net Income per Share of Common Stock is based on the weighted average number of shares of common stock outstanding during each year. The computation of the weighted average number of shares of common stock outstanding during each year is retroactively adjusted for the effect of a 1:1.5 stock split made on May 20, 1996, and a 1:1.2 stock split made on May 20, 1997.

4. Return on Equity and Return on Total Assets are calculated using the average amounts of equity and total assets of the beginning and ending of each term.

5. Certain reclassifications of previously recorded amounts have been made to conform with the 2000 presentation.

FINANCIAL POSITION

1. Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2000, amounted to ¥297.8 billion (US\$2,810 million), an increase of ¥17.2 billion, or 6.1%.

Total current assets rose ¥12.6 billion, or 12.0%, to ¥117.0 billion (US\$1,103 million). The primary reason behind this increase was a rise in the total amount of cash and time deposits and marketable securities. Benesse Corporation reallocated working capital from cash and time deposits to marketable securities, resulting in a decrease in cash and time deposits and an increase in marketable securities.

Net property and equipment grew ¥0.4 billion, or 0.6%, to ¥76.3 billion (US\$720 million). This increase was the result of Benesse Corporation purchasing land in Osafune-cho, Okayama Prefecture, which more than offset a reduction from the depreciation of buildings.

Investments and other assets advanced ¥4.2 billion, or 4.2%, to ¥104.6 billion (US\$987 million). The increase was mainly the result of a rise in investment securities and an increase in other assets due to foreign currency translation adjustments and an increase in deferred tax assets in accordance with expenses recorded on recognition of past service costs, despite a reduction in

goodwill. Goodwill decreased ¥7.0 billion at Berlitz International, Inc., despite the addition of goodwill associated with a new acquisition, due to a decline of ¥0.7 billion from amortization and a reduction of ¥6.3 billion from the effect of the strong yen on foreign exchange translations.

Total current liabilities and long-term liabilities advanced ¥5.2 billion, or 4.1%, to ¥130.5 billion (US\$1,231 million). In current liabilities, the increase in advances received was primarily due to an increase in *Shinkenzei* enrollment at Benesse Corporation. In long-term liabilities, the reduction in long-term debt, less current portion was mainly the result of the repayment of long-term debt of Benesse Corporation and such consolidated subsidiaries as Carry Com Co., Ltd. and Omiya Car Industrial Co., Ltd. Other long-term liabilities increased on account of accrued pension costs.

Total shareholders' equity grew ¥13.4 billion, or 9.1%, to ¥160.3 billion (US\$1,512 million) compared with the previous fiscal year, mainly due to an increase in retained earnings in accordance with the recording of net income. The equity ratio rose 1.4 percentage point to 53.8%.

Financial Position	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
Years ended March 31						
Total Assets	¥297,828	¥280,620	¥277,298	¥265,444	¥258,847	\$2,809,698
Current Assets	116,960	104,407	95,589	112,472	102,232	1,103,396
Property and Equipment	76,292	75,865	77,219	76,755	75,898	719,736
Investments and Other Assets	104,576	100,348	104,490	76,217	80,717	986,566
Current Liabilities	98,779	93,660	94,976	91,511	84,105	931,877
Long-Term Liabilities	31,685	31,610	41,091	37,667	48,731	298,915
Shareholders' Equity	160,302	146,933	131,794	126,615	116,505	1,512,283
Equity Ratio (%)	53.8	52.4	47.5	47.7	45.0	
Shareholders' Equity per Share of						
Common Stock (Yen, U.S. Dollars)	3,015	2,763	2,478	2,323	2,137	28.44

Notes: 1. The Company and its consolidated subsidiaries, except BI, adopted tax allocation accounting, beginning with the fiscal year ended March 31, 1999, and BI has applied accounting for allocation of income taxes.

2. The computation of the number of shares outstanding at the fiscal year-end is retroactively adjusted for the effect of a 1:1.5 stock split made on May 20, 1996, and a 1:1.2 stock split made on May 20, 1997.

3. Certain reclassifications of previously recorded amounts have been made to conform with the 2000 presentation.

2. Cash Flows

Cash and cash equivalents at end of year increased ¥7.5 billion, or 12.8%, to ¥65.9 billion (US\$622 million).

Net cash provided by operating activities edged up ¥0.2 billion, or 0.7%, to ¥32.5 billion (US\$307 million), owing to a decline in interest paid in accordance with a decrease in long-term debt and the increase in net sales. This increase was partially offset by an increase in accounts receivable.

Net cash used in investing activities climbed ¥17.2 billion, or 1,020.6%, to ¥18.9 billion (US\$178 million). This large increase was primarily the result of purchases of land and net increases in purchases of marketable and investment securities, as well as an increase in purchases of software at Benesse Corporation. The net increases in purchases of marketable and investment securities were primarily the result of Benesse Corporation's reallocation

of working capital and the absence of a gain on the sale of shares in La Petite Academy, Inc. by Benesse Holdings International, Inc. recorded during the previous fiscal year.

Net cash used in financing activities declined ¥11.8 billion, or 69.5%, to ¥5.2 billion (US\$49 million). This decline was the result of a decrease in the repayment of long-term debt, despite the absence of proceeds from the issuance of convertible debentures of Berlitz International, Inc. ("BI"), which were recorded in the previous fiscal year. In addition to a decline in the repayment of long-term debt at Benesse Corporation, BI recorded no long-term debt repayments in the fiscal year under review after repaying all existing long-term debt as part of a refinancing program during the previous term.

Cash Flows	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
Years ended March 31						
Net Cash Provided by Operating Activities	¥32,525	¥32,309	¥13,677	¥19,535	¥20,703	\$306,840
Net Cash Used in Investing Activities	(18,910)	(1,687)	(17,739)	(3,106)	(21,303)	(178,396)
Net Cash Provided by (Used in) Financing Activities	(5,169)	(16,925)	(3,995)	(9,712)	10,003	(48,764)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(983)	(949)	344	371	57	(9,274)
Net Increase (Decrease) in Cash and Cash Equivalents	7,463	12,748	(7,713)	7,088	9,460	70,406

Notes: Changes to cash and cash equivalents are as follows:
(Prior to the fiscal year ended March 31, 1997)

The Company and its consolidated subsidiaries consider all time deposits to be cash equivalents. Time deposits have original maturities of one year or less and can be withdrawn on demand with no diminution of principal.

(Following the fiscal year ended March 31, 1998)

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

March 31, 2000, 1999 and 1998	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2000	1999	1998	2000
ASSETS				
Current Assets:				
Cash and time deposits	¥ 32,974	¥ 44,119	¥ 32,138	\$ 311,075
Marketable securities (Note 4)	47,869	24,047	27,047	451,594
Trade receivables:				
Accounts	14,585	14,141	15,257	137,594
Due from non-consolidated subsidiary and affiliates	242	201	984	2,283
Allowance for doubtful receivables	(1,590)	(1,413)	(1,336)	(15,000)
Inventories (Note 5)	15,824	16,528	16,582	149,283
Other current assets (Note 10)	7,056	6,784	4,917	66,567
Total current assets	116,960	104,407	95,589	1,103,396
Property and Equipment:				
Land (Note 7)	32,435	30,746	30,615	305,990
Buildings, including leasehold improvements (Note 7)	54,301	53,820	51,784	512,274
Equipment and fixtures	18,955	18,040	17,802	178,821
Construction in progress		111	449	
Total	105,691	102,717	100,650	997,085
Accumulated depreciation	(29,399)	(26,852)	(23,431)	(277,349)
Net property and equipment	76,292	75,865	77,219	719,736
Investments and Other Assets:				
Investment securities (Notes 4 and 7)	23,715	22,806	23,525	223,726
Investments in and advances to non-consolidated subsidiary and affiliates	254	150	110	2,396
Goodwill	49,630	56,756	64,856	468,208
Foreign currency translation adjustments	9,603	3,400		90,594
Other assets (Notes 7, 10 and 13)	21,374	17,236	15,999	201,642
Total investments and other assets	104,576	100,348	104,490	986,566
Total	¥297,828	¥280,620	¥277,298	\$2,809,698

See Notes to Consolidated Financial Statements.

March 31, 2000, 1999 and 1998	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2000	1999	1998	2000
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Short-term bank loans (Note 7)	¥ 15	¥ 55	¥ 100	\$ 142
Current portion of long-term debt (Note 7)	1,659	1,197	9,739	15,651
Trade payables:				
Accounts	22,710	23,449	22,496	214,245
Due to non-consolidated subsidiary and affiliates	2,080	309	246	19,623
Advances received	56,715	52,457	47,278	535,047
Accrued income taxes	7,971	8,001	8,067	75,198
Other current liabilities (Note 10)	7,629	8,192	7,050	71,971
Total current liabilities	98,779	93,660	94,976	931,877
Long-Term Liabilities:				
Long-term debt, less current portion (Note 7)	18,680	22,484	29,366	176,226
Retirement allowances (Note 8)	2,769	2,474	2,173	26,123
Accrued pension costs (Note 3)	3,400			32,075
Foreign currency translation adjustments			1,484	
Other long-term liabilities (Notes 6 and 10)	6,836	6,652	8,068	64,491
Total long-term liabilities	31,685	31,610	41,091	298,915
Minority Interests	7,062	8,417	9,437	66,623
Shareholders' Equity (Notes 9 and 16):				
Common stock, ¥50 par value—authorized, 148,666,000 shares; issued and outstanding, 53,176,764 shares	13,600	13,600	13,600	128,302
Additional paid-in capital	28,715	28,715	28,715	270,896
Retained earnings	117,994	104,627	89,480	1,113,151
Treasury stock, at cost	(7)	(9)	(1)	(66)
Total shareholders' equity	160,302	146,933	131,794	1,512,283
Total	¥297,828	¥280,620	¥277,298	\$2,809,698

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Years Ended March 31, 2000, 1999 and 1998	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2000	1999	1998	2000
Net Sales	¥260,964	¥259,852	¥241,571	\$2,461,925
Cost of Sales (Notes 8, 11 and 13)	120,687	120,698	111,039	1,138,557
Gross profit	140,277	139,154	130,532	1,323,368
Selling, General and Administrative Expenses (Notes 8, 11, 12 and 13)	107,323	108,173	101,598	1,012,481
Operating income	32,954	30,981	28,934	310,887
Other Income (Expenses):				
Dividend income	169	330	398	1,594
Interest expense—net (Note 7)	(537)	(971)	(1,464)	(5,066)
Gain on investments—net (Notes 6 and 13)	1,566	2,382	810	14,774
Equity in net earnings of non-consolidated subsidiary and affiliates	55	43	24	519
Expenses on recognition of past service costs of pension (Note 3)	(3,400)			(32,075)
Other—net	(1,061)	(1,264)	(1,708)	(10,010)
Income Before Income Taxes and Minority Interests	29,746	31,501	26,994	280,623
Income Taxes (Note 10):				
Current	15,486	15,727	14,831	146,094
Deferred	(1,703)	(244)	(53)	(16,066)
Minority Interests in Net Income	(450)	(18)	(34)	(4,245)
Net Income	¥ 16,413	¥ 16,036	¥ 12,250	\$ 154,840
Per Share of Common Stock (Note 2.n):				
Net income	¥309	¥302	¥226	\$2.92
Cash dividends applicable to the year	58	48	43	0.55

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2000, 1999 and 1998	Thousands	Millions of Yen			
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance, April 1, 1997	45,426	¥13,600	¥28,715	¥ 84,302	¥(2)
Net income				12,250	
Cash dividends, ¥39 per share				(1,967)	
Bonuses to directors and corporate auditors				(143)	
Stock split (Note 9)	9,085				
Treasury stock sold—net					1
Treasury stock cancelled (Note 9)	(1,334)			(4,962)	
Balance, March 31, 1998	53,177	13,600	28,715	89,480	(1)
Net income				16,036	
Cash dividends, ¥44 per share				(2,340)	
Bonuses to directors and corporate auditors				(121)	
Adjustment of retained earnings for newly applied accounting for interperiod allocation of income taxes (Note 10)				1,572	
Treasury stock acquired—net					(8)
Balance, March 31, 1999	53,177	13,600	28,715	104,627	(9)
Net income				16,413	
Cash dividends, ¥54.5 per share				(2,898)	
Bonuses to directors and corporate auditors				(161)	
Equity in earnings of an affiliate newly recorded on the equity method (Note 2.a)				13	
Treasury stock sold—net					2
Balance, March 31, 2000	53,177	¥13,600	¥28,715	¥117,994	¥(7)

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance, March 31, 1999	\$ 128,302	\$ 270,896	\$ 987,047	\$(85)
Net income			154,840	
Cash dividends, \$0.51 per share			(27,340)	
Bonuses to directors and corporate auditors			(1,519)	
Equity in earnings of an affiliate newly recorded on the equity method (Note 2.a)			123	
Treasury stock sold—net				19
Balance, March 31, 2000	\$128,302	\$270,896	\$1,113,151	\$(66)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2000, 1999 and 1998	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2000	1999	1998	2000
Operating Activities:				
Income before income taxes and minority interests	¥29,746	¥31,501	¥26,994	\$280,623
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation of property and equipment, and amortization of investments and other assets	9,199	8,841	7,897	86,783
Increase (decrease) in allowance for doubtful receivables, retirement allowances and other allowances	405	(76)	303	3,821
Interest and dividend income	(781)	(1,447)	(1,036)	(7,368)
Interest expense	1,149	2,088	2,102	10,840
Foreign exchange losses (gains)	216	(264)	269	2,038
Loss (gain) on sales of marketable and investment securities	(734)	(810)	53	(6,925)
Other non-cash income and expenses—net	1,336	(843)	691	12,603
Change in assets and liabilities—net	7,473	9,854	(8,105)	70,500
Total	48,009	48,844	29,168	452,915
Interest and dividends received	820	1,421	987	7,736
Interest paid	(1,133)	(2,041)	(2,051)	(10,689)
Income taxes paid	(15,171)	(15,915)	(14,427)	(143,122)
Net cash provided by operating activities	32,525	32,309	13,677	306,840
Investing Activities:				
(Increase) decrease in time deposits	(239)	1,000	1,297	(2,255)
Purchases of marketable securities	(26,324)	(28,512)	(24,118)	(248,340)
Proceeds from sales of marketable securities	22,236	31,285	35,144	209,774
Purchases of property and equipment	(6,865)	(4,260)	(3,950)	(64,764)
Proceeds from sales of property and equipment	3	135	200	28
Purchases of software	(4,261)	(1,968)	(1,901)	(40,198)
Purchases of investment securities	(3,584)	(2,618)	(16,194)	(33,811)
Proceeds from sales of investment securities	1,554	4,635	3,627	14,660
Purchases of equity in company, resulting in new consolidated subsidiary		(513)		
Acquisition of businesses			(11,695)	
Other—net	(1,430)	(871)	(149)	(13,490)
Net cash used in investing activities	(18,910)	(1,687)	(17,739)	(178,396)
Financing Activities:				
Proceeds from long-term debt	558	566	21,838	5,264
Repayment of long-term debt	(2,475)	(28,095)	(18,980)	(23,349)
Proceeds from issuance of convertible debentures		12,680		
Treasury stock cancelled			(4,962)	
Dividends paid	(2,898)	(2,340)	(1,967)	(27,340)
Other—net	(354)	264	76	(3,339)
Net cash used in financing activities	(5,169)	(16,925)	(3,995)	(48,764)
Effect of Exchange Rate Changes on Cash and Cash Equivalents				
	(983)	(949)	344	(9,274)
Net Increase (Decrease) in Cash and Cash Equivalents	7,463	12,748	(7,713)	70,406
Cash and Cash Equivalents, Beginning of Year	58,454	45,706	53,419	551,453
Cash and Cash Equivalents, End of Year	¥65,917	¥58,454	¥45,706	\$621,859

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2000, 1999 and 1998

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Benesse Corporation (the "Company"), its domestic subsidiaries and affiliates maintain their records and prepare their financial statements in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan. The foreign consolidated subsidiaries maintain and prepare their financial statements in accordance with accounting principles generally accepted in the United States of America, where such subsidiaries are established.

The consolidated financial statements have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan (the "Securities and Exchange Law"), the related accounting regulations and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Effective April 1, 1999, consolidated statements of cash flows are required to be prepared under Japanese accounting standards, and those for the years ended March 31, 2000, 1999 and 1998, are presented herein.

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.

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 ¥106 to U.S.\$1, the approximate rate of exchange at March 31, 2000. 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.

Certain reclassifications have been made in the 1999 and 1998 financial statements to conform to classification used in 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The accompanying consolidated financial statements, include the accounts of the Company and its significant 14 (13 in 1999 and 12 in 1998) subsidiaries (collectively the "Companies"). The remaining one non-consolidated subsidiary in 2000, 1999 and 1998 would not have a material effect on the accompanying consolidated financial statements.

Effective April 1, 1999, the Companies changed their consolidation scope of subsidiaries and affiliates from the application of the ownership concept to the control or influence concept. Under the control or influence concept, those companies in which the Parent, 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. As the result, one affiliate has increased in 2000.

The change in retained earnings arising from the change in the consolidation scope is recognized as "Equity in earnings of an affiliate newly recorded on the equity method" in the Consolidated Statements of Shareholders' Equity for the year ended March 31, 2000.

Investments in five affiliates and one non-consolidated subsidiary are accounted for by the equity method in 2000 (four affiliates and one non-consolidated subsidiary in 1999 and 1998).

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 eliminated.

The differences between the cost and underlying net equity of investments in domestic consolidated subsidiaries at acquisition ("Goodwill") are charged to income when incurred. Goodwill associated with foreign consolidated subsidiaries is amortized on a straight-line basis primarily over 40 years.

b. Cash Equivalents

Cash equivalents on the statements 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.

c. Inventories

Inventories of the Company and its domestic consolidated subsidiaries are stated at cost, determined by the average method, except for work in process which is stated at cost based on a specific-identification basis.

Inventories of foreign consolidated subsidiaries are stated at the lower of average cost or market.

d. Marketable and Investment Securities

Listed securities included in marketable and investment securities are stated at the lower of cost, determined by the moving-average method, or market. Other investments are stated at moving-average cost.

e. Property and Equipment

Property and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The straight-line depreciation method is principally applied to the property and equipment of the consolidated foreign subsidiaries. The ranges of useful lives in the Company and its domestic consolidated subsidiaries are principally from 15 to 38 years in 2000 and 1999 (15 to 45 years in 1998) for buildings and from 4 to 7 years for equipment and fixtures.

f. Interests in Partnerships

The Company has interests in limited partnerships. The Company's share of the partnerships' profits or losses are credited or charged to income as incurred.

g. Retirement Allowances

The annual provisions for retirement allowances of the Company and its domestic consolidated subsidiaries are calculated to state the liability for employees at the amount that would be required if all employees voluntarily terminated their employment at each balance sheet date, less amounts funded by a contributory defined benefit pension plan.

The annual provisions for retirement allowances of the Company and its two domestic consolidated subsidiaries in 2000 and 1999 (one in 1998) are calculated to state the liability for directors and corporate auditors at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

Foreign consolidated subsidiaries have contributory pension plans.

h. Research and Development Costs

The Company is active in research and development and such costs are charged to income as incurred.

i. Leases

All leases are accounted for as operating leases by the Company and its domestic consolidated subsidiaries. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. These standards are being applied on a partial basis with full implementation for fiscal years starting on or after April 1, 1998.

j. Income Taxes

Effective April 1, 1998, the Companies, except a foreign consolidated subsidiary stated below, adopted accounting for interperiod allocation of income taxes based on the asset and liability method due to the change in Japanese accounting regulations. The cumulative effect of the application of interperiod allocation of income taxes in prior years in the amount of ¥1,572 million is included as an adjustment to retained earnings as of April 1, 1998. The Companies did not adjust retained earnings retroactively for the year ended March 31, 1998.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Berlitz International, Inc. ("BI"), a foreign consolidated subsidiary, has applied accounting for interperiod allocation of income taxes.

k. Appropriations of Retained Earnings

Appropriations of retained earnings at each year end are reflected in the consolidated financial statements in the year following shareholders' approval.

I. Foreign Currency Transactions

Short-term receivables and payables of the Company and its domestic subsidiaries denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at each balance sheet date.

The exchange gains and losses are recognized in the fiscal period in which they occur.

Long-term receivables and payables of the Company and its domestic subsidiaries denominated in foreign currencies are translated into Japanese yen at historical exchange rates, unless the differences between historical exchange rates and current rate result in material unrealized losses.

m. Foreign Currency Financial Statements

The balance sheet accounts of the foreign consolidated subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except in relation to capital, which is translated at the historical rates at the dates of acquisition of a subsidiary. Differences arising from such translation are shown as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets. Revenue and expense accounts are translated into Japanese yen at the average rates during the year.

n. Per Share Information

The computation of the net income per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 53,175 thousand for 2000, 53,176 thousand for 1999 and 54,204 thousand for 1998, respectively.

Diluted net income per share is not disclosed because the result would be anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year without giving retroactive adjustment for subsequent stock splits.

3. ACCOUNTING CHANGE

In previous years, unrecognized past service costs under the contributory defined benefit pension plan were expensed in the term in which they were funded. Due to a change in accounting policy during the year ended March 31, 2000, the unrecognized past service costs are accounted for as a liability and charged to income on an accrual basis.

As a result of this change, the Company and its domestic consolidated subsidiaries have recognized past service costs in the year ended March 31, 2000, as other expenses.

The effect of this change was to decrease income before income taxes and minority interests for the year ended March 31, 2000 by ¥3,400 million (\$32,075 thousand).

4. MARKETABLE AND INVESTMENT SECURITIES

The Companies' marketable and investment securities as of March 31, 2000, 1999 and 1998, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Current:				
Marketable equity securities	¥ 555	¥ 939	¥ 2,332	\$ 5,236
Government and corporate bonds	50	185	1,019	471
Trust fund investments and other	47,264	22,923	23,696	445,887
Total	¥47,869	¥24,047	¥27,047	\$451,594
Non-current:				
Marketable equity securities	¥ 4,117	¥ 4,876	¥ 4,857	\$ 38,839
Government and corporate bonds	17,593	15,550	15,943	165,972
Trust fund investments and other	2,005	2,380	2,725	18,915
Total	¥23,715	¥22,806	¥23,525	\$223,726

The Companies' carrying amounts and aggregate market values of current and non-current marketable equity securities, government and corporate bonds and trust fund investments and other, current, included in marketable securities and investment securities at March 31, 2000, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2000	2000
Current:		
Carrying amount	¥ 9,473	\$89,368
Aggregate market value	9,432	88,981
Unrealized loss	¥ (41)	\$ (387)
Non-current:		
Carrying amount	¥ 5,627	\$53,085
Aggregate market value	8,790	82,925
Unrealized gain	¥ 3,163	\$29,840

The difference between the above carrying amounts and the amounts shown in the accompanying consolidated balance sheets principally consists of money management funds and non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

Information for the years ended March 31, 1999 and 1998, was not required to be disclosed for consolidated financial statements under Japanese regulation.

5. INVENTORIES

Inventories at March 31, 2000, 1999 and 1998, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Finished products	¥10,750	¥11,209	¥10,758	\$101,415
Work in process	4,430	4,729	4,835	41,792
Raw materials and supplies	644	590	989	6,076
Total	¥15,824	¥16,528	¥16,582	\$149,283

6. INTERESTS IN PARTNERSHIPS

The Company has interests in limited partnerships, principally for the tax benefits derived from the respective schemes.

The original capital contributions to the partnerships amounted to ¥1,690 million (\$15,943 thousand), ¥1,895 million and ¥2,338 million as of March 31, 2000, 1999 and 1998, respectively, and the change in carrying value for the three years in the period ended March 31, 2000, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Balance at beginning of period	¥(3,449)	¥(4,088)	¥(4,290)	\$(32,538)
Profits	524	641	300	4,944
Losses		(2)	(98)	
Balance at end of period	¥(2,925)	¥(3,449)	¥(4,088)	\$(27,594)

The negative balance was included in other long-term liabilities.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2000, 1999 and 1998, consisted of notes to banks. The annual interest rates applicable to the short-term bank loans ranged from 1.375% to 1.8% at March 31, 2000 and from 1.5% to 2.35% at March 31, 1999 and 1998.

Long-term debt at March 31, 2000, 1999 and 1998, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Long-term debt, collateralized:				
Banks and others (principally insurance companies), in yen, maturing serially through 2012—with interest ranging from 2.60% to 3.30% in 2000, 1999 and 1998	¥ 42	¥ 734	¥ 4,372	\$ 396
Banks and others, in U.S. dollars (including the Bank Facility), maturing serially through 2011—with interest at the average rate of 6.99% in 1999 and 1998		379	21,131	
Government-owned bank, in yen, maturing serially through 2013—with interest ranging from 3.5% to 5.45% in 2000, 1999 and 1998	8,016	9,089	10,777	75,623
Total long-term debt, collateralized	8,058	10,202	36,280	76,019
Long-term debt, unsecured:				
Banks, in yen, maturing serially through 2003— with interest ranging from 1.57% to 3.1% in 2000 and 1999, and 1.57% to 4.4% in 1998	1,324	1,909	2,825	12,490
Banks and others, in U.S. dollars—with interest at the average rate of 5.33% in 2000	717			6,764
5% U.S. dollar convertible debentures, convertible into BI's common stock at \$33.05 per share, due 2011	10,240	11,570		96,604
Total long-term debt, unsecured	12,281	13,479	2,825	115,858
Total long-term debt	20,339	23,681	39,105	191,877
Less current portion	(1,659)	(1,197)	(9,739)	(15,651)
Long-term debt, less current portion	¥18,680	¥22,484	¥29,366	\$176,226

A foreign consolidated subsidiary, prior to the original maturity date, repaid the bank and others in U.S. dollars (including the Bank Facility) on March 11, 1999.

Annual maturities of long-term debt at March 31, 2000, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2001	¥ 1,659	\$ 15,651
2002	2,407	22,708
2003	1,148	10,830
2004	619	5,840
2005	641	6,047
2006 and thereafter	13,865	130,801
Total	¥20,339	\$191,877

At March 31, 2000, assets having the following carrying values were pledged as collateral for the long-term debts in yen in the amount of ¥8,058 million (\$76,019 thousand) and for the short-term bank loans in yen in the amount of ¥5 million (\$47 thousand) by the Company and its domestic consolidated subsidiaries.

	Millions of Yen	Thousands of U.S. Dollars
Land	¥14,642	\$138,132
Buildings—net of accumulated depreciation	15,659	147,726
Investment securities	1,447	13,651
Other assets	990	9,340
Total	¥32,738	\$308,849

On March 11, 1999 (the "Issue Date"), BI issued 12-year convertible debentures with a \$100 million aggregate principal amount (the "Convertible Debentures") to two affiliates of Apollo Management IV, L.P. ("Apollo"), pursuant to definitive investment agreements (the "Investment Agreements") dated as of October 2, 1998. The Convertible Debentures bear interest at 5% per annum, payable semiannually. Principal amounts outstanding under the Convertible Debentures are not due until March 2011, and BI is not required to establish a bond sinking fund for repayment of the principal thereof.

The Convertible Debentures are convertible at any time into shares of BI's common stock at a conversion price of \$33.05 per share, subject to anti-dilution related adjustments to offset the effects of stock dividends and other changes in equity.

The Convertible Debentures independently provide for optional redemption by BI, in whole but not in part, anytime after 3 years and 2 months. If the average closing price of the BI's common stock for the 30 trading days following the third anniversary of the Issue Date exceeds \$39.66 per share, BI may redeem the Convertible Debentures at par. If the Convertible Debentures are redeemed, BI shall pay a redemption premium, expressed as a percentage of outstanding principal, as follows: (a) 4% for redemptions occurring in the fourth year after issue; (b) 2% for redemptions occurring in the fifth year after issue; and (c) 0% for redemptions occurring thereafter. All such redemptions are subject to the holders' rights of first conversion into BI common stock shares.

The Convertible Debentures also allow Apollo to elect to exchange their Convertible Debentures, in whole but not in part, into non-convertible, 7-year fixed rate debt issued by BI (the "Fixed Rate Debentures"). Such election may only be made if the average closing price of the BI's common stock during the 30 trading days immediately preceding the third anniversary of the Issue Date does not exceed \$33.05. Upon the determination, by an independent financial institution, of fixed interest rates that accurately price the Fixed Rate Debentures at par under specified circumstances at the time of the exchange, Apollo shall irrevocably decide whether to proceed with their exchanges. If Apollo proceeds with such an exchange, BI, no later than 150 days from the third anniversary of the Issue Date, must either (a) redeem all of the Convertible Debentures at par, or (b) deliver the Fixed Rate Debentures to Apollo.

Principal amounts outstanding under the Fixed Rate Debentures would not be payable until maturity, while interest payments would be made semiannually. The Fixed Rate Debenture interest rate is subject to a cap of the applicable U.S. treasury rate plus 5% (not to exceed 13%) to the U.S. treasury rate plus 7% (not to exceed 14%) if Apollo receives Fixed Rate Debentures. The Fixed Rate Debentures may be redeemed by BI after the third anniversary of the Issue Date upon payment of principal amounts of the Fixed Rate Debentures and the following redemption premiums, expressed as a percentage of the outstanding principal amount: (a) one half of the per annum interest rate for redemptions occurring in the fourth year after issue; (b) one quarter of the per annum interest rate for redemptions occurring in the fifth year after issue; and (c) no premium for redemptions occurring thereafter.

Prior to the third anniversary of the Issue Date, if the Company sells 80% or more of the shares of BI common stock owned directly or indirectly by it on the Issue Date, BI shall be required to make an offer to repurchase for cash the Convertible Debentures at a value equal to 110% of the principal amount then outstanding. In addition, if at any time on or after the Issue Date a change of control, as defined in the Investment Agreements, occurs but the Company sells less than 80% of its shares, or if the Company sells 80% of its shares on or after the third anniversary of the Issue Date, BI shall be required to make an offer to repurchase for cash the Convertible Debentures (but not the Fixed Rate Debentures) at a value equal to 101% of the principal amount of the Convertible Debentures.

The Convertible Debentures are subject to standard affirmative covenants, including financial and other informational reporting, compliance with laws, maintenance of insurance, maintenance of properties, payment of taxes, and preservation of corporate existence. Negative covenants that the Convertible Debentures are subject to include: prohibitions on certain mergers, consolidations and asset transfers; forbearance from restrictions on rights of holders to convert or exchange the Convertible Debentures; and, forbearance from amending certain understandings between BI, Berlitz Japan, Inc. and the Company.

BI has used the proceeds from the sale of the Convertible Debentures to repay in full all outstanding indebtedness pursuant to BI's existing bank credit agreement.

8. RETIREMENT ALLOWANCES

Under the retirement benefit plans of the Company and its domestic consolidated subsidiaries, retirement allowances for employees are determined on the basis of length of service and certain other factors. If the termination is involuntary, the employee is usually entitled to greater payment than in the case of voluntary termination. Retirement allowances to directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Code.

Retirement allowances at March 31, 2000, 1999 and 1998, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Allowance for employees	¥1,686	¥1,488	¥1,289	\$15,906
Allowance for directors and corporate auditors	1,083	986	884	10,217
Total	¥2,769	¥2,474	¥2,173	\$26,123

The Company and its domestic consolidated subsidiaries have a contributory defined benefit pension plan which covers approximately 38% of the total benefits for the employees under such retirement benefit plan. The pension fund is administered by a board of trustees composed of management and employee representatives as required by government regulations. In addition, the Company has an additional separate pension plan for its employees. The unrecognized past service costs under the pension plan were expensed in the term in which they were funded for the years ended March 31, 1999 and 1998, and are charged to income on an accrual basis for the year ended March 31, 2000, as described in Note 3 (Accounting Change).

A foreign consolidated subsidiary has a defined contribution benefit plan covering substantially all of its full-time U.S. employees. Furthermore, the foreign consolidated subsidiary has a Supplemental Executive Retirement Plan ("SERP") for the benefit of its Chairman of the Board, certain designated executives and their designated beneficiaries.

Total provisions for retirement allowances and pension costs charged to income were ¥4,018 million (\$37,906 thousand), ¥574 million and ¥461 million for the years ended March 31, 2000, 1999 and 1998.

9. SHAREHOLDERS' EQUITY

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve amount, which is included in retained earnings, totals ¥3,400 million (\$32,075 thousand) as of March 31, 2000, 1999 and 1998, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the Shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split cannot be less than ¥50.

On May 20, 1997, the Company made a stock split by way of a free share distribution at the rate of 0.2 share for each outstanding share, and 9,085,127 shares were issued to shareholders of record on March 31, 1997. Stated capital was not changed as a result of this stock split.

The Company is authorized to repurchase, at management's discretion, up to 5,000,000 shares of the Company's stock for the purpose of cancelling the shares by crediting such amounts against retained earnings. As of March 31, 1998, the Company had repurchased, through open market purchases, a total of 1,334,000 shares at a total cost of ¥4,962 million.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2000, retained earnings recorded on the Company's books were ¥111,211 million (\$1,049,160 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 42%, 47% and 51% for the years ended March 31, 2000, 1999 and 1998, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2000 and 1999, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Deferred tax assets:			
Enterprise tax	¥ 726	¥ 771	\$ 6,849
Allowance for doubtful receivables	134	137	1,264
Provision for employees' bonuses	308	124	2,906
Loss on investment securities	177	168	1,670
Retirement allowance for employees	445	386	4,198
Retirement allowance for directors and corporate auditors	455	414	4,292
Expenses on recognition of pension costs	1,428		13,472
Deferred tax assets of the foreign consolidated subsidiaries ⁽¹⁾	306	150	2,887
Unrealized profit of fixed asset	197	109	1,858
Others	337	243	3,179
Total	¥4,513	¥2,502	\$42,575
Deferred tax liabilities:			
Allowance for doubtful receivables		¥ 26	
Unrealized gain on land, held in a consolidated subsidiary	¥ 409	409	\$ 3,858
Total	¥ 409	¥ 435	\$ 3,858

⁽¹⁾ The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities of the foreign consolidated subsidiaries at March 31, 2000 and 1999, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Deferred tax assets:			
Accrued expenses	¥ 617	¥ 193	\$ 5,821
Net operating losses	320	420	3,019
Deferred revenue	236	255	2,226
Foreign tax credits	31	359	293
Others	314	294	2,962
Total	1,518	1,521	14,321
Deferred tax liabilities:			
Publishing rights amortization	550	651	5,189
Others	284	206	2,679
Total	834	857	7,868
Net deferred tax assets	684	664	6,453
Valuation allowance	(378)	(514)	(3,566)
Net deferred tax assets	¥ 306	¥ 150	\$ 2,887

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000, and the actual effective tax rates reflected in the accompanying consolidated statement of income is as follows:

	Year Ended March 31, 2000
Normal effective statutory tax rate	42.0%
Goodwill amortization, etc. in the foreign consolidated subsidiaries	3.8
Permanently non-deductible expenses of social expenses, etc.	1.4
Other	(0.9)
Actual effective tax rate	46.3%

The normal effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2000 differs from the actual effective tax rate, due to the effect of permanently non-deductible expenses. No such reconciliation has been presented for 1999 because the difference was not significant.

Deferred tax assets were included in other current assets and other assets, and deferred tax liabilities were included in other current liabilities and other long-term liabilities.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,244 million (\$21,170 thousand), ¥1,864 million and ¥1,959 million for the years ended March 31, 2000, 1999 and 1998, respectively.

12. ADVERTISING COSTS

Advertising costs charged to income were ¥27,175 million (\$256,368 thousand), ¥30,683 million and ¥30,114 million for the years ended March 31, 2000, 1999 and 1998, respectively.

13. LEASES

(1) Lessee

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the Company and its domestic subsidiaries were ¥1,878 million (\$17,717 thousand), ¥1,572 million and ¥1,641 million for the years ended March 31, 2000, 1999 and 1998, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2000 and 1999, and obligations under finance leases on an "as if capitalized" basis at March 31, 2000, 1999 and 1998, which included imputed interest, were as follows:

Equipment and Fixtures and Other Assets	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Acquisition cost	¥8,297	¥8,826	\$78,273
Accumulated depreciation	3,538	4,396	33,377
Net leased property	¥4,759	¥4,430	\$44,896

Obligations under finance leases:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Due within one year	¥1,643	¥1,628	¥1,598	\$15,500
Due after one year	3,116	2,802	2,441	29,396
Total	¥4,759	¥4,430	¥4,039	\$44,896

Depreciation expenses, which are not reflected in the accompanying consolidated statement of income, computed by the straight-line method for the years ended March 31, 2000, 1999 and 1998, are equivalent to the amount of total lease payments above.

A foreign consolidated subsidiary leases certain equipment, office space and other assets, under non-cancelable operating leases.

The minimum rental commitments under non-cancelable operating leases in a foreign subsidiary at March 31, 2000, 1999 and 1998, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Due within one year	¥1,721	¥1,777	¥1,762	\$16,236
Due after one year	7,041	7,725	6,999	66,424
Total	¥8,762	¥9,502	¥8,761	\$82,660

(2) Lessor

The Company, as lessor, participates in the leveraged lease of an aircraft. The balance of the leased asset at March 31, 2000, 1999 and 1998, is included in other assets.

Total income derived from this lease was ¥503 million (\$4,745 thousand) for the years ended March 31, 2000, 1999 and 1998.

Pro forma information of leased property such as acquisition cost, accumulated depreciation of finance leases that do not transfer ownership of the leased property to the lessee at March 31, 2000 and 1999, and lease receivables under finance leases at March 31, 2000, 1999 and 1998, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Aircraft			
Acquisition cost	¥5,000	¥5,000	\$47,170
Accumulated depreciation	4,519	4,394	42,632
Net leased property	¥ 481	¥ 606	\$ 4,538

Lease receivables under finance leases:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Due within one year	¥ 442	¥ 417	¥ 393	\$ 4,170
Due after one year	826	1,268	1,685	7,792
Total	¥1,268	¥ 1,685	¥2,078	\$11,962

Depreciation expense computed by the declining-balance method, and interest received which is not reflected in the accompanying consolidated statement of income, for the three years ended March 31, 2000, were as follows:

Year Ended March 31	Millions of Yen		Thousands of U.S. Dollars	
	Depreciation Expense	Interest Received	Depreciation Expense	Interest Received
2000	¥125	¥ 84	\$1,179	\$792
1999	157	108		
1998	198	130		

(3) Sublease

Pro forma lease receivables under sublease arrangements that do not transfer ownership of the lease property to lessee at March 31, 2000, 1999 and 1998, which included imputed interest, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Due within one year	¥17	¥16	¥ 5	\$161
Due after one year	17	30	17	160
Total	¥34	¥46	¥22	\$321

Pro forma obligations under sublease agreements that do not transfer ownership of the lease property to lessee at March 31, 2000, 1999 and 1998, which included imputed interest, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Due within one year	¥15	¥13	¥ 5	\$142
Due after one year	12	25	15	113
Total	¥27	¥38	¥20	\$255

14. DERIVATIVES

The Company and its foreign consolidated subsidiary enter into foreign exchange contracts and currency coupon swaps to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The foreign consolidated subsidiary also enters into interest rate swap contracts as a means of reducing the exposure to fluctuations of interest rate. The Company and its foreign consolidated subsidiary do not hold or issue derivatives for trading purposes.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated with its business. Accordingly, the market risk in these derivatives is basically offset by opposite movements in the value of hedge assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Company and its foreign consolidated subsidiary do not anticipate any losses arising from credit risk.

The execution and control of derivatives in the Company are managed by the Financial Department applying internal control policies which regulate the authorization and credit limit amount. Each derivative transaction is daily reported to the director of the Financial Department, and quarterly reported to the Board of Directors. Prior to entering into its derivative contracts, a foreign consolidated subsidiary conferred with independent advisors to assess the reasonableness of the contracts and obtained Board of Director approval, and each derivatives transaction is periodically reported to its Board of Directors.

Derivatives contracts outstanding at March 31, 2000, consisted of the following:

	Millions of Yen		
	March 31, 2000		
	Contract or Notional Amount	Market Value	Unrealized Gain (Loss)
Currency coupon swaps:			
U.S. dollar receipt, yen payment	¥9,799	¥(371)	¥(371)
U.S. dollar receipt, German mark payment	5,716	63	63
U.S. dollar receipt, Swiss franc payment	1,143	22	22
U.S. dollar receipt, British pound payment	817	(3)	(3)

	Thousands of U.S. Dollars		
	March 31, 2000		
	Contract or Notional Amount	Market Value	Unrealized Gain (Loss)
Currency coupon swaps:			
U.S. dollar receipt, yen payment	\$92,443	\$(3,500)	\$(3,500)
U.S. dollar receipt, German mark payment	53,925	594	594
U.S. dollar receipt, Swiss franc payment	10,783	208	208
U.S. dollar receipt, British pound payment	7,708	(28)	(28)

A foreign consolidated subsidiary marks coupon swaps to fair value. When these agreements are effective as hedges, realized and unrealized gains and losses are excluded from its consolidated statements of income, and included, net of deferred taxes, in the foreign currency translation adjustments account on the balance sheets.

15. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Companies for the years ended March 31, 2000, 1999 and 1998, is as follows:

a. Industry Segments

(1) Sales and Operating Income

	Millions of Yen					Consolidated
	2000					
	Correspondence Course	Language Instruction and Translation	Test and Study Aid	Publishing and Other	Eliminations	
Sales to customers	¥172,722	¥52,075	¥14,200	¥21,967		¥260,964
Intersegment sales	13	34	27	26	¥(100)	
Total sales	172,735	52,109	14,227	21,993	(100)	260,964
Operating expenses	138,455	50,829	14,728	24,097	(99)	228,010
Operating income (loss)	¥ 34,280	¥ 1,280	¥ (501)	¥ (2,104)	¥ (1)	¥ 32,954

Thousands of U.S. Dollars

2000

	Correspondence Course	Language Instruction and Translation	Test and Study Aid	Publishing and Other	Eliminations	Consolidated
Sales to customers	\$1,629,453	\$491,274	\$133,962	\$207,236		\$2,461,925
Intersegment sales	122	321	255	245	\$(943)	
Total sales	1,629,575	491,595	134,217	207,481	(943)	2,461,925
Operating expenses	1,306,179	479,519	138,943	227,330	(933)	2,151,038
Operating income (loss)	\$ 323,396	\$ 12,076	\$ (4,726)	\$ (19,849)	\$ (10)	\$ 310,887

Millions of Yen

1999

	Correspondence Course	Language Instruction and Translation	Test and Study Aid	Publishing and Other	Eliminations	Consolidated
Sales to customers	¥167,624	¥57,351	¥13,781	¥21,096		¥259,852
Intersegment sales	34	53		16	¥(103)	
Total sales	167,658	57,404	13,781	21,112	(103)	259,852
Operating expenses	136,250	54,457	13,577	24,687	(100)	228,871
Operating income (loss)	¥ 31,408	¥ 2,947	¥ 204	¥ (3,575)	¥ (3)	¥ 30,981

Millions of Yen

1998

	Correspondence Course	Language Instruction and Translation	Test and Study Aid	Publishing and Other	Eliminations	Consolidated
Sales to customers	¥160,455	¥46,510	¥14,713	¥19,893		¥241,571
Intersegment sales	34	69		20	¥(123)	
Total sales	160,489	46,579	14,713	19,913	(123)	241,571
Operating expenses	132,381	43,739	14,038	22,598	(119)	212,637
Operating income (loss)	¥ 28,108	¥ 2,840	¥ 675	¥ (2,685)	¥ (4)	¥ 28,934

(2) Assets, Depreciation and Amortization and Capital Expenditures

Millions of Yen

2000

	Correspondence Course	Language Instruction and Translation	Test and Study Aid	Publishing and Other	Corporate	Consolidated
Assets	¥73,811	¥69,690	¥6,114	¥19,951	¥128,262	¥297,828
Depreciation and amortization	4,176	3,215	656	1,152		9,199
Capital expenditures	5,118	3,388	543	1,621	435	11,105

Thousands of U.S. Dollars

2000

	Correspondence Course	Language Instruction and Translation	Test and Study Aid	Publishing and Other	Corporate	Consolidated
Assets	\$696,330	\$657,453	\$57,679	\$188,217	\$1,210,019	\$2,809,698
Depreciation and amortization	39,396	30,330	6,189	10,868		86,783
Capital expenditures	48,283	31,962	5,123	15,292	4,104	104,764

Millions of Yen

1999

	Correspondence Course	Language Instruction and Translation	Test and Study Aid	Publishing and Other	Corporate	Consolidated
Assets	¥71,974	¥76,696	¥6,494	¥17,594	¥107,862	¥280,620
Depreciation and amortization	4,079	3,437	663	662		8,841
Capital expenditures	1,827	2,816	133	640		5,416

Millions of Yen
1998

	Correspondence Course	Language Instruction and Translation	Test and Study Aid	Publishing and Other	Corporate	Consolidated
Assets	¥71,052	¥85,288	¥8,327	¥21,225	¥91,406	¥277,298
Depreciation and amortization	3,817	2,623	658	799		7,897
Capital expenditures	3,125	1,467	511	2,035		7,138

b. Geographical Segments

The foreign operations of the Companies for the years ended March 31, 2000, 1999 and 1998, are summarized as follows:

Millions of Yen

2000

	Japan	North America	Others	Eliminations (Corporate)	Consolidated
Sales:					
To customers	¥216,548	¥17,502	¥26,914		¥260,964
Inter-area		15		¥ (15)	
Total sales	216,548	17,517	26,914	(15)	260,964
Operating expenses	185,122	16,365	26,537	(14)	228,010
Operating income	¥ 31,426	¥ 1,152	¥ 377	¥ (1)	¥ 32,954
Assets	¥107,304	¥51,177	¥11,085	¥128,262	¥297,828

Thousands of U.S. Dollars

2000

	Japan	North America	Others	Eliminations (Corporate)	Consolidated
Sales:					
To customers	\$2,042,906	\$165,113	\$253,906		\$2,461,925
Inter-area		142		\$ (142)	
Total sales	2,042,906	165,255	253,906	(142)	2,461,925
Operating expenses	1,746,434	154,387	250,349	(132)	2,151,038
Operating income	\$ 296,472	\$ 10,868	\$ 3,557	\$ (10)	\$ 310,887
Assets	\$1,012,302	\$482,802	\$104,575	\$1,210,019	\$2,809,698

Millions of Yen

1999

	Japan	North America	Others	Eliminations (Corporate)	Consolidated
Sales:					
To customers	¥210,208	¥21,838	¥27,806		¥259,852
Inter-area		25	2	¥ (27)	
Total sales	210,208	21,863	27,808	(27)	259,852
Operating expenses	182,294	19,703	26,899	(25)	228,871
Operating income	¥ 27,914	¥ 2,160	¥ 909	¥ (2)	¥ 30,981
Assets	¥102,956	¥59,458	¥10,344	¥107,862	¥280,620

Millions of Yen

1998

	Japan	North America	Others	Eliminations (Corporate)	Consolidated
Sales:					
To customers	¥200,917	¥16,211	¥24,443		¥241,571
Inter-area		28	5	¥ (33)	
Total sales	200,917	16,239	24,448	(33)	241,571
Operating expenses	174,414	14,918	23,336	(31)	212,637
Operating income	¥ 26,503	¥ 1,321	¥ 1,112	¥ (2)	¥ 28,934
Assets	¥106,704	¥65,604	¥13,751	¥91,239	¥277,298

c. Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2000, 1999 and 1998, are as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2000			2000		
	North America	Others	Total	North America	Others	Total
Sales to foreign customers (A)	¥17,502	¥26,914	¥44,416	\$165,113	\$253,906	\$419,019
Consolidated sales (B)			260,964			2,461,925
Ratio of foreign sales to consolidated sales (A)/(B)	6.7%	10.3%	17.0%	6.7%	10.3%	17.0%

	Millions of Yen		
	1999		
	North America	Others	Total
Sales to foreign customers (A)	¥21,838	¥29,456	¥51,294
Consolidated sales (B)			259,852
Ratio of foreign sales to consolidated sales (A)/(B)	8.4%	11.3%	19.7%

	Millions of Yen		
	1998		
	North America	Others	Total
Sales to foreign customers (A)	¥16,211	¥25,874	¥42,085
Consolidated sales (B)			241,571
Ratio of foreign sales to consolidated sales (A)/(B)	6.7%	10.7%	17.4%

Notes: North America consists of the United States of America and Canada. Others consists of the United Kingdom, Germany and France.

16. SUBSEQUENT EVENTS

a. Stock Split

On May 19, 2000, the Company made a stock split by way of a free share distribution at the rate of 1 share for each outstanding share and 53,176,764 shares were issued to shareholders of record on March 31, 2000. There was no effect on the balance of common stock or additional paid-in capital. This stock split was not reflected to the calculation of net income per share.

b. Merger

On May 17, 2000, the Company entered into a merger agreement with Minamigata Enterprise Co., Ltd. effective October 1, 2000. The merger would not be significant with respect to the Company's consolidated financial statements, and obtained shareholders' approval on June 28, 2000.

c. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2000, were approved at the Company's shareholders meeting held on June 28, 2000:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥29 (\$0.27) per share	¥1,542	\$14,547
Bonuses to directors and corporate auditors	157	1,481

Independent Auditors' Report

**Deloitte Touche
Tohmatsu**



Tohmatsu & Co.

MS Shibaura Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530

Telephone (03)3457-7321
Facsimile (03)3769-8508

To the Board of Directors of
Benesse Corporation:

We have examined the consolidated balance sheets of Benesse Corporation and consolidated subsidiaries as of March 31, 2000, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Benesse Corporation and consolidated subsidiaries as of March 31, 2000, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the accounting for past service costs under the contributory defined benefit pension plan of Benesse Corporation and its domestic consolidated subsidiaries as discussed in Note 3.

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

Deloitte Touche Tohmatsu

June 28, 2000

Board of Directors and Corporate Auditors (As of June 28, 2000)

Chairman of the Board

Mitsuo Yamazaki
(Born 1933/9/26)
Number of shares held: 55 thousand

CEO & President

Soichiro Fukutake
(Born 1945/12/14)
Number of shares held: 7,842 thousand

Vice President/Group Operation Planning Office

Makoto Sato
(Born 1947/8/11)
Number of shares held: 88 thousand

Director/School & Teacher Support Company

Takeshige Hirayama
(Born 1943/1/10)
Number of shares held: 182 thousand

Director/Tokyo General Administration Division

Kenjiro Kaneshiro
(Born 1949/8/3)
Number of shares held: 112 thousand

Director/Senior Company

Shigemi Asano
(Born 1950/8/15)
Number of shares held: 61 thousand

Director/General Administration Division

Kazuo Yamakawa
(Born 1940/2/5)
Number of shares held: 4 thousand

Director/Children & Students Company

Youji Shiraishi
(Born 1956/11/18)
Number of shares held: 16 thousand

Director/

Women & Family Company, Marketing & Supply Sector

Nobuya Kashihara
(Born 1959/8/28)
Number of shares held: 34 thousand

Director/Corporate Strategy and Planning Division

Tamotsu Fukushima
(Born 1953/2/23)
Number of shares held: 79 thousand

Director/

Assistant Director of Women & Family Company

Kimiko Kunimasa
(Born 1960/1/30)
Number of shares held: 0 thousand

Director/Information Systems and Planning Office, President of Synform Co., Ltd.

Hiroaki Kawamura
(Born 1947/8/31)
Number of shares held: 0 thousand

Standing Corporate Auditor

Toichiro Miyakawa*
(Born 1935/10/29)
Number of shares held: —

Standing Corporate Auditor

Hirofumi Ueda
(Born 1943/1/23)
Number of shares held: 140 thousand

Corporate Auditor

Tsuneya Komoto*
(Born 1926/9/25)
Number of shares held: —

Corporate Auditor

Yusuke Yoshinaga*
(Born 1932/2/14)
Number of shares held: 1 thousand

* Non-Executive Internal Auditors

Investor Information (As of March 31, 2000)

Number of Shares Outstanding:

53,176,764 Shares

Listed Date:

October 26, 1995

Securities Traded (Common Stock):

The First Section of Tokyo Stock Exchange and Osaka Securities Exchange

Ticker Code:

9783

Par Value:

¥50

Unit of Trading:

100 Shares

Independent Auditors:

Deloitte Touche Tohmatsu

Transfer Agent:

The Toyo Trust & Banking Co., Ltd.

Number of Shareholders:

24,362

Stock Split:

1:1.5 made on March 20, 1995

1:1.5 made on May 20, 1996

1:1.2 made on May 20, 1997

1:2.0 made on May 19, 2000

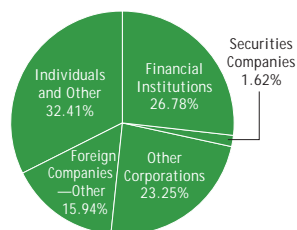
Stock Cancellation:

1,334,000 shares on January 7, 1998

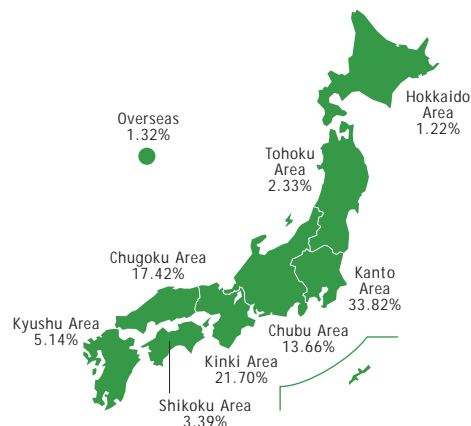
Top 10 Shareholders:

	Shares (Thousands)	Percentage (%)
Minamigata Enterprise Co., Ltd.	7,358	13.83
Soichiro Fukutake	3,921	7.37
The Chugoku Bank, Ltd.	2,168	4.07
Benesse Corporation Employee Shareholders' Association	1,537	2.89
The Sumitomo Trust & Banking Co., Ltd.	1,447	2.72
Fukutake Education Foundation	1,215	2.28
Reiko Fukutake	1,159	2.18
The Dai-ichi Mutual Life Insurance Co.	1,116	2.09
Fukutake Culture Foundation	1,080	2.03
Shinwa Ltd.	918	1.72

Shares (in %) by Type of Shareholder



Shareholders (in %) by Registered Location



Benesse Corporation and Consolidated Subsidiaries (As of March 31, 2000)

Benesse Corporation

Okayama Head Office:
3-7-17, Minamigata,
Okayama-shi,
Okayama 700-8686
(086) 225-1100

Tokyo Head Office:
1-34, Ochiai, Tama-shi,
Tokyo 206-8686
(042) 356-1100

Synform Co., Ltd.

10-1, Takayanagi-Higashi-cho, Okayama-shi,
Okayama 700-0034
(086) 256-0202

Carry Com Co., Ltd.

3-7-17, Minamigata, Okayama-shi
Okayama 700-0807
(086) 227-2933

Omiya Car Industrial Co., Ltd.

2-46-4, Hon-cho, Nakano-ku,
Tokyo 164-0012
(03) 5350-8161

Okayama Fukutake Publishing Co., Ltd.

1-10-23, Ban-cho,
Okayama-shi,
Okayama 700-0811
(086) 226-2860

Plandit Co., Ltd.

1-10-23, Ban-cho,
Okayama-shi,
Okayama 700-0811
(086) 223-8255

Persons Inc.

1-5, Hirose-cho,
Okayama-shi,
Okayama 700-0806
(086) 226-1105

Naoshima Cultural Village Co., Ltd.

Gotanji, Naoshima-cho, Kagawa-gun,
Kagawa 761-3110
(087) 892-2030

Telemarketing Japan, Inc.

Hourai Bldg., 1-20-2, Nishi-Shinjuku,
Shinjuku-ku, Tokyo 160-0023
(03) 5321-0801

Benesse Music Publishing Co.

1-34, Ochiai, Tama-shi,
Tokyo 206-8686
(042) 356-1100

Okayama Language Center

Dai-ichi Central Bldg., 3F,
6-36, Hon-machi,
Okayama-shi,
Okayama 700-0901
(086) 222-2353

Simul International, Inc.

Shinjuku Green Tower Bldg., 9F,
6-14-1, Nishi-Shinjuku, Shinjuku-ku,
Tokyo 160-0023
(03) 5324-3100

Benesse Care Corporation

Sasazuka Center Bldg., 7F
2-1-6, Sasazuka, Shibuya-ku,
Tokyo 151-0073
(03) 5371-6710

Berlitz International, Inc.

400 Alexander Park,
Princeton, NJ 08540-6306 U.S.A.
1-609-514-9650

Benesse Holdings International, Inc.

65 East 55th Street,
23rd Floor, New York,
NY 10022 U.S.A.
1-212-813-9500

Investor Relations Section

Benesse Corporation

Tokyo Head Office
(Investor Relations)
1-34 Ochiai, Tama-shi,
Tokyo 206-8686
Tel: 81-42-356-0808
Fax: 81-42-356-0722
E-mail: tokyoir@mail.benesse.co.jp

Berlitz International, Inc.

Henry D. James
Chief Financial Officer
400 Alexander Park,
Princeton, NJ 08540-6306 U.S.A.
E-mail: henry.james@berlitz.com

The History of Benesse Corporation

- 1955** Fukutake Publishing Co., Ltd., is established in Minamigata, Okayama-shi, and begins publishing junior high school educational materials and student pocketbooks.
- 1962** The Company establishes Kansai School Entrance Research Association and begins offering Kansai Simulated Exams (now *Shinken Simulated Exams*) for senior high school students.
- 1969** The Correspondence Education Seminar (now *Shinken zemi*) for senior high school students is launched. Tokyo office opens and begins offering *Shinken Simulated Exams* in eastern Japan.
- 1972** The Correspondence Education Seminar Junior for junior high school students is launched.
- 1973** The Kansai Simulated Exams are renamed *Shinken Simulated Exams*. The Correspondence Education Seminar is renamed *Shinken zemi*.
- 1977** The Publishing Division is established and begins offering academic works and publications aimed at junior high school and senior high school students.
- 1980** The *Shinken zemi* Elementary School Course is introduced.
- 1984** *FINE System*, a system using a computer network to transmit and process educational data, goes into operation.
- 1985** The Kuki Distribution Center is established (Kuki-shi, Saitama Prefecture).
- 1988** The *Shinken zemi* Preschool Course is introduced.
- 1990** The *New-Life Zemi* (now *Career-Up Zemi*) adult correspondence course is introduced. The head office moves to newly completed premises in Okayama. The Company invests in Berlitz Schools of Languages, Inc. (now Berlitz Japan, Inc.).
- 1991** The Benesse Logistics Center is established (Oku-gun, Okayama Prefecture).
- 1993** The Company acquires Berlitz International, Inc., of the United States. The magazines *Tamago Club* and *Hiyoko Club* are launched.
- 1994** The Tokyo office moves to newly completed premises in Tama, Tokyo. The *Shinken zemi* Preschool Courses, now called "*Kodomo Challenge*," for children (age 2-3) and their parents begin. La Petite Academy (now Benesse Child-Care Center) is opened in Saginuma.
- 1995** The Company name is changed to Benesse Corporation. Home-Helper Level-Two Training Course is introduced. Home-Help Services are initiated. Benesse lists on the Second Section of the Osaka Securities Exchange and the Hiroshima Stock Exchange.
- 1996** *THANK YOU!*; *Goody*; and *Tamahiyo Kokko Club* magazines are launched.
- 1997** The Second Benesse Logistics Center is established (Oku-gun, Okayama Prefecture). *Benesse Home Clara* is opened in Okayama. Benesse moves up to the First Section of the Osaka Securities Exchange.
- 1998** "The Benesse Charter" is instituted. Simul International, Inc. joins the Benesse Group.
- 1999** In-house company system is introduced. The *Challenge-Net Course* in *Shinken zemi* is begun.
- 2000** Benesse Care Corporation is established. The Company lists on the First Section of the Tokyo Stock Exchange. The Company acquires controlling stake in Shinkoukai Co., Ltd.

Benesse Corporation

Investor Relations

Tokyo Head Office

1-34 Ochiai, Tama-shi, Tokyo 206-8686, JAPAN

Tel: 81-42-356-0808 Fax: 81-42-356-0722

E-mail: tokyoir@mail.benesse.co.jp

URL: <http://www.benesse.co.jp/IR>

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