

# **Annual Report 2001**

**For the Year Ended March 31, 2001**

**Benesse**

Benesse Corporation and Consolidated Subsidiaries  
**Consolidated Financial Highlights**

Years ended March 31, 2001 and 2000	Millions of Yen		Percentage Change	Thousands of U.S. Dollars
	2001	2000		2001

**For the Year:**

Net Sales .....	¥262,948	¥260,964	0.8%	\$2,120,548
Operating Income .....	30,278	32,954	(8.1)	244,177
Income before Income Taxes and Minority Interests .....	29,985	29,746	0.8	241,815
Net Income .....	16,498	16,413	0.5	133,048

**At Year-End:**

Total Assets .....	¥309,261	¥297,828	3.8%	\$2,494,040
Shareholders' Equity .....	170,011	160,302	6.1	1,371,056

	Yen	U.S. Dollars
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**Per Share of Common Stock:**

Net Income .....	¥ 155	¥ 154	\$ 1.25
Shareholders' Equity .....	1,599	1,507	12.90
Cash Dividends Applicable to the Year .....	29	29	0.23

	Percentage
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**Ratios:**

Equity Ratio .....	55.0	53.8
Return on Equity .....	10.0	10.7

	Employees
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Employees .....	9,081	8,234
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- Notes: 1. U.S. dollar figures are translated, for convenience only, at the rate of ¥ 124 to U.S. \$1, the effective rate of exchange prevailing on March 31, 2001.  
2. 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.  
3. Return on Equity is calculated based on the average of total shareholders' equity at the beginning and end of each fiscal year.  
4. The computation of the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at fiscal year-end is retroactively adjusted for the effect of a 1:2 stock split made on May 19, 2000.

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# CORPORATE PHILOSOPHY AND GENERAL OVERVIEW OF BUSINESS

## 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.

## Management policies

At Benesse Corporation, we have set our business activities in fields of enduring and universal concerns from babies to senior citizens – education, language, lifestyles, and social welfare. Our aim is to establish “continuing businesses” designed for the individual by helping people of all generations to “live well.”

Getting to know each customer’s challenges and desires for a better life through direct contact with customers, we provide support in solving their problems, and realizing their desires. We put all our efforts into supporting our customers at every stage of life through our many products and services, while taking the customer’s point of view into our businesses through strong relationships with them.

## GENERAL OVERVIEW OF BUSINESS

The main businesses run by Benesse Corporation and our 19 consolidated subsidiaries are as follows:

**Children & Students (C&S) Company:** Learning and education support business for the children who will lead the next generation, constituting correspondence courses centering on *Shinkenzenmi*.

**School & Teacher Support (S&TS) Company:** Support business aimed at schools and teachers mainly through *Shinken Simulated Exams*.

**Women & Family (W&F) Company:** Business supporting women’s lifestyle and family life, centering on publications such as *Tamago Club* and *Hiyoko Club*.

**Senior Company:** Senior citizens’ nursing care support mainly through *Benesse Home Clara*, *Granny* and *Granda*, run by the consolidated subsidiaries Benesse Care Corporation and Shinkoukai Co., Ltd.

**Language Instruction and Translation:** Language instruction, translation and interpretation services provided mainly by the consolidated subsidiaries Berlitz International, Inc. and Simul International, Inc.

**Others:** Telemarketing business run by the consolidated subsidiary Telemarketing Japan, Inc., and a computer information processing service operated by the consolidated subsidiary Synform Co., Ltd. and others.

Benesse Corporation introduced a customer-based in-house company system. Furthermore, the Company adjusted its consolidated accounting segments to match business sectors from fiscal 2000, ended March 31, 2001.

# A MESSAGE FROM THE PRESIDENT

## A Turning-point in the operating environment

The operating environment surrounding the Benesse Group is in the midst of a transformation due to the number of significant changes to the social system, which directly affects our businesses. Especially in our main education operations, education needs in home and schools continue to diversify under the impact of a declining birthrate and the changes in Japan's education policies. In addition to conventional needs to support passing senior high school and university entrance examinations, new needs are coming to the fore, such as specialized instruction and the cultivation of the individual character, which do not cater to traditional practices. Furthermore, parents and guardians are carefully choosing educational services under the effect of Japan's prolonged economic downturn, and competition in the education industry is intensifying. Meanwhile, the Public Nursing Insurance Law went into effect in April 2000, and private-sector companies are now making definite steps in the area of nursing care for the elderly.

Under these circumstances, consolidated net sales for fiscal 2000, ended March 31, 2001 were ¥262.948 billion, up 0.8% from the previous fiscal year. The operating income was ¥30.278 billion, down 8.1%, under the impact of reduced sales and income for the C&S Company, one of our key businesses. However, net income for fiscal 2000 was ¥16.498 billion, an increase of 0.5%, due to the absence of expenses on recognition of past service costs of pension that were posted as other expenses in the previous fiscal year.

Regarding cash flows, the cash and cash equivalents at year end increased ¥10.231 billion to ¥76.148 billion.

I recognize that our core business, *Shinkenzeni* correspondence courses, has now leveled off. In particular, the Senior and Junior High School Courses are struggling in maintaining profitability. The main factors are:

1. The impact of the declining birthrate on our business.
2. Competition in the education industry has intensified as customers' needs in education have become more individualized and diversified.
3. Education-related family expenditures have decreased under the impact of Japan's prolonged economic downturn, resulting in parents and guardians' carefully selecting educational services.

Meanwhile, schools are preparing for the introduction of the New Course of Study accompanied with the national educational reforms. However, this causes anxiety and questions about school education among parents and guardians, causing more concern from parents and guardians whose children want to enroll in the *Shinkenzeni* program. We perceive these changes in circumstances as business opportunities, and we are convinced of the needs to rise to the challenge of this new shift towards growth.

Benesse Corporation has experienced growth through responding to the needs of our customers while conforming to Japan's education system. In addition, we have built up a unique business model, cultivating the following diverse management resources:



Soichiro Fukutake  
Chief Executive Officer and President

1. Product development based on the large customer database
2. Sales and marketing, making full use of relationships with customers
3. Price competitiveness through the unique distribution base
4. Human resources with high morale through ideal management
5. Financial muscle

Making the best possible use of these management resources, we will have to implement our business reforms to respond to the changes of the age. While aiming to reinforce our existing businesses, we will establish new businesses that will respond to the needs of a new age, transcending existing products and services.

### Three business directions for the Benesse Group

We are aiming to take full advantage of the “strengths” we have cultivated so far and expand our businesses in three directions that seize business opportunities in a changing environment.

#### 1. Enriching existing businesses and expanding future businesses by creating a “community” based on relationships with customers

We are implementing accumulated know-how to develop and improve our products and services by listening to the expectations and complaints of our customers. From now into the future, we will aim for “creation in co-operation with our customers,” bringing into reality new services and values that the customer wants. Further, we will form communities of customers sharing the same challenges and dreams, and establish community businesses whereby these customers voluntarily join us in the planning and materialization of products and services. We will also aggressively form tie-ups with other companies and engage in M&A. Specifically, in April 2000, we acquired a controlling stake in Shinkoukai Co., Ltd. and expanded our nursing care facilities and services. In addition, we have promoted tie-ups with companies such as Kadokawa Shoten Publishing Co., Ltd., JTB Corp., and Fujitsu Limited.

#### 2. Consolidating its position as a leading company in the field of private education targeting 0-18 years of age

In the field of education, we will offer services that emphasize the viewpoint of our children’s future and nurture children’s abilities, enabling them to draw closer to their future goals, while firmly grasping trends in reforms of the educational system. While aiming to reinforce our existing products and services, such as *Shinken zemi* and *Shinken Simulated Exams*, we will be eager to develop and provide home tutor services, services via Internet, educational software for elementary and junior high schools, and other new products. The C&S Company will develop and supply original teaching materials of its *Shinken zemi*, which have hitherto performed the role of study materials

supplemental to school education, and provide an education that will nurture basic academic abilities and the essentials of each subject. We aim to provide products and services that will live up to each customer's high expectation in exploring diverse approaches to higher education. We enlarge learning opportunities by not only offering correspondence courses, but also the use of the Internet, face-to-face, and "on-site" education programs. Also, the S&TS Company had up to now been targeting senior high schools, especially academically competitive high schools, but it is now aiming to transform itself into a business targeting all types of schools, from elementary and junior high schools to universities. The role of private-sector companies at school campuses is increasing, thanks to educational system reforms. We will support the use of IT in elementary and junior high schools, and English education in all schools.

### **3. Utilizing the Benesse Group's language business resources, and aiming to be the top provider of language services in Japan**

In July 2001, Benesse Corporation made its consolidated subsidiary, Berlitz International, Inc. (BI), into a wholly-owned subsidiary, and established a framework to swiftly and smoothly implement the Benesse Group's language business strategies through BI. From now into the future, we will proactively deploy its businesses in the Asian market, which is expanding remarkably, particularly in the Japanese market, which is expected to grow rapidly. While increasing the number of Berlitz language centers and satellite classrooms with native teachers, we will sell distance-learning and self-learning products through both BI channels and our own in Japan. With BI, at the core of our language business, we will aim to be the top language service provider in Japan.

### **Strengthening corporate quality to achieve progress in the three business directions**

Benesse Corporation is eager to reinforce its corporate quality in order to achieve its goals in the three directions outlined above and bring about the next phase of growth.

#### **Improve cost competitiveness and productivity**

At the C&S Company, we are promoting VCM (Value Chain Management) to achieve significant rationalization through the restructuring development process. We are aiming, through technological advance, to streamline the whole series of processes from editing, printing, bookbinding, packaging and distribution, reducing processing time and costs, and achieving full digitalization and the accumulation of data. Through these operation reforms, we will reduce processing time by half, and reduce total costs by ¥1 billion by fiscal 2001, ending March 31, 2002, and we expect to reduce it by ¥4 billion by fiscal 2002 and ¥5.5 billion by fiscal 2003.

### **Management emphasizing revolution and value creation**

In April 1999, we introduced a customer-based in-house company system. In addition to this, in April 2001, we divided the corporate structure into a “Corporate Office” and a “Division Support Center,” in order to strengthen our top management organization. The “Corporate Office” formulates management policy of the Benesse Group and promotes and controls its enforcement, aiming to increase corporate value by improving management strategy of the Group and solving management problems. The “Division Support Center” makes management more efficient at the same time as supporting business growth in each in-house company. In this way, Benesse Corporation aims to bring into focus corporate decision-making and the command structure, strengthening the organization of the Company.

In view of the fact that the customer-based in-house company system has been firmly established, Benesse Corporation adjusted its consolidated accounting segments to match business sectors from fiscal 2000.

### **Towards a second business start**

The Benesse Group is aiming for consolidated net sales in fiscal 2005, ending March 31, 2006, of ¥500 billion, operating income of ¥63 billion, and cash flows provided by operating activities of ¥50 billion. While the C&S Company remains the pillar of earnings, we will reduce its proportion of consolidated net sales from 64.2% in fiscal 2000 to 44.0% in fiscal 2005, creating a more balanced business portfolio.

We are now on the threshold of what might be termed our second business start. The three business directions we are following reflect our desire to solve the various challenges and to support motivations presented by the whole range of customers, from babies to senior citizens, in the area of education, language, lifestyles, and social welfare. In addition, we are implementing the practical needs of our customers into our businesses and striving to establish continuing businesses. As well as pressing ahead proactively with self-reform, we will make every effort towards future growth.

I highly appreciate your continuing support.

August 2001



Soichiro Fukutake  
Chief Executive Officer and President

# SPECIAL FEATURE: SOURCE OF BENESSE'S COMPETITIVE STRENGTHS

Benesse Corporation (the "Company") is striving to establish competitiveness by means of a whole range of unique arrangements.

## 1. Product Development

The one source of our competitive strengths is the way we turn the customer's needs into products. The Company pays great attention to "the customer's point of view" when breaking fresh ground with new businesses, and developing and producing new products.

### Customer database

The Company has built up a large customer database of 25.22 million individuals and 10.97 million households through direct communication with customers in the correspondence courses such as *Shinkenzemi*. This cumulative database can be used in all in-house companies at every stage of the development of products. Also, the Company protects privacy carefully.

In the Children & Students (C&S) Company, after exhaustively researching the effect of how colors, shapes, and designs attract students enrolled in the *Shinkenzemi* Junior and Senior High School Courses, the C&S Company created *Pocket Challenge*, a computer memorization aid for *Shinkenzemi* members.

The Women & Family (W&F) Company launched *bon merci!*, a direct sales magazine that provides information on food for families with young children. The W&F Company created the magazine's concept after thoroughly surveying the needs of mothers with young children—who were target customers extracted from its customer database.



*Shinkenzemi* Preschool Courses planning meeting

### Customer hearings

After launching a product, the Company regularly conducts hearing surveys to acquire customers' needs continuously and to improve our products further.

In the W&F Company, readers of *Tamago Club* and *Hiyoko Club*, magazines for expectant mothers and mothers of young children, hold sessions called "Mothers' Round-Tables." At these sessions, the W&F Company questions members on what type of information and products appeal to customers. The opinions and ideas from these sessions are made use of in future articles. In addition, 300 "Mummy Reporters," recruited from among the readers, contribute articles about their real life experiences, which have become quite popular. Although these magazines were latecomers to the market, they now dominate the market and have opened new avenues in the childbirth and child-rearing publications field.

To improve study materials in the C&S Company, the product and editorial staff of *Shinkenzemi* arranges hearing surveys, questionnaires, and events on our members. In addition, the staff conducts a survey on schoolteachers, hold round-table sessions with "Akapen Sensei," and so on.

## 2. Sales and Marketing

The Company cultivates relationships with customers through the unique ideological approach of its sales and marketing activities such as direct-marketing techniques. As a result, the Company aims to establish partnerships with customers whereby they can proactively contribute to the development of products and services.

### Marketing built on close bonds with customers

The Company has built up a unique marketing system called BMS (Benesse Marketing System). BMS marketing activities are classified into four stages according to the strength of the relationship between customers and the Company. The Company's marketing seeks to create and continuously improve products and services through these four stages.

#### 1st stage: Searching out customers

At the first stage, the Company heightens the awareness of its products and services and gets responses from an unspecified number of customers, while gathering information on prospective customers and building up its database.

#### 2nd stage: Identification

At the second stage, the Company encourages customers to buy our products and services. Through various marketing activities, such as direct mailing, telemarketing, consulting sales and area marketing, the Company deploys sales promotion activities to individuals selected from our database.



Direct mail production meeting

### 3rd stage: Expanding continuous customers

At the third stage, the Company encourages customers to continuously use its products and services that exceed their expectations. The Company also encourages customers to be “Benesse Brand” supporters by listening to requests and complaints about products and services, employing characters such as “Shimajiro” and “Korasho,” and simplifying the procedure to continue courses at *Shinkenzeni*.

### Final stage: Building up ties

At the final stage, the Company aims to create a new set of values from interactive communication among customers, and between customers and the Company. The Company encourages continuous customers to participate proactively in the development of products and services and to be its partners.

## 3. Distribution Base

The Company's distribution base, which permits delivery of products efficiently and at low cost, facilitates low prices of its correspondence course study materials.

### Benesse Logistics Center

The Company built the Benesse Logistics Center to process deliveries of correspondence course materials in Okayama. This center presently handles about 80% of *Shinkenzeni* materials, from Preschool Courses to Senior High School Courses. It boasts a daily packaging and dispatching volume of about 200,000 packages.

The center is the largest dispatching center in Japan for correspondence course materials and operates a state-of-the-art factory automation system whereby it is possible to ensure high quality, low cost, a small number of staff, and short delivery time.

The automatic packaging production line, which allows packaging of 4,800 sets of materials per hour, is provided with the world's first random picking function, which can select a maximum of 29 types of materials at random, creating more efficiency in the packaging process. In addition, thanks to the installation of automated guided vehicles and three-dimensional automatic warehouses, a “just-in-time” system inside the center has been established. Furthermore, a computer network, enhancing operational efficiency, controls data regarding all processes.

Moreover, there is a post office next to the center. The packaging line inside the center and the latest model of sorting machinery at the post office are directly linked by conveyor belt. Not only improving operational efficiency, the system also ensures that large volumes of mail can be delivered smoothly.

## 4. Human Resources

The Company has set up many systems to support self-development and to provide a better life among its employees, in order to raise employees' capabilities and motivation.

### Systems to support self-development

University students give high marks to the Company every year for being one of the most sought-after companies for graduates. This is proof that the Company's philosophy and business appeal to a great many people. Furthermore, men and women are treated equally with respect to ability, evaluations, salary, promotions, and raises; in addition, it's an environment where they can improve and demonstrate their own abilities. Also, the Company has introduced a system that enables the opinions and suggestions of each employee to reach upper



Benesse Logistics Center (Okayama Prefecture)

management, including the President. By proactively using employees' ideas, management can motivate employees.

#### **“Blue Paper System”**

This is a system whereby employees can each apply for the jobs they like and file for transfer to cultivate their own careers.

#### **Point System for Skills Development**

This is a system whereby every year employees can receive from the Company financial help within a fixed limit for self-development, obtaining qualifications and improving skills.

#### **“Dear Mr. President” Letter**

A system whereby each and every employee can present directly to the president his or her own opinions and suggestions, such as suggestions for improvements regarding work and the workplace, the personnel system, the organization, and ideas for new businesses.

#### **Systems supporting “a better life” for employees**

The Company has instituted unique support systems offered to all employees who wish to devote themselves temporarily to child-rearing and care for the elderly, and this of course applies to women employees who have married or are expectant mothers. The number of employees who make good use of these systems and continue to work afterwards is on the increase.

#### **Childcare Leave System**

This system is given to all employees who have babies under the age of one. The feature of this system is that leave can also be granted up to the April enrollment in a nursery school even after the baby reaches the age of one.

#### **Shortened Working Hours for Parents**

This is a system whereby all employees with children can shorten their working hours to 5-6 hours a day until their children enter elementary schools. Our Tokyo head office has set up the in-house day-care center—“Tama Kid's Club.”

#### **Home-Care Leave System**

Employees who have family members in need of care are granted leave for a maximum of one year in order to devote themselves to care.

#### **“Cafeteria Plan” of Employee Benefits**

This is not a uniform welfare system, but one whereby each employee may, according to his or her own life plan, select what they need from a menu of: housing, health care, nursing care, pensions, and childcare.

## **5. Financial Muscle**

The Company engages in proactive investments in groundbreaking new businesses, making full use of its abundant funds. Financial muscle, which enables the Company to avail itself of other companies' business resources through business tie-ups and M&A, constitutes an extremely important strength in responding swiftly to drastically changing market needs.

Specifically, the Senior Company, which acquired a controlling stake in Shinkoukai Co., Ltd. in April 2000, increased the number of its nursing-care group homes, responding rapidly to the expanding market for senior citizens' welfare services. In the Language Instruction and Translation Segment, the Company purchased Simul International, Inc. in 1998. Furthermore, in July 2001, the Company successfully took over its consolidated subsidiary, Berlitz International, Inc. (“BI”), and made it into a wholly-owned subsidiary. As a result, the Company can now control and implement BI management strategies more smoothly. Furthermore, for future growth, the Company has established many new businesses and launched new products and services into the market, such as the start up of direct sales magazines at W&F Company and the promotion of Internet-based businesses in which each Company is currently involved.

# THE SPECIAL ATTRIBUTES OF THE EDUCATION MARKET IN JAPAN

## The Importance of supplemental education in Japan

In Japan, the majority of children, from preschool children to senior high school students, make full use of supplemental education, such as correspondence courses, cram schools and home tutors, in parallel with school education. The reasons are that there has always been a strong orientation towards high academic qualifications, and that the majority of parents and guardians feel that school education alone does not provide for sufficient academic progress. Furthermore, this

tendency has been spurred on by the recent rise in the rate of those going on to universities. The population of 18 year-olds is approximately 1.5 million at present, and the rate of attending universities, including junior colleges, has reached 50%. The decline in the birth rate is likely to accelerate in the future, and the number of 18 year-olds in 2010 may decrease to about 1.2 million. Therefore, it is expected that the capacity of universities and junior colleges will equal the number of students taking entrance examinations. Under these circumstances, chiefly in academically competitive high schools, there will be a tendency to attend

universities of a higher academic level.

## Reform of Japan's educational system

The basic philosophy of Japan's educational system since World War II has been to implement the principle of equal opportunity for education. However, there have been outbreaks of various problems on school campuses such as bullying, non-attendance at school, and juvenile delinquency, in the social background of the recent decline in birth rate, and the trend towards nuclear families. The Ministry of Education, Culture, Sports, Science and Technology has been pressing ahead with reforming the educational system in its quest to counter the hitherto uniform cramming type of education that emphasizes the importance of passing entrance examinations. Through reform, the Ministry is instead aiming to foster the qualities and abilities necessary to acquire the essentials of an education, such as reading, writing and arithmetic, and to learn, think and act for oneself as well as develop problem-solving skills.

The New Course of Study have specifically hammered out the shift to a more relaxed style of education, internationalization, and the greater use of IT that will respond to the needs of society. The New Course of Study will be introduced into elementary and junior high schools from April 2002 and into senior high schools from April 2003, and the content of textbooks used up till now will be reduced to about 30%. Because of this, it is predicted that teachers may have a greater degree of discretion in their lessons, and the roles of private-sector companies in the field of education will expand further.

### Changes in Japan's Education Policies (from 1996 Education Committee Proposal)

#### 1. Basic Policies

- 1) Sharpen focus on diversified academic and career paths
- 2) Encourage use of IT in education:
  - ▶ introduce IT infrastructure in elementary, junior high and senior high schools
- 3) Promote English-language instruction:
  - ▶ start teaching English in elementary schools from April 2002; focus on development of English communication skills in junior and senior high school curricula

#### 2. Shift to Instruction that De-emphasizes Cramming

- Introduction of the New Course of Study for elementary and junior high schools from April 2002 and for senior high schools from April 2003:
  - ▶ teachers granted more independence in making decisions; introduction of new class period for "comprehensive learning"; a 30% reduction in textbook contents; and a nationwide 5-day school week

### Annual family expenditure on supplemental education per child

Type of school	Supplemental educational expenditure	Proportion of total educational expenditure
<b>Kindergartens</b>		
Public	¥ 37,468	15.4%
Private	¥ 50,678	10.2%
<b>Elementary Schools</b>		
Public	¥ 86,499	28.6%
<b>Junior High Schools</b>		
Public	¥ 211,314	48.1%
Private	¥ 198,706	16.2%
<b>Senior High Schools</b>		
Public	¥ 135,192	26.2%
Private	¥ 164,712	16.3%

- Notes: 1. Supplemental educational expenditure: expenditures for correspondence courses, cram schools, home tutors, study guides, and others  
 2. Total educational expenditure: includes school fees

Source: Report on children's educational expenditure, 1998, by the Ministry of Education (now the Ministry of Education, Culture, Sports, Science and Technology)

## Overall Results

### The change in the segment classification method in the fiscal year ended March 31, 2001

From fiscal 1999, ended March 31, 2000, Benesse Corporation (the “Company”) introduced a customer-based in-house company system. Further to this change, the Company adjusted its consolidated accounting segments to match business sectors from fiscal 2000, ended March 31, 2001. There are now six segments: Children & Students (C&S) Company, School & Teacher Support (S&TS) Company, Women & Family (W&F) Company, Senior Company, Language Instruction and Translation, and Others.

### General overview of results for fiscal year ended March 31, 2001

The operating environment surrounding Benesse Group is in the midst of a transformation, such as the change of the social situation and economic downturn. Amid this environment, in fiscal 2000, consolidated net sales edged up 0.8% to ¥262,948 million, and operating income decreased 8.1% to ¥30,278 million.

In the C&S Company, which accounted for 64.2% of consolidated net sales, total net sales and operating income declined due to the *Shinkenzeni* enrollment decrease in the Junior High School Courses and Senior High School Courses. In the W&F Company, total net sales and operating income declined under the impact of the winding-up of unprofitable

businesses and the initial investment for new businesses. Although in the Senior Company, total net sales increased due to expanding nursing home facilities through Benesse Care Corporation and the acquisition of Shinkoukai Co., Ltd., while operating income suffered a drop due to the initial investment costs following the establishment of new facilities. Further, in the Other Segment, total net sales increased as Telemarketing Japan, Inc. expanded sales to customers outside of the Group. However, operating income decreased due to worsening profitability.

On the other hand, the Language Instruction and Translation Segment, centered on Berlitz International, Inc., and the S&TS Company, at which sales of both existing and new products were favorable, enjoyed increased total net sales and operating income.

### Towards Future Growth

The Benesse Group aggressively establishes new businesses while strengthening its core—*Shinkenzeni* correspondence courses.

Recently the C&S Company introduced a new self-study English product using a computer and Internet called *BE-GO*, English conversation classes for children, and home tutor services. In the pursuit of expansion and diversity of new businesses, the C&S Company will continue to develop new business areas that go beyond conventional correspondence courses.

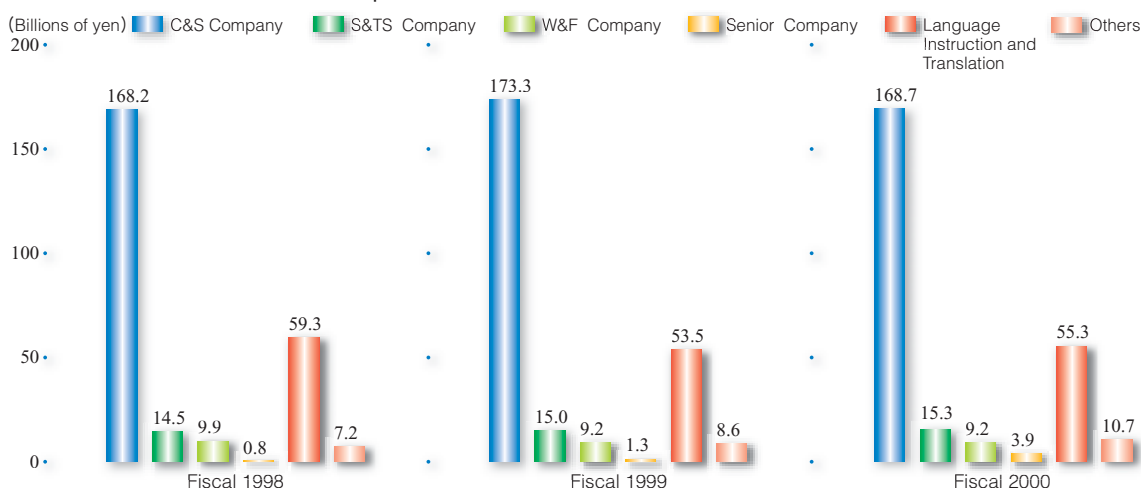
	Primary Business	Consolidated subsidiaries included in the segments
C&S Company	Products and services targeting preschoolers to university students and full members of society. Major products include <i>Shinkenzeni</i> and <i>Career-Up Zemi</i> .	<ul style="list-style-type: none"> <li>• Benesse Music Publishing Co.</li> </ul>
S&TS Company	Products and services that support schools and teachers. Major product is <i>Shinken Simulated Exams</i> .	<ul style="list-style-type: none"> <li>• Okayama Fukutake Publishing Co., Ltd.</li> <li>• Learn-S Co., Ltd.</li> </ul>
W&F Company	Support for women and their families. Major products include the <i>Tamago Club</i> , <i>Hiyoko Club</i> , and <i>Tamahiyo Kokko Club</i> magazines on childbirth and childcare, and the lifestyle information magazine <i>THANK YOU!!</i> .	
Senior Company	Nursing-care group home services as its core, training courses, and home-help services.	<ul style="list-style-type: none"> <li>• Benesse Care Corporation</li> <li>• Shinkoukai Co., Ltd.</li> </ul>
Language Instruction and Translation	Language instruction, translation, and interpretation services.	<ul style="list-style-type: none"> <li>• Berlitz International, Inc.</li> <li>• Simul International, Inc.</li> <li>• Okayama Language Center</li> <li>• Simul Business Communications, Inc.</li> </ul>
Others	Telemarketing services, computer information processing services and systems development sales.	<ul style="list-style-type: none"> <li>• Telemarketing Japan, Inc.</li> <li>• Synform Co., Ltd.</li> <li>• Carry Com Co., Ltd.</li> <li>• Plandit Co., Ltd.</li> <li>• Sympres Co., Ltd.</li> <li>• Naoshima Cultural Village Co., Ltd.</li> <li>• Persons Inc.</li> <li>• B.C. ESTATE Co., Ltd.</li> <li>• Benesse Holdings International, Inc.</li> <li>• CRM Direct, Inc.</li> </ul>

In the W&F Company, the direct sales magazines, *Aile for You* and *bon merci!*, were launched aiming to establish membership communities through various media. In addition, the W&F Company offers various services and creates community-based businesses.

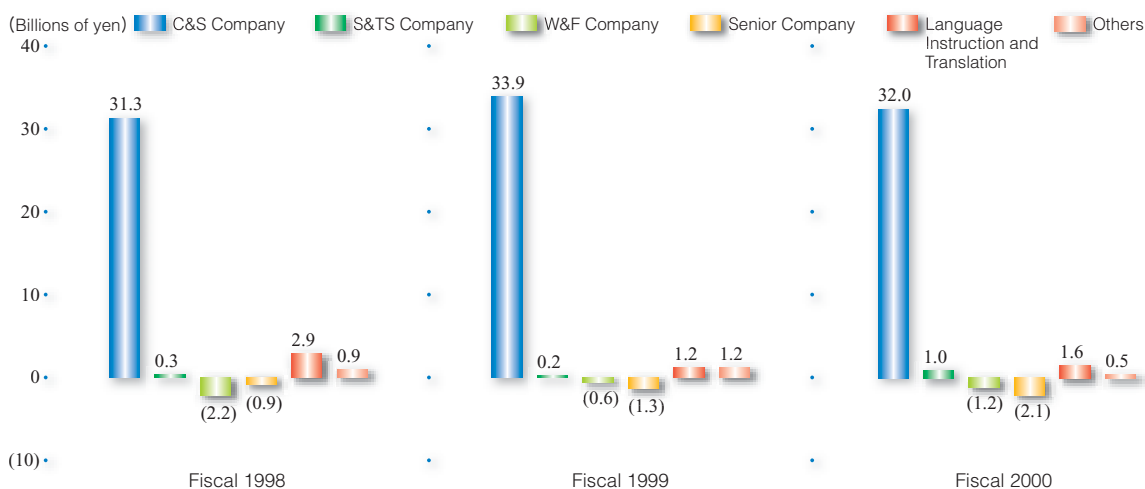
Further, in the establishment of new businesses, the Company is pushing ahead proactively with tie-ups with other companies and M&A. By combining our teacher support know-how, cultivated over the years, with the strengths of other companies, the S&TS Company provides such services as IT support for elementary and junior high schools and international education support for junior and senior high schools.

The Benesse Group will explore and develop new business frontiers based on the total commitment to the customer, and go beyond our conventional business areas and our policy of self-sufficiency.

#### Net sales outside the Benesse Group



#### Operating income (loss)



## Children & Students Company

The Children & Students (C&S) Company targets the entire educational range from preschool children to university students by developing and providing study aids that supplement school education and that nurture basic academic skills, especially with *Shinkenzeni*, our core product. Furthermore, in order to respond to changes in the educational environment due to educational system reforms, and diversifying and individualizing of customer needs, the C&S Company has developed new styles of products and services that transcend conventional correspondence courses; in fact, the new-style businesses have already begun operations.

### General overview of the fiscal year ended March 31, 2001

In fiscal 2000, ended March 31, 2001, the C&S Company's total net sales declined 2.6% to ¥168,733 million and operating income decreased 5.6 % to ¥31,964 million.

In the mainstay *Shinkenzeni* home study correspondence courses, results diverged according to course. Preschool Courses, which target children aged 1-6 and their parents and guardians, continued to perform well. In the Lower Elementary School Courses, the smooth transition from Preschool Courses and the introduction of the system that assigns one "Akapen Sensei" ("Red Pen Teacher") per student contributed to enhance individual service, boosting financial performance. Meanwhile, our enrollment in the Upper Elementary School Courses, the Junior High School Courses, and the Senior High School Courses has decreased due to the diversification of customers' needs and the intensified competition in the education market.

Regarding products and services apart from *Shinkenzeni*, the C&S Company started English conversation classes for children and home tutor services, undertaking new

investments in these areas. At the same time, the C&S Company withdrew from unprofitable operations in correspondence courses for adults.

### Changes in the educational environment offer fresh business opportunities

As Japanese society is undergoing a remarkable revolution, educational focus is shifting from academic qualifications to individuality and skills, and customers' needs are individualizing and diversifying. The potential scale of the market has been shrinking due to the declining birth rate, and the family expenditure on supplemental education has fallen under the effects of an economic slowdown. As a result, cram schools are reinforcing their strategy of offering individual coaching in order to respond to the changes in the educational environment, and competition in the education market is expected to be more severe from now on.

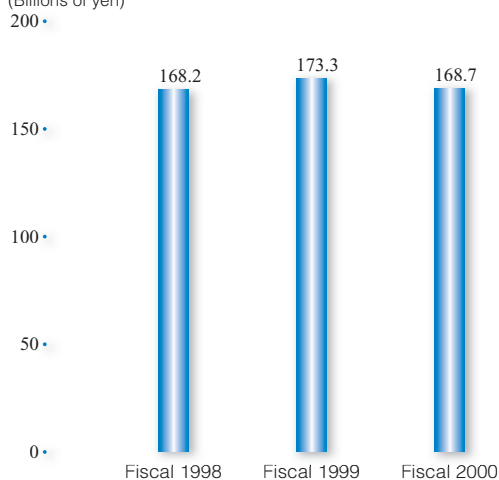
Further, the New Course of Study will be introduced for elementary and junior high schools from April 2002 and for senior high schools from April 2003. The C&S Company is pressing ahead with the development of its materials in conjunction with the new curricula.

### Continued stable growth in *Shinkenzeni* and the establishment of new businesses

To cope with the changes in the operating environment, our core strategy will be the continuation of stable growth in *Shinkenzeni* and the diversification of products and services by establishing new businesses. The C&S Company's total net sales accounts for 64.2% of Benesse Group's consolidated net sales, and *Shinkenzeni* accounts for 94.2% of the C&S Company's total net sales, and is the backbone of the Benesse Group. *Shinkenzeni* operations, however, have already reached maturity, and its management practices needs to be reformed.

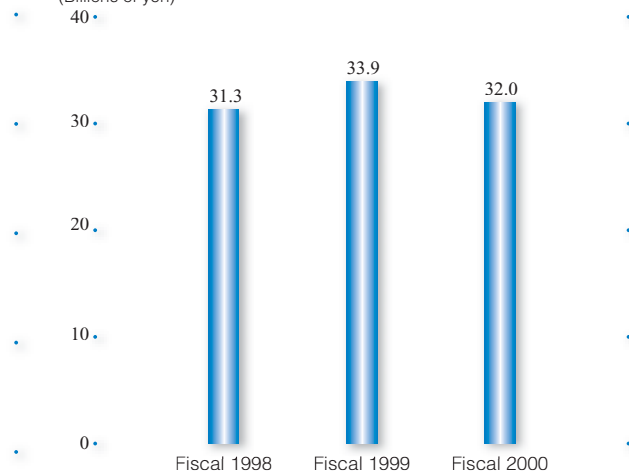
#### Net sales outside the Benesse Group

(Billions of yen)



#### Operating income

(Billions of yen)



The C&S Company's goals are to achieve stable growth and secure profitability. In order to achieve these goals, the C&S Company will aim to strengthen *Shinkenzemi* operations. In addition, the C&S Company will aim to improve its earnings base by establishing new businesses utilizing new media, such as *Senior High Schoolers University*, an Internet version of *Shinkenzemi* Senior High School Courses, *BE-GO*, a self-study English product via Internet, English conversation classes for children, and home tutor services.

### ◀ *Shinkenzemi* Correspondence Course ▶

*Shinkenzemi*, the largest correspondence course in Japan, was established in 1969. It comprises 17 courses for one-year-old preschoolers to senior high school students, and offers a high quality program by matching each enrolled individual one by one.

As of April 2001, 4.1 million members were enrolled. The penetration rates of the target population as of April 2001 were: Senior High School Courses 19.0%, Junior High School Courses 18.8%, Upper Elementary School Courses 17.2%, Lower Elementary School Courses 21.4%, Preschool Courses 24.9%, and in total 20.5%. The total enrollments in fiscal 2000, on all Courses, totaled 49.69 million, up 2.2% over the previous fiscal year. These figures show the downward trend in the Junior and Senior High School Courses enrollments and the upward trend in the Lower Elementary School Courses enrollments.

The Elementary School Courses enrollments are expected to increase in the future as more graduates from Preschool Courses move on to Elementary School Courses. On the other hand, the decline in the Junior and Senior High School Courses enrollments was the result of the considerable effects of the declining birth rate in recent years, the fall in family expenditure on supplemental education, and intensified competition with cram schools and home tutor suppliers.

Another reason is thought to be a decline in customer satisfaction with our materials.

### Future Policies

#### 1. Improve customer satisfaction

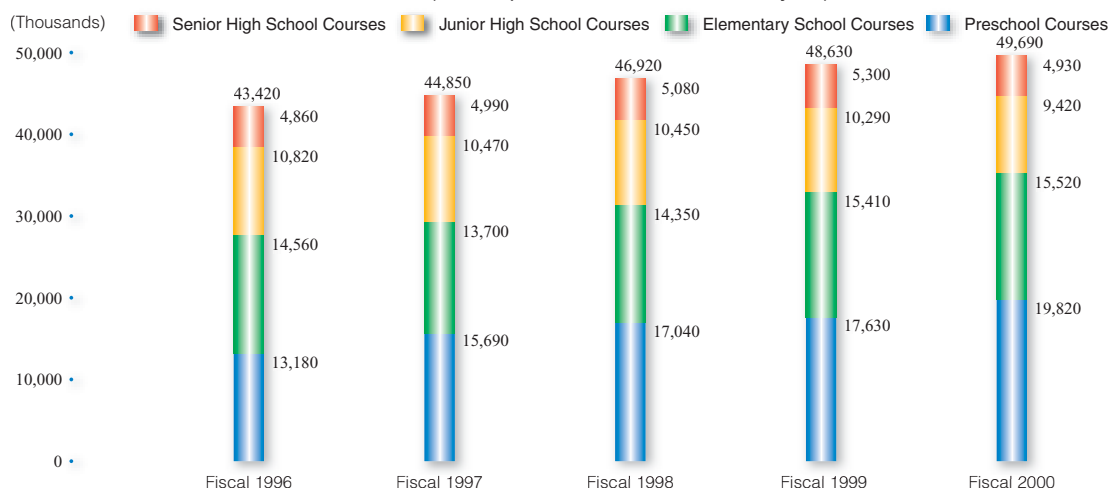
Changes in the customer needs for study materials focusing on entrance exams or regular exams may contribute to lower customer satisfaction.

There has been a change in the value standard among students and their parents and guardians. Due to the declining birth rate, the competitiveness of university entrance exams has been reduced, and high school students are selecting universities that match their future career paths, not only because of the name. For these reasons, the focus has shifted from developing skills needed to perform well on tests to developing basic academic ability, in accordance with broadening students' choices.

Furthermore, with the 30% reduction on the contents of textbooks, owing to the introduction of the New Course of Study, some parents and guardians have expressed concern that academic achievement may fall and that curricula at public educational institutions may be insufficient.

In response to this situation, the C&S Company is pressing ahead with producing study materials for fiscal 2002 for each *Shinkenzemi* Course, while setting up new curricula. The purpose of these curricula is to achieve goals to acquire basic academic knowledge in main subjects. Further, the C&S Company will be offering various study materials by developing materials unique to *Shinkenzemi*, in addition to conventional study materials that match textbooks and degree of progress. By doing so, the C&S Company will increase the learning opportunities for *Shinkenzemi* members in an ever-changing environment.

Total enrollments of *Shinkenzemi* courses (From April to March of each fiscal year)



Note: Recognition of sales for Preschool Courses is based on the month of the instruction contract. However, in accordance with modifications in instruction materials services, the Company has reviewed its method of determining the month of the contract. Consequently, results for fiscal 2000, ended March 31, 2001, include 13 months of sales for Preschool Courses. Therefore, the total enrollment for fiscal 2000 includes 13 months of accumulated contracts.

## 2. Improvement of ongoing enrollment through two-way communications

Within *Shinkenzeni*, staff members known as “Akapen Sensei” (“Red Pen Teacher”) correct and give counseling on work returned by *Shinkenzeni* members. The “Akapen Sensei” aims to increase the satisfaction by replying honestly to the questions and requests of members, and this leads to continued enrollments. In the Lower Elementary School Courses, a specific “Akapen Sensei” is assigned to correct each members’ quizzes and papers. This system has resulted in a rise in the retention rate, and the Upper Elementary School Courses have introduced the same system in April 2001.

## 3. Introduction of area marketing

In the Senior High School Courses, the C&S Company has been engaged in area marketing, making full use of seven branch offices and targeting about 300 senior high schools throughout Japan, in addition to its conventional sales activities centering on direct mail. At each branch, the C&S Company marketing staff is dispatched to senior high schools with sales staff of the S&TS Company to collect teachers’ needs by means of “hearing surveys.” Also, the C&S Company discovers the needs of students by holding career paths discussion meetings and learning counseling sessions employing graduates of *Shinkenzeni*, and utilizing their needs for products and services development. Through these arrangements, the C&S Company aims to increase the future penetration rate of Senior High School Courses. At the current stage, the C&S Company emphasizes school-specific materials and their effect on members in preparation for the New Course of Study from April 2003.

## ◀ New Businesses ▶

In addition to the correspondence course business, the C&S company is establishing new businesses by making full use of new media: its Internet businesses, *Senior High Schoolers University*, freshly instituted in *Shinkenzeni* Senior High School Courses, and *BE-GO*, an on-site business such as English conversation classes for children, and a face-to-face business such as home tutor services.

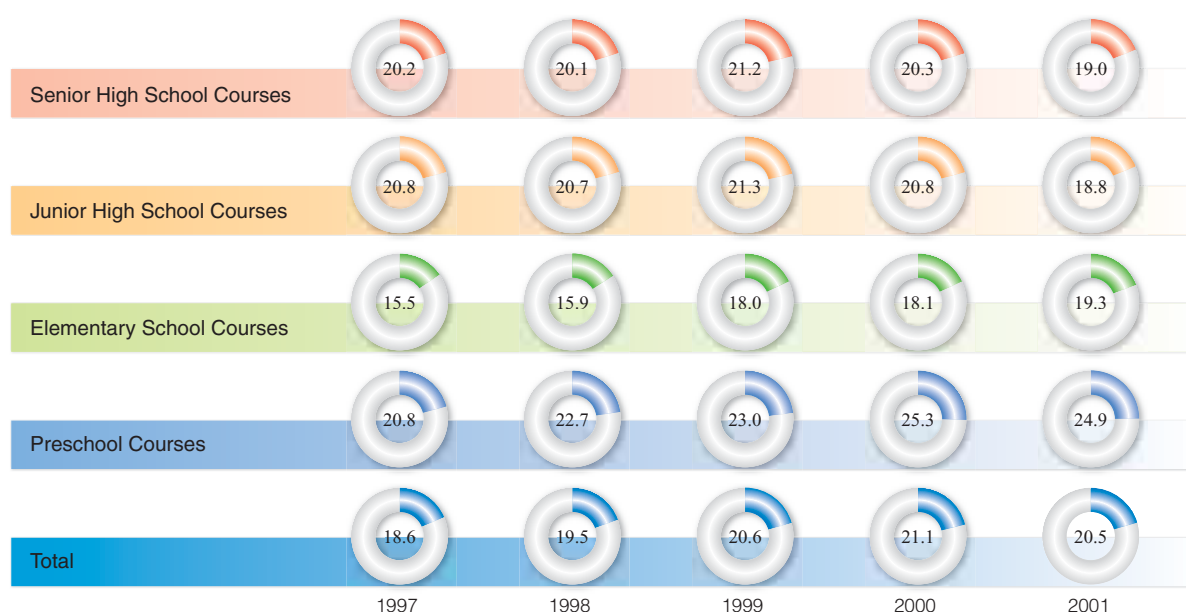
As of April 2001, the number of enrollments of businesses other than *Shinkenzeni*, including new businesses, stood at 372 thousand. The total enrollments in the C&S Company’s programs as of April 2001 stood at 4,609 thousand, including 4,100 thousand in *Shinkenzeni* courses in Japan and 137 thousand on *Shinkenzeni* courses in Taiwan.

### Internet course “Senior High Schoolers University”

In April 2001, the C&S Company inaugurated its Internet course, *Senior High Schoolers University* as an optional service targeting first and second-grade senior high school students already enrolled in the *Shinkenzeni* Senior High School Courses. With an additional fee of ¥980 per month, it offers help via Internet in choice of career paths and information useful in taking university entrance examinations and coping with the real world.

It is also offering “career paths lectures” in which university students report on the details of their universities and departments, and full members of society report on details of their work and on what prompted them to choose the career paths they did. In addition, it offers the opportunities

The penetration rates of the target population as of April by *Shinkenzeni* courses (%)



Notes: 1. As of April of each year.

2. The penetration rate for Senior High School Courses is calculated based on the number of senior high school students seeking to advance to universities or junior colleges (Benesse Corporation estimates).



The C&S Company Junior High School Students Department

for on-line interchange among *Shinkenzeni* members, between *Shinkenzeni* members and society members or university students, while offering information on universities and vocations, and aptitude tests.

#### **Self-study English product “BE-GO”**

In April 2001, the C&S Company launched its self-study English service using a personal computer, targeting upper elementary school students. This is a product with a technical tie-up with two U.S. companies, equipped with an interactive function, voice recognition, and voice evaluation functions. Its special features are a CD-ROM study aid for conversation practice using voice recognition technology, and instruction from English speaking teachers over the Internet. In the future, the C&S Company plans to expand this product to target infants through adults.

#### **English conversation classes for preschool children and elementary school students**

The C&S Company has launched community-based English conversation classes with weekly lessons and home learning chiefly in the Tokyo Metropolitan area, targeting preschool children and elementary school students. Consisting of a mixture of lessons and various events, these programs help to foster communication skills in English.

#### **Home tutor services**

The home tutor services were started in earnest in April 2001, after testing for commercialization in fiscal 2000. These tutor services target upper elementary school students to senior high school students. It offers a service tailored to individual learning needs, chiefly to *Shinkenzeni* members. The home tutors are chiefly university students who themselves have been *Shinkenzeni* members. They are selected after a rigorous examination of their academic record, followed by an interview, and become full-fledged tutors after training. Students and tutors are matched according to students’ personalities, academic level, and location. Simultaneously, the C&S Company aims to provide a support system to counsel families and students, while improving the teaching methods and raising the motivations of tutors.

## School & Teacher Support Company

With the School & Teacher Support (S&TS) Company, we have offered career paths and educational counseling support for teachers and schools, chiefly through *Shinken Simulated Exams* targeting senior high schools, and the editing, production, and sales of reference books and supplemental study materials. In accordance with the reforms of the educational system, it is now important to respond to the diversification of career paths, internationalization, and the increased use of IT at schools. Furthermore, with the introduction of the New Course of Study into elementary and junior high schools in April 2002 and senior high schools in April 2003, about 30% of the contents of textbooks will be cut, and teachers will have more discretion in their lessons. Therefore, the role of private-sector companies to support schools and teachers is likely to increase. In response to these changes in the education environment, the S&TS Company regards career path, English, and the Internet & IT as important factors and aims to expand its products and services. In addition, the S&TS Company is widening its target area to cover elementary and junior high schools, and universities.

### General overview of the fiscal year ended March 31, 2001

In fiscal 2000, ended March 31, 2001, the S&TS Company's total net sales increased 1.7% to ¥15,253 million and its operating income climbed 523.2% to ¥959 million.

In the S&TS Company, total net sales increased due to the strong results in *Course Map*, a career path counseling support study aid, which was launched in the year under review. Also, the sales of S&TS Company's main product, *Shinken Simulated Exams*, which targets senior high schools, and *Study Support*, a learning assessment study aid, exceeded those of the previous year. In addition, the sales increased steadily in *Course Planning*, a career path selection support study

aid, and *Proficiency Test of English Communication*, English education support study material.

### Expansion of business targets, products, and services

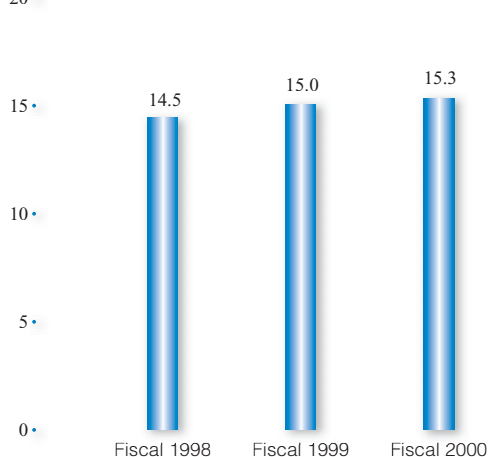
The S&TS Company has up to now been targeting senior high schools that prepare their students for entrance into universities, and as the largest company in the field of career-path-counseling study materials, it has earned a high degree of praise from senior high schools throughout Japan. The number of our senior high school clients in fiscal 2000 stood at 3,143, equivalent to 57.3% of the total number of senior high schools in Japan. The total number of students taking *Shinken Simulated Exams*, which boasts the largest number in Japan, *Study Support*, and *Short Essay Test*, reached a total of 5.16 million in the year under review. In the changing environment of education, the S&TS Company will expand its businesses to target not only senior high schools but all schools including elementary and junior high schools, and universities. As well as focusing on offering each market career-path-counseling study aids, and English-and IT-related products and services, it will expand its businesses while proactively seeking tie-ups with other companies.

In April 2001, the S&TS Company established Learn-S Co., Ltd. as a subsidiary to handle its production and sales of educational instruction materials targeted at senior high schools. The subsidiary will be offering products that meet the New Course of Study, which will be introduced into senior high schools in April 2003, thanks to new product developments and sales approaches established by a professional group specializing in educational instruction materials. In doing so, the S&TS Company is aiming for further improvement in results.

Note: "educational instruction materials": study aids to acquire academic ability in basic subjects such as English, mathematics and Japanese and so on. Reference books and drill booklets.

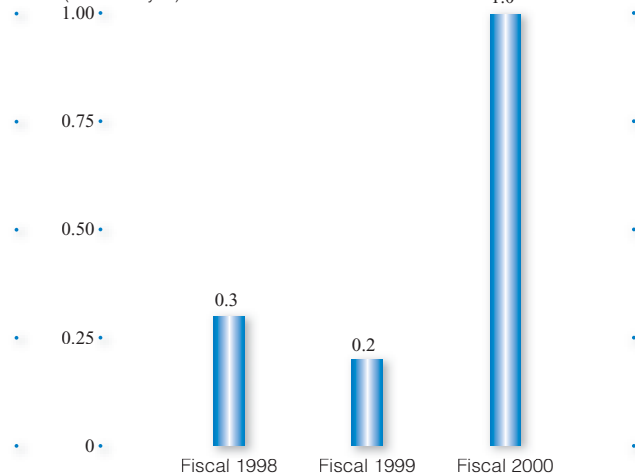
### Net sales outside the Benesse Group

(Billions of yen)



### Operating income

(Billions of yen)





Staff meeting of IT support business targeting elementary and junior high schools

### ◀ IT support business targeting elementary and junior high schools ▶

The use of computers in the classroom is increasing due to government education policies that encourage the use of IT in education and the introduction of the New Course of Study. The S&TS Company will be going ahead with its IT support for the elementary and junior high schools together with Fujitsu Limited.

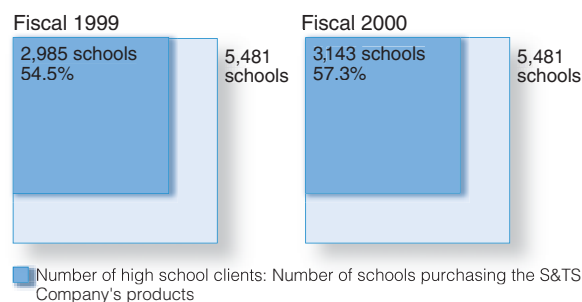
Fujitsu Limited, which has a lot of experience in education system development, and the S&TS Company will combine know-how and build up an IT support system that integrates various types of systems related to learning. We develop contents of systems and dispatch specialists to schools.

### ◀ International education support business in junior and senior high schools ▶

The nurturing of practical ability in English communication is one of the principal objectives of the New Course of Study. Also, competition among schools has intensified as the birth rate has declined, and all schools now need to cultivate their own characteristics. The S&TS Company, in tie-ups with JTB Corp. and Berlitz Japan, Inc., is jointly developing a broad range of international education support services for junior

and senior high schools: language training programs, English proficiency test development, native teachers, overseas school trips, overseas language training, and home stays.

The number of senior high school clients from the total number of senior high schools in Japan



### Course Map, the optimal individual career path navigation



Course Map

As university entrance examinations are becoming less competitive, senior high school education is changing from being centered on passing entrance examinations to one centered on giving more importance to individual career path counseling, including finding employment. Also, the contents of university entrance examinations are changing from conventional, written examinations, to ones that rely on more diverse judgment criteria, including personal character. In April 2000, the S&TS Company introduced *Course Map* whereby aptitude and academic ability are examined. In addition, diverse future courses, ranging from higher education to finding employment, are indicated based on the results, and a career path selection matching individuals is supported.

## Women & Family Company

The Women & Family (W&F) Company is shifting from a conventional publishing-type business, targeting the general public, to a community-based business supporting women who play an important role in the family. The W&F Company will be offering information, opportunities to inter-react, and specific life-style support services, both more intimate and diverse on an individual basis to women who want, while running households, to develop themselves, maintain connections with society, and live true to themselves.

### General overview of the fiscal year ended March 31, 2001

In fiscal 2000, ended March 31, 2001, the W&F Company's total net sales decreased 0.4% to ¥ 9,182 million and an operating loss of ¥1,192 million was posted.

Sales and advertising revenue of *Tamago Club*, *Hiyoko Club*, and *Tamahiyoko Kokko Club*, magazines for expectant mothers and mothers of young children, and the lifestyle information magazine *THANK YOU!* were favorable during the fiscal year.

Meanwhile, the decrease in profits for the W&F Company resulted from the burden of initial investment cost, owing to the direct sales magazines, *Aile for You* and *bon merci!*, and the free membership Internet service, *Benesse Women's Park*, all of which started up as new businesses in the year under review.

### Shift from publishing business to membership business

The direction in which the W&F Company is aiming is to offer new products and services that transcend the confines of the conventional publishing-style business, which has been the main business hitherto. The W&F Company targets family

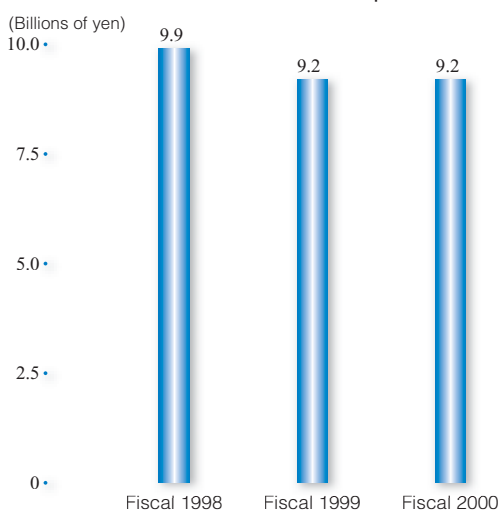
women with the intent to develop long-term membership-businesses, by providing products and services supporting various women's life style in each generation, through various media other than publishing such as the Internet and other interactive media. Eventually, the W&F Company aims to establish and expand its business base by creating a "Community" with members ranging from children to elderly people, thanks to the contributing efforts of women recruiting family members.

In the W&F Company, the number of customers it has made contact with through its various media stood at about 1.42 million as of April 2001. By identifying each customer who buys its over-the-counter magazines, increasing the customers of direct sales magazines and of membership businesses, and seeking M&A and tie-ups, the W&F Company will achieve its future goals of winning over 3.2 million members. In addition, it will be offering to those more specific, almost visible customers, individual, direct and continuous products and services, thereby aiming for further growth in those businesses.

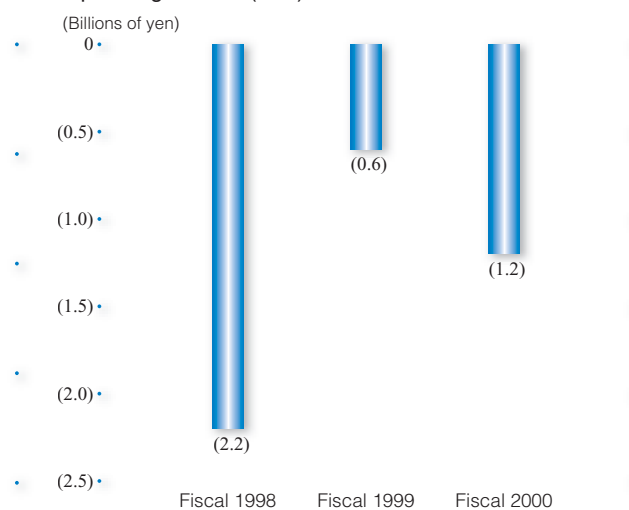
### < Tamahiyoko >

The magazines *Tamago Club*, *Hiyoko Club*, and *Tamahiyoko Kokko Club* target expectant mothers and mothers of young children mainly in their 20's and 30's. *Tamago Club* has a circulation of 260 thousand, a share in this field of about 78.0% (according to the Company's own survey), *Hiyoko Club* has a circulation of 320 thousand, about 71.0% (own survey), and *Tamahiyoko Kokko Club* has a circulation of 200 thousand, with no competing titles at present. Each of these has won the overwhelming empathy of its readership through producing a magazine that thoroughly encourages readers' participation. Furthermore, the W&F Company is aiming, through these core titles, to expand its peripheral businesses such as the mail-order business.

Net sales outside the Benesse Group



Operating income (loss)





THANK YOU! editing staff

### < THANK YOU! >

THANK YOU!, the lifestyle information magazine for housewives, has earned a high degree of praise by offering suggestions that help women to find greater fulfillment and provide unique perspectives on family life, and has a circulation of 430 thousand. In addition, the W&F Company actively publishes housewifery and cookery related mooks.

### < bon merci! >

In February 2001, the W&F Company launched *bon merci!*, a direct sales magazine supporting cooking and health for families with children of 3 to 6 years of age. It offers new products and services prompted by the concept of “food” to customers nurtured hitherto through its correspondence courses and support business for expectant mothers and mothers with young children. *bon merci!* has established new media whereby ingredients and food related goods are delivered directly to the home together with the magazine. As of April 2001, the number of members stood at 85 thousand, and is rising steadily.

### < Aile for You >

In December 2000, the W&F Company launched *Aile for You*,

a direct sales magazine supporting women in their 50's who have finished child-rearing. As of April 2001, there were 45 thousand members. The W&F Company seeks to set up a network that will take advantage of various media such as telephone, fax, Internet, classes, and mail order, with *Aile for You* magazine as its core. Through this network, the W&F Company aims to build up a community where women in the same generation can exchange their knowledge and experiences. Since women in their 50's can be the mothers of the expectant or child-rearing mother's generation, or the children of the elderly, an expansion in the numbers of members can be expected, given the level of customer recognition and trust built up by the Company's existing businesses. The W&F Company can also look forward to the contributing efforts to other generations. This is a business that will strengthen relations with customers of all generations, from babies to elderly folk.

### < Benesse Women's Park >

In May 2000, the W&F Company inaugurated *Benesse Women's Park*, a free membership Internet portal site limited to women who have had experience using the Company's products. As of June 2001, the number of members stood at 106 thousand, and it is rising favorably. It carries an abundance of contents linked up with magazines, such as information on child-rearing and family life, local grapevine information, a notice board, e-mail friends, exchange of information on recycling, and links to related sites. The W&F Company is pushing ahead with the formation of an “e-community” where women all over Japan meet to collect information and hold lively dialogue.



Aile for You



bon merci!

## Senior Company

The Senior Company engages in businesses centered on its nursing-care group home services through its consolidated subsidiaries, Benesse Care Corporation and Shinkoukai Co., Ltd., as well as home-help services and training courses. With the advent of the aging society, the scale of the care service market as of 2000 was estimated at ¥5 trillion. Also, the proportion of the Japanese population aged 65 and over is estimated to grow from 17.2% in the year 2000 to 27.4% in 2025 (according to a survey by the Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications). As a result of the implementation of the Public Nursing Insurance Law in April 2000, private-sector companies are now actively joining the market. The Benesse Group will keep expanding services while keeping a close eye on revisions of the system.

### General overview of the fiscal year ended March 31, 2001

In fiscal 2000, ended March 31, 2001, the Senior Company's total net sales increased 190.1% to ¥3,861 million and an operating loss of ¥2,149 million was posted.

The main factors of increased net sales were the acquisition of Shinkoukai Co., Ltd., which manages 18 senior citizens nursing home facilities, and nine new facilities built by Benesse Care Corporation. However, the initial investment expenditure accompanied with the expansion of facilities at Benesse Care Corporation resulted in decreased income.

### Aggressive development centering on nursing-care group home services

While the Senior Company aggressively expands its business centered on nursing-care group home services, it pushes ahead

to solve system-related problems. Because current facilities for senior citizens run by private-sector companies cannot receive grants for facility and equipment expenditures or tax breaks, they are more expensive than public facilities. In order to redress this situation, on June 29, 2001, one hundred corporations, including Benesse Corporation, jointly established a trade association of operators of fee-based nursing homes. Collecting their opinions regarding the Public Nursing Insurance Law and its operation gives them greater clout. Meanwhile, the Senior Company is adding a new low price range to its existing business model, and is aiming to reinforce its price competitiveness.

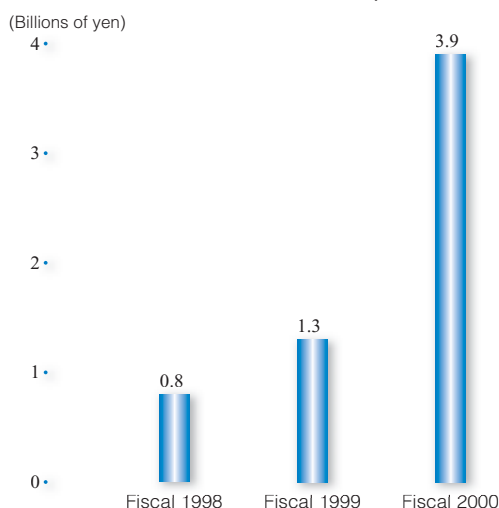
In addition, the Senior Company, in response to the growing proportion of senior citizens in society, is eager to offer lifestyle support services such as a livelihood security service, finance and insurance service, and a home-delivered food service, all of which it will do in tie-ups with other companies.

### < Nursing-care group home services >

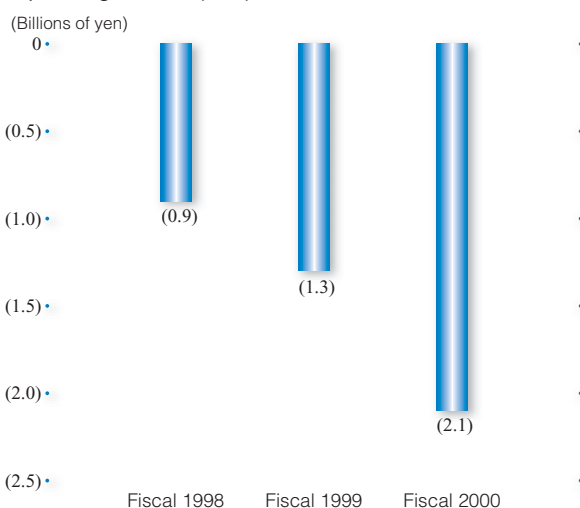
In fiscal 2000, ended March 31, 2001, the Senior Company set up nine new *Benesse Home Clara* nursing homes for senior citizens operated by Benesse Care Corporation, and as of March 31, 2001, the number of facilities stood at 12 (with a total of 556 rooms). All *Benesse Home Clara* nursing homes are designated under the Public Nursing Insurance Law as operators of fee-based nursing homes for the elderly or group homes for elderly people suffering from dementia. The Senior Company plans to increase the number of residential rooms in *Benesse Home Clara* to 1,306 in fiscal 2001.

In April 2000, the Senior Company acquired a controlling stake in Shinkoukai Co., Ltd., which runs *Granny* and *Granda* senior citizens nursing home facilities. In fiscal 2000, it added six more facilities to the existing 12 facilities. The number of *Granny* and *Granda* facilities as of March 31, 2001 comprises five fee-based nursing homes for the elderly and 13 residential facilities, totaling 18 (530 rooms). The total

Net sales outside the Benesse Group



Operating income (loss)





Home-Helper Level-Two Training Courses — practical training

number of facilities run by the Senior Company as of March 31, 2001 was 30 (1,086 rooms). The Senior Company is pushing ahead with opening new facilities while keeping down investment expenditures and risks. For example, it is making full use of rented properties such as refurbished employees' dormitories chiefly in the Tokyo Metropolitan area. By fiscal 2005, it plans to expand the number of rooms in its *Benesse Home Clara* to 4,306, and to 1,780 in its *Granny* and *Granda* facilities.

#### < Home-help services >

The home-help services, previously offered by Benesse Corporation, was transferred to Benesse Care Corporation in April 2001. 14 home-help centers throughout Japan will be transferred to *Benesse Home Clara*, reducing rental charges. In addition, by integrating the home-help services and the

nursing-care group home services, the Senior Company expects to meet the needs of customers in both services while expanding demand.

#### < Training courses >

The Senior Company holds *Home-Helper Level-Two Training Courses* in 20 cities throughout Japan. These courses consist of a combination of correspondence study that employs Benesse Corporation's know-how, small-group classroom work, and practical training at the work site. Since their beginning in 1995, the total number of people who have completed the course stands at 26 thousand.

In addition, *Home-care Specialist Examination Seminars* and others are also held.

Number of nursing home facilities by Region As of March 31, 2001

Region	Benesse Care Corporation	Shinkoukai Co., Ltd.
	<i>Benesse Home Clara</i>	<i>Granny</i> and <i>Granda</i>
Kanto-region including Tokyo Metropolitan area	8	18
The others	4	0
Total	12	18

#### Clara Saginuma: wins the Nikkei prize for excellence in advanced facilities



In November 2000, the *Benesse home Clara Saginuma* was awarded the 18th Nikkei prize for excellence in advanced facilities. The three main factors contributing to *Clara Saginuma's* high appraisal were: (1) the facility is accepted by the local community by taking in many residents from the community, (2) the residents can lead stimulating, worthwhile lives in a family atmosphere, and (3) the facility have produced a reasonable price through the re-use of existing facilities. Among the candidates, most of which were facilities with large-scale investments in excess of ¥10 billion, *Clara Saginuma*, with an investment value of about ¥100 million, was able to win the prize because its new proposals for facilities values, which put the customer's lifestyle first, were highly appraised.

## Language Instruction and Translation

The Language Instruction and Translation Segment offers language instruction, translation, and interpretation services, mainly at its consolidated subsidiaries Berlitz International, Inc. ("BI") and Simul International, Inc. ("Simul").

It is said that the English language school market for private individuals, ranging from preschool children to adults, is worth ¥232 billion, and the market for the corporate sector is worth ¥20 billion in Japan. The Segment offers services responding to the various needs from children to adults level by level, with an emphasis on the fields of language instruction and training.

### General overview of the fiscal year ended March 31, 2001

In fiscal 2000, ended March 31, 2001, total net sales for the Language Instruction and Translation increased 3.2 % to ¥55,258 million, absorbing approximately ¥2,500 million from the negative effects of a strong yen at the time of currency translation. Operating income also increased 31.6% to ¥1,602 million. The main factor of increased net sales and income was that BI recorded steady sales and profit growth in its language instruction and translation services.

BI's consolidated net sales for fiscal 2000 were \$ 480 million, 7.6% up from the previous fiscal year. The main factors were:

- The increase in the number of lessons in all regions, especially Asia, contributed to increased sales in the language instruction segment.
- The increase in the number of students from Asian countries in the ELS operation, chiefly in the U.S.
- The increase in sales in all regions of the Berlitz GlobalNET, with a rise of 9.4% over the previous year in the Americas, 11.7% in Europe, and 26.7% in Asia.

### New business deployment centralized on Berlitz International, Inc.

In this Segment, the business reconstruction of BI was an important task for management, and as a result of structural reforms since the acquisition of BI in 1993, there have been positive signs in the area of growth.

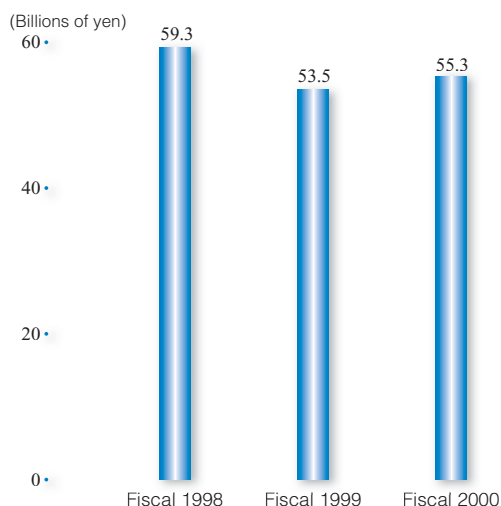
In order to turn BI into a wholly-owned subsidiary, Benesse Corporation (the "Company") launched a tender offer to acquire the outstanding common stock of BI (NYSE:BTZ) through its U.S. subsidiary Benesse Holdings International, Inc. ("BHI"), at \$ 16.50 per share. The offer expired on May 31, 2001 (New York City time). Together with the amount of stock already actually owned by the Company, it had acquired approximately 97.8% of BI outstanding shares. BHI acquired the remaining outstanding BI shares by a share exchange under New York Corporate Law, and BHI owned 100% of BI's outstanding stock on July 2. By turning BI into a wholly-owned subsidiary, the Benesse Group built up a corporate structure for the swift and flexible implementation of management strategy of the Language Instruction and Translation Segment. The Company will be able to deploy business with more flexibility.

### < Berlitz International, Inc. >

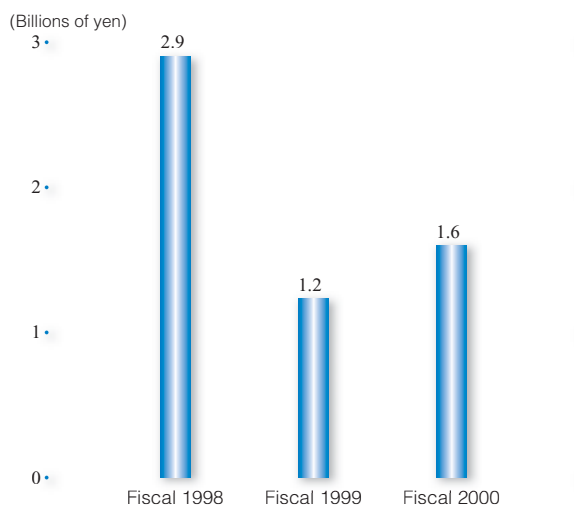
BI is the world's largest language education-related company, offering language instruction, ELS, which intensively trains linguistic skills for studying abroad, publishing books, tapes and CD-ROMs, and Berlitz GlobalNET business, which provides translation, interpretation, and software localization.

As of December 2000, BI had 476 language centers in 58 countries throughout the world, including franchises. The number of lessons conducted in the fiscal year ended December 2000 was 6,437.9 thousand, and by region, Europe had the most at 2,538.1 thousand, followed by Latin America

Net sales outside the Benesse Group



Operating income





English lesson at the Nihonbashi School, Berlitz Japan, Inc.

at 1,405.5 thousand, Asia at 1,343.6 thousand, and North America at 1,150.7 thousand. The number of lessons given in all regions was up 7.4% over the previous year, and by individual region the rise was highest in Asia, at 21.4%—with Japan becoming the most important market with a high growth rate of 18.6%. There are 51 language centers (of which two are franchises) operated by Berlitz Japan, Inc., and from now into the future, the Company plans to offer its all-out co-operation as a group to expand the number of centers.

will include receiving orders by website, organizing external specialists, reorganizing its interpreting courses, and offering training in highly specialist areas such as finance and law.

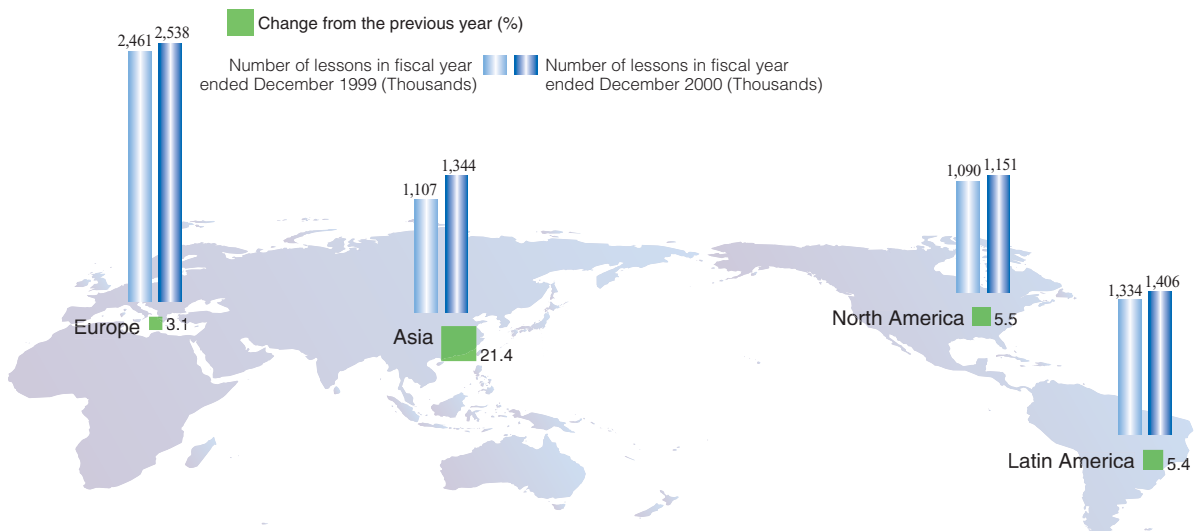
Also, in fiscal 2000, Simul established Simul Business Communications, Inc., a company that dispatches bilingual staff.

### < Simul International, Inc. >

Simul is another pillar of the Language Instruction and Translation segment. In addition to interpreting, Simul manages “Simul Academy” for training professional interpreters and translators, language courses for companies and other organizations, and provides support for important international communication activities such as international conferences and multi-national negotiations for government and other public offices, business circles, and companies.

In order to improve its profitability, Simul will be reinforcing the specialist nature of its operations. Measures to this end

#### Berlitz—number of lessons



## Others

The Other Segment is made up mainly of subsidiaries specialized in functions that are indispensable to Benesse Group's businesses. Each of these subsidiaries has intimate knowledge of Benesse Group's businesses, has a keen sense of loyalty and specialization, and plays an important part in the new "Value Chain Management," which the whole Benesse Group is tackling at present.

Note: "Value Chain Management" means the rebuilding of a whole succession of business processes from manufacturing, distribution and sales to customer service by means of the effective use of information networks, and as such is a style of management that aims to set up a more customer-oriented, efficient business model.

### General overview of the fiscal year ended March 31, 2001

In fiscal 2000, ended March 31, 2001, total net sales of Others increased 24.7% to ¥10,661 million. However, its operating income decreased 53.6% to ¥536 million.

The main factor of increased net sales was that Telemarketing Japan, Inc. increased its net sales outside the Benesse Group in such fields as IT, finance, and communications.

On the other hand, decreased operating income was due to the increase in costs following the development of a nursing care insurance system at Synform Co., Ltd. and the impact of declining demand at Plandit Co., Ltd.

Also, in the year under review, the Company established the consolidated subsidiary CRM Direct, Inc. and the affiliated company TDS Asia Pacific, Inc.

#### < Telemarketing Japan, Inc. >

Telemarketing Japan, Inc. was established in 1992, with the independence of the telephone service department catering for *Shinkenzeni* members. In fiscal 2000, net sales stood at ¥13,263 million. It integrally controls and uses access from all types of communication tools, builds up "multi-contact centers" that carry out "high-touch" communications, and has become the marketing base supporting business in the age of IT.

Further, with the expansion of the telemarketing market, net sales outside the Benesse Group have grown. In fiscal 2000, the proportion of external sales was 59.5%. Main clients are Japanese and foreign insurance firms, securities companies, and communications companies.

#### < Synform Co., Ltd. >

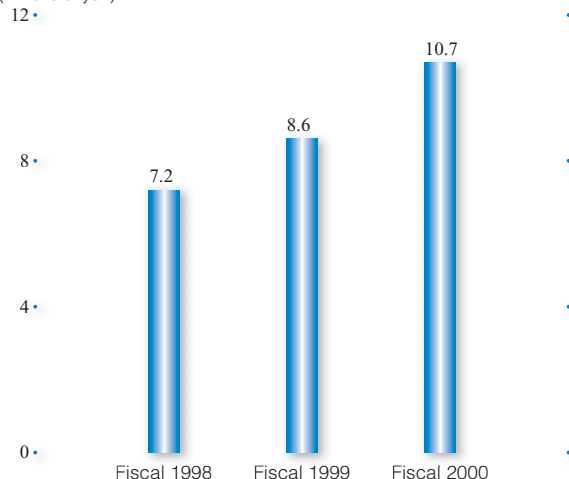
Synform Co., Ltd. has an important position as a specialist group involved in the use of IT in the Benesse Group and building up an e-business model, such as *Shinkenzeni* customer database building and operation. Further, making full use of its know-how, it has an outsourcing service in data processing based on its sophisticated knowledge and technology, such as the development and management of various types of computer systems offered to companies outside the Benesse Group.

#### Principal consolidated subsidiaries included in the Other Segment

Company name	Principal business
Telemarketing Japan, Inc.	Telemarketing
Synform Co., Ltd.	Computer information processing and systems development sales
Plandit Co., Ltd.	Planning and editing of study materials
Carry Com Co., Ltd.	Truck transport services and warehouse storage
Persons Inc.	Personnel services

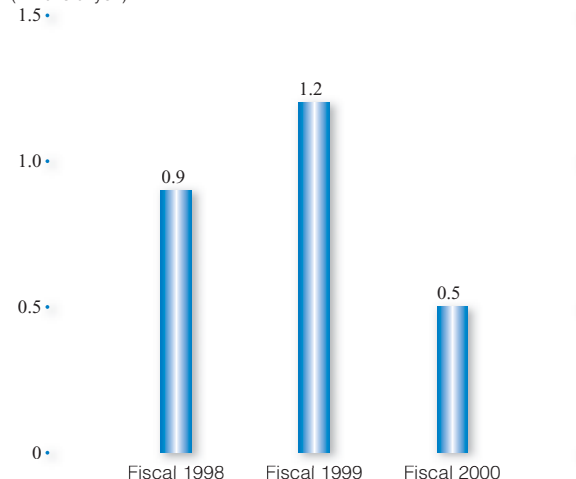
#### Net sales outside the Benesse Group

(Billions of yen)



#### Operating income

(Billions of yen)



# Financial Section



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Benesse Corporation and Consolidated Subsidiaries

## Five-Year Summary of Consolidated Financial Statements

Years ended March 31	Millions of Yen					Thousands of U.S.Dollars
	2001	2000	1999	1998	1997	2001
<b>For the Year:</b>						
Net Sales .....	¥262,948	¥260,964	¥259,852	¥241,571	¥231,132	\$2,120,548
Cost of Sales .....	123,766	120,687	120,698	111,039	101,659	998,113
Selling, General and Administrative Expenses .....	108,904	107,323	108,173	101,598	103,264	878,258
Operating Income .....	30,278	32,954	30,981	28,934	26,209	244,177
Income before Income Taxes and Minority Interests .....	29,985	29,746	31,501	26,994	25,079	241,815
Income Taxes .....	13,940	13,783	15,483	14,778	13,167	112,420
Net Income .....	16,498	16,413	16,036	12,250	11,787	133,048
Capital Expenditures .....	¥ 11,275	¥ 11,105	¥ 5,416	¥ 7,138	¥ 8,147	\$ 90,927
Depreciation and Amortization .....	9,609	9,199	8,841	7,897	6,808	77,492
	Yen					U.S.Dollars
<b>Per Share of Common Stock:</b>						
Net Income .....	¥ 155	¥ 309	¥ 302	¥ 226	¥ 259	\$ 1.25
Retroactively Adjusted .....	155	154	151	113	108	1.25
Cash Dividends Applicable to the Year .....	29	58	48	43	35	0.23
Retroactively Adjusted .....	29	29	24	22	15	0.23
	Millions of Yen					Thousands of U.S.Dollars
<b>At Year-End:</b>						
Total Assets .....	¥309,261	¥297,828	¥280,620	¥277,298	¥265,444	\$2,494,040
Shareholders' Equity .....	170,011	160,302	146,933	131,794	126,615	1,371,056
	Yen					U.S.Dollars
Shareholders' Equity per Share of Common Stock .....	¥ 1,599	¥ 3,015	¥ 2,763	¥ 2,478	¥ 2,787	\$ 12.90
Retroactively Adjusted .....	1,599	1,507	1,382	1,239	1,161	12.90
Number of Shares of Common Stock Issued (in thousands) .....	106,353	53,177	53,177	53,177	45,426	

- Notes: 1. U.S. dollar figures are translated, for convenience only, at the rate of ¥124 to U.S.\$1, the effective rate of exchange prevailing on March 31, 2001.
2. Benesse Corporation and its domestic consolidated subsidiaries adopted tax allocation accounting, beginning with the fiscal year ended March 31, 1999. Berlitz International, Inc. has applied accounting for allocation of income taxes.
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.
4. The computation of the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at fiscal year-end is retroactively adjusted for the effect of a 1:1.5 stock split made on May 20, 1996, a 1:1.2 stock split made on May 20, 1997, and a 1:2 stock split made on May 19, 2000.
5. On January 7, 1998, Benesse Corporation cancelled 1,334,000 shares of common stock. Also, the Company merged with Minamigata Enterprise Co., Ltd. with the takeover date October 1, 2000. Following this, the Company issued new stock of 14,717,885 shares of common stock, and cancelled 14,717,960 shares of common stock held by Minamigata Enterprise Co., Ltd.
6. Certain reclassifications of previously recorded amounts have been made to conform with the 2001 presentation, in accordance with new guidelines for the creation of consolidated financial statements.

## Five-Year Summary of Non-Consolidated Financial Statements

Years ended March 31	Millions of Yen					Thousands of U.S.Dollars
	2001	2000	1999	1998	1997	2001
<b>For the Year:</b>						
Net Sales .....	¥193,325	¥197,668	¥192,696	¥187,326	¥188,386	\$1,559,073
C&S Company .....	168,727	173,313	168,220	161,093	162,739	1,360,702
S&TS Company .....	13,573	13,369	13,403	15,952	15,379	109,460
W&F Company .....	9,182	9,218	9,872	9,420	9,684	74,048
Senior Company .....	1,429	1,331	827	502	180	11,524
Others .....	414	437	374	359	404	3,339
Cost of Sales .....	79,629	81,672	80,433	78,602	76,344	642,170
Selling, General and Administrative Expenses .....	85,727	86,060	86,160	84,471	89,284	691,347
Operating Income .....	27,969	29,936	26,103	24,253	22,758	225,556
Ordinary Income .....	31,034	31,959	28,111	24,874	22,671	250,274
Net Income .....	17,433	16,722	13,862	10,924	10,895	140,589
Capital Expenditures .....	¥ 9,001	¥ 7,967	¥ 3,698	¥ 5,147	¥ 5,903	\$ 72,589
(Software) .....	3,689	3,803	1,927	1,859	2,472	29,750
Depreciation and Amortization .....	5,772	5,367	5,200	5,079	4,589	46,548
(Software) .....	2,362	2,093	1,754	1,595	1,338	19,048
	Yen					U.S.Dollars

<b>Per Share of Common Stock:</b>						
Net Income .....	¥ 164	¥ 314	¥ 261	¥ 202	¥ 240	\$ 1.32
Retroactively Adjusted .....	164	157	130	101	100	1.32

	Millions of Yen					Thousands of U.S.Dollars
<b>At Year-End:</b>						
Total Assets .....	¥267,856	¥257,432	¥239,368	¥225,148	¥232,190	\$2,160,129
Current Assets .....	91,902	96,874	85,732	74,276	99,811	741,145
Fixed Assets .....	175,954	160,558	153,636	150,872	132,379	1,418,984
Current Liabilities .....	82,739	85,287	81,957	78,592	81,174	667,250
Long-term Liabilities .....	13,028	15,219	14,161	16,500	24,820	105,065
Shareholders' Equity .....	172,089	156,926	143,250	130,056	126,196	1,387,815
Common Stock .....	13,600	13,600	13,600	13,600	13,600	109,677
Retained Earnings .....	124,975	111,211	97,535	84,341	80,481	1,007,863
	Yen					U.S.Dollars

Shareholders' Equity per Share of Common Stock .....	¥ 1,618	¥ 2,951	¥ 2,694	¥ 2,446	¥ 2,778	\$ 13.05
Retroactively Adjusted .....	1,618	1,476	1,347	1,223	1,158	13.05
Equity Ratio (%) .....	64.2	61.0	59.8	57.8	54.4	
Number of Employees .....	1,630	1,584	1,513	1,410	1,334	

- Notes: 1. U.S. dollar figures are translated, for convenience only, at the rate of ¥124 to U.S.\$1, the effective rate of exchange prevailing on March 31, 2001.  
2. Tax allocation accounting has been adopted, beginning with the fiscal year ended March 31, 1999.  
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.  
4. The computation of the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at fiscal year-end is retroactively adjusted for the effect of a 1:1.5 stock split made on May 20, 1996, a 1:1.2 stock split made on May 20, 1997, and a 1:2 stock split made on May 19, 2000.  
5. On January 7, 1998, Benesse Corporation cancelled 1,334,000 shares of common stock. Also, the Company merged with Minamigata Enterprise Co., Ltd. with the takeover date October 1, 2000. Following this, the Company issued new stock of 14,717,885 shares of common stock, and cancelled 14,717,960 shares of common stock held by Minamigata Enterprise Co., Ltd.  
6. Certain reclassifications of previously recorded amounts have been made to conform with the 2001 presentation, in accordance with new guidelines for the creation of non-consolidated financial statements.  
7. Accounting segments were reclassified in fiscal 2000, ended March 31, 2001. To conform to the segmentation used in 2001, net sales of past years were also reclassified. Figures in fiscal 1997, ended March 31, 1998 and fiscal 1996, ended March 31, 1997 were unaudited.  
8. C&S Company : Children & Students Company  
S&TS Company : School & Teacher Support Company  
W&F Company : Women & Family Company

Benesse Corporation and Consolidated Subsidiaries  
**Financial Review**

**OPERATING RESULTS**

**1. Net Sales and Segment Information**

**Net Sales**

In fiscal 2000, ended March 31, 2001, consolidated net sales increased ¥2.0 billion, or 0.8%, to ¥262.9 billion (U.S.\$2,121 million), an all-time high. In Benesse Corporation (the “Company”), despite an increase in the S&TS Company’s total net sales, the C&S Company’s total net sales declined due to decreased enrollment of *Shinkenzenmi* in the Upper Elementary School, Junior and Senior High School Courses. As a result, total net sales for the Company fell ¥4.3 billion, or 2.2%, to ¥193.3

billion (U.S.\$1,559 million). Meanwhile, net external sales for the domestic consolidated subsidiaries rose ¥5.5 billion, or 43.3%, to ¥18.1 billion on account of increased sales to companies outside the Benesse Group by Telemarketing Japan, Inc. Net external sales for Berlitz International, Inc.(“BI”), a foreign consolidated subsidiary, offset negative effects of foreign exchange rate fluctuations and rose ¥1.1 billion, or 2.2%, to ¥51.8 billion compared with the previous fiscal year.

**Net Sales by Segment**

Years ended March 31	Millions of Yen					Thousands of U.S.Dollars
	2001	2000	1999	1998	1997	2001
Net Sales .....	<b>¥262,948</b>	¥260,964	¥259,852	¥241,571	¥231,132	<b>\$2,120,548</b>
C&S Company .....	<b>168,733</b>	173,314	168,225	N/A	N/A	<b>1,360,750</b>
S&TS Company .....	<b>15,253</b>	15,006	14,450	N/A	N/A	<b>123,008</b>
W&F Company .....	<b>9,182</b>	9,218	9,872	N/A	N/A	<b>74,048</b>
Senior Company .....	<b>3,861</b>	1,331	826	N/A	N/A	<b>31,137</b>
Language Instruction and Translation .....	<b>55,258</b>	53,544	59,294	N/A	N/A	<b>445,629</b>
Others .....	<b>10,661</b>	8,551	7,185	N/A	N/A	<b>85,976</b>

**Operating Income (Loss) by Segment**

Years ended March 31	Millions of Yen					Thousands of U.S.Dollars
	2001	2000	1999	1998	1997	2001
Operating Income (Loss) .....	<b>¥30,278</b>	¥32,954	¥30,981	¥28,934	¥26,209	<b>\$244,177</b>
C&S Company .....	<b>31,964</b>	33,862	31,325	N/A	N/A	<b>257,774</b>
S&TS Company .....	<b>959</b>	154	334	N/A	N/A	<b>7,734</b>
W&F Company .....	<b>(1,192)</b>	(637)	(2,152)	N/A	N/A	<b>(9,613)</b>
Senior Company .....	<b>(2,149)</b>	(1,338)	(942)	N/A	N/A	<b>(17,331)</b>
Language Instruction and Translation .....	<b>1,602</b>	1,218	2,936	N/A	N/A	<b>12,919</b>
Others .....	<b>536</b>	1,153	900	N/A	N/A	<b>4,323</b>

Notes: 1. Operating Income (Loss) for each segment is before eliminations in consolidated totals.  
2. Accounting segments were reclassified in fiscal 2000, ended March 31, 2001. To conform to the segmentation used in 2001, net sales and operating income (loss) of years ended March 31, 2000 and 1999 were reclassified. However, those of the years ended March 31, 1998 and 1997 were not reclassified.

## Percentages to Net Sales

Years ended March 31	%				
	2001	2000	1999	1998	1997
Net Sales:					
C&S Company .....	64.2%	66.4%	64.7%	N/A	N/A
S&TS Company .....	5.8	5.8	5.6	N/A	N/A
W&F Company .....	3.5	3.5	3.8	N/A	N/A
Senior Company .....	1.5	0.5	0.3	N/A	N/A
Language Instruction and Translation .....	21.0	20.5	22.8	N/A	N/A
Others .....	4.0	3.3	2.8	N/A	N/A
Total .....	100.0	100.0	100.0		
Cost of Sales .....	47.1	46.3	46.4	46.0	44.0
Gross Profit .....	52.9	53.7	53.6	54.0	56.0
Selling, General and Administrative Expenses .....	41.4	41.1	41.7	42.0	44.7
Operating Income .....	11.5	12.6	11.9	12.0	11.3
Net Other Income (Expenses) .....	(0.1)	(1.2)	0.2	(0.8)	(0.5)
Income before Income Taxes and Minority Interests .....	11.4	11.4	12.1	11.2	10.8
Income Taxes .....	5.3	5.3	5.9	6.1	5.7
Minority Interests in Net Income .....	0.2	0.2	0.0	0.0	(0.0)
Net Income .....	6.3	6.3	6.2	5.1	5.1

Note: Accounting segments were reclassified from fiscal 2000, ended March 31, 2001. The segment information of the year ended March 31, 2000 and 1999 were reclassified in accordance with the new standard. However, those of the years ended March 31, 1998 and 1997 were not reclassified.

## Segment Information

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

### < Children & Students Company >

Net sales in the C&S Company fell by ¥4.6 billion (2.6%) to ¥168.7 billion (U.S.\$1,361 million). Operating income fell by ¥1.9 billion (5.6%) to ¥32.0 billion (U.S.\$258 million).

The breakdown of net sales for the Segment by product is as follows:

Years ended March 31	Millions of Yen		Percentage Change
	2001	2000	
<i>Shinkenzemi:</i>			
Senior High School Courses ..	¥ 30,889	¥ 32,785	(5.8)%
Junior High School Courses ..	46,698	50,724	(7.9)
Upper Elementary School Courses .....	29,597	30,651	(3.4)
Lower Elementary School Courses .....	22,000	21,102	4.3
Preschool Courses .....	29,780	26,447	12.6
Subtotal .....	158,964	161,709	(1.7)
Other .....	9,769	11,605	(15.8)
Total .....	¥168,733	¥173,314	(2.6)%

Note: Recognition of sales for Preschool Courses is based on the month of instruction contract. However, in accordance with modifications in instruction materials services, the Company has reviewed its method of determining the month of contract. Consequently, results for fiscal 2000, ended March 31, 2001 include 13 months of sales for Preschool Courses.

Net sales for *Shinkenzemi* saw continued favorable results at Preschool Courses, which caters to children aged 1-6 years and their parents or guardians. At Lower Elementary School Courses, not only was there a smooth transition by children in Preschool Courses, but the policy to boost individual services was also successful, which helped to increase enrollment. Meanwhile, at Upper Elementary School Courses, Junior High School Courses and Senior High School Courses, the number of students enrolled decreased due to the diversification of clients' needs and intensified competition in the education market. As a result, the total cumulative enrollment in *Shinkenzemi* overall rose from the previous year by 1.06 million (2.2%) to 49.69 million, but the decline in the total enrollments in the Junior High School Courses and the Senior High School Courses resulted in a fall in sales for *Shinkenzemi* by ¥2.7 billion (1.7%) to ¥159.0 billion (U.S.\$1,282 million).

On the Other operations, progress was made in streamlining unprofitable businesses, such as unprofitable courses of *Career-Up Zemi*, correspondence course for university students and adults to gain qualifications, and *English Challenge*. As a result, sales fell by ¥1.8 billion (15.8%) to ¥9.8 billion (U.S.\$79 million).

The main factor in the fall in operating income was the investment in new businesses such as the tutor services, in addition to decreased operating income at *Shinkenzemi* due to reduced net sales.

**< School & Teacher Support Company >**

Net sales in the S&TS Company rose by ¥0.2 billion (1.7%) to ¥15.3 billion (U.S.\$123 million). Operating income rose by ¥0.8 billion (523.2%) to ¥1.0 billion (U.S. \$8 million).

The rise in net sales and income was due to the commencement of sales in *Course Map* counseling support materials, and an increase in the sales volume of *Shinken Simulated Exams* and the educational counseling materials *Study Support*.

**< Women & Family Company >**

Net sales in the W&F Company were practically unchanged at ¥9.2 billion (U.S.\$74 million). Operating loss increased by ¥0.6 billion to ¥1.2 billion (U.S.\$10 million).

Net sales were practically unchanged due to the withdrawal from the overseas training services, although there were increased sales of the *THANK YOU!* magazine and the *Tamahiyo* mail order business. Although there were some results in improving operating income through closing down unprofitable businesses, operating loss was increased due to increased costs accompanying the launch of the direct sales magazines *Aile for You* in December 2000 and *bon merci!* in February 2001.

**< Senior Company >**

Net sales in the Senior Company rose by ¥2.5 billion (190.1%) to ¥3.9 billion (U.S.\$31 million). Operating loss increased by ¥0.8 billion to ¥2.1 billion (U.S.\$17 million).

The increased net sales were due to acquiring a controlling stake in Shinkoukai Co., Ltd. in fiscal 2000 ended March 31, 2001, and the increase in the number of facilities at Benesse Care Corporation. Meanwhile, the fall in operating income in the Segment was due to the increase in initial investment costs following the increase in the number of facilities at Benesse Care Corporation.

The breakdown of net sales for the Segment by type of service is as follows:

Years ended March 31	Millions of Yen		Percentage Change
	2001	2000	
Nursing-Care Group Homes ..	¥2,865	¥ 210	1,267.4 %
Home-Help Services .....	586	464	26.1
Training Courses .....	410	657	(37.6)
Total .....	¥3,861	¥1,331	190.1 %

**< Language Instruction and Translation >**

Net sales in the Language Instruction and Translation increased by ¥1.7 billion (3.2%) to ¥55.3 billion (U.S.\$446 million). Operating income rose by ¥0.4 billion (31.6%) to ¥1.6 billion (U.S.\$13 million).

The rise in net sales of the segment was mainly due to the increased net sales of BI, a consolidated subsidiary. The main factors that influenced the increase in U.S. dollar-based net sales of BI were:

- the increase in the number of lessons in the Instruction operation
- upsurge in the number of Asian student enrollment in ELS operation
- favorable conditions in the Berlitz GlobalNET

There was the negative effect of approximately ¥2.5 billion at the time of foreign exchange fluctuations, but this was offset and net sales rose also on a Japanese Yen basis. Increased operating income in the Segment was due to the rise in operating income at BI accompanying a rise in net sales, and the improvement in operating income at Simul International, Inc.

BI revenues by operation, are as follows:

Years ended December 31	Thousands of U.S. Dollars		Percentage Change
	2000	1999	
Language Services:			
Instruction .....	\$296,424	\$277,701	6.7 %
ELS .....	64,517	56,285	14.6
Publishing .....	10,503	12,936	(18.8)
Franchising .....	2,125	1,439	47.7
Other .....	2,947	2,470	19.3
Subtotal .....	376,516	350,831	7.3
Berlitz GlobalNET .....	103,925	95,361	9.0
Eliminations and other .....	(233)	(11)	—
Total .....	\$480,208	\$446,181	7.6 %

### < Others >

Net sales in the Others rose by ¥2.1 billion (24.7%) to ¥10.7 billion (U.S.\$86 million). Also, operating income fell by ¥0.6 billion (53.6%) to ¥0.5 billion (U.S. \$4 million).

The increased net sales were chiefly due to a rise in external sales for Telemarketing Japan, Inc. The main

factor for decreased operating income was the increase in costs at Synform Co., Ltd., following the development of a system of nursing care insurance.

## 2. Cost of Sales and SG&A Expenses

In fiscal 2000, ended March 31, 2001, cost of sales rose by 2.6% to ¥123.8 billion (U.S.\$998 million). The cost of sales to net sales rose from 46.3% to 47.1%. This was due to the Senior Company expanding its nursing-care group home services, which has a high cost of sales to net sales, and the rise in the cost of sales to net sales at Synform Co., Ltd. and Telemarketing Japan, Inc.

Selling, general and administrative (SG&A) expenses rose by ¥1.6 billion (1.5%) to ¥108.9 billion (U.S. \$878 million), and SG&A expenses to net sales was practically unchanged, at 41.4%.

### Cost of Sales and SG&A Expenses

Years ended March 31	Millions of Yen					Thousands of U.S.Dollars
	2001	2000	1999	1998	1997	2001
Net Sales .....	<b>¥262,948</b>	¥260,964	¥259,852	¥241,571	¥231,132	<b>\$2,120,548</b>
Cost of Sales .....	<b>123,766</b>	120,687	120,698	111,039	101,659	<b>998,113</b>
Gross Profit .....	<b>139,182</b>	140,277	139,154	130,532	129,473	<b>1,122,435</b>
SG&A Expenses .....	<b>108,904</b>	107,323	108,173	101,598	103,264	<b>878,258</b>
Operating Income .....	<b>30,278</b>	32,954	30,981	28,934	26,209	<b>244,177</b>

## 3. Earnings

### Operating Income

Operating income fell by ¥2.7 billion (8.1%) to ¥30.3 billion (U.S. \$244 million), and operating income to net sales fell by 12.6% to 11.5%.

### Other Income and Expenses

In other income and expenses (net), other expenses fell by ¥2.9 billion to ¥0.3 billion (U.S. \$2 million).

In fiscal 2000 there arose ¥1.3 billion in restructuring costs at BI. In the previous year, there was ¥3.4 billion worth of expenses on recognition of past service costs of pension. This occurred because of the change in the accounting methods for contributory defined benefit pension plan of the Company and its domestic consolidated subsidiaries. In addition, there was ¥0.6 billion worth of loss on adjustment for prior period

sales at BI. However, because these costs did not occur in the year under review, other expenses decreased.

### Income before Income Taxes and Minority Interests

Income before income taxes and minority interests rose by ¥0.2 billion (0.8%) to ¥30.0 billion (U.S. \$242 million).

### Income Taxes

Income taxes rose by ¥0.2 billion (1.1%) to ¥13.9 billion (U.S. \$112 million).

### Net Income

Net income rose by ¥0.1 billion (0.5%) to ¥16.5 billion (U.S. \$133 million), and the net income to net sales was 6.3% as in the previous year.

Net income per share of common stock increased by ¥1 to ¥155 from the ¥154 of the previous year.

Meanwhile, return on total assets lowered from 5.7% to 5.4%.

### Income Analysis

Years ended March 31	Millions of Yen					Thousands of U.S. Dollars
	2001	2000	1999	1998	1997	2001
Operating Income .....	<b>¥30,278</b>	¥32,954	¥30,981	¥28,934	¥26,209	<b>\$244,177</b>
Other Income (Expenses) .....	<b>(293)</b>	(3,208)	520	(1,940)	(1,130)	<b>(2,362)</b>
Income before Income Taxes and Minority Interests .....	<b>29,985</b>	29,746	31,501	26,994	25,079	<b>241,815</b>
Net Income .....	<b>16,498</b>	16,413	16,036	12,250	11,787	<b>133,048</b>
Net Income per Share of Common Stock (Yen, U.S. Dollars) .....	<b>155</b>	154	151	113	108	<b>1.25</b>
Return on Equity (%) .....	<b>10.0</b>	10.7	11.5	9.5	9.7	
Return on Total Assets (%) .....	<b>5.4</b>	5.7	5.7	4.5	4.5	

Notes: 1. Benesse Corporation and its domestic consolidated subsidiaries adopted tax allocation accounting, beginning with the fiscal year ended March 31, 1999. Berlitz International, Inc. has applied accounting for allocation of income taxes.

2. 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, a 1:1.2 stock split made on May 20, 1997, and a 1:2 stock split made on May 19, 2000.

3. 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.

4. Certain reclassifications of previously recorded amounts have been made to conform with the 2001 presentation.

## FINANCIAL POSITION

### 1. Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2001, rose from the end of the previous year by ¥11.4 billion (3.8%) to ¥309.3 billion (U.S. \$2,494 million).

Total current assets fell by ¥0.8 billion (0.7%) to ¥116.1 billion (U.S. \$937 million). The chief factor in the decline in total current assets was that the amount of marketable securities that Benesse Corporation (the "Company") shifted from working capital was offset by the transfer to investment securities following the application of new accounting standards for financial instruments.

Net property and equipment rose by ¥2.5 billion (3.3%) to ¥78.8 billion (U.S. \$636 million). The reason for this was the purchase of land at the Company and the acquisition of a controlling stake in Shinkoukai Co., Ltd.

Investments and other assets rose by ¥9.7 billion (9.3%) to ¥114.3 billion (U.S. \$922 million). Although the foreign currency translation adjustment account fell by ¥9.6 billion due to reclassification, the following factors affected the increase:

- a) at Berlitz International, Inc. goodwill increased by ¥3.3 billion due to an effect of the foreign exchange

fluctuations;

- b) consolidation adjustment account of ¥3.7 billion after acquiring a controlling stake in Shinkoukai Co., Ltd., in April 2000; and
- c) that there was a transfer of ¥9.9 billion to investment securities from marketable securities in current assets following the application of new accounting standards for financial instruments from fiscal 2000 onwards.

Total current liabilities increased ¥3.1 billion (3.1%) due to an increase in accounts payable-other.

Long-term liabilities declined by ¥1.0 billion (3.1%) due to the reduction of long-term debt, less current portion.

Total shareholders' equity rose by ¥9.7 billion (6.1%) to ¥170.0 billion (U.S. \$1,371 million). Due to reclassifications following a revision of the guidelines for the creation of consolidated financial statements, there were foreign currency translation adjustments worth ¥4.4 billion in the shareholders' equity; however, total shareholders' equity increased because retained earnings rose by ¥12.7 billion.

## Financial Position

Years ended March 31	Millions of Yen					Thousands of U.S.Dollars
	2001	2000	1999	1998	1997	2001
Total Assets .....	<b>¥309,261</b>	¥297,828	¥280,620	¥277,298	¥265,444	<b>\$2,494,040</b>
Current Assets .....	<b>116,136</b>	116,960	104,407	95,589	112,472	<b>936,581</b>
Property and Equipment .....	<b>78,840</b>	76,292	75,865	77,219	76,755	<b>635,806</b>
Investments and Other Assets .....	<b>114,285</b>	104,576	100,348	104,490	76,217	<b>921,653</b>
Current Liabilities .....	<b>101,882</b>	98,779	93,660	94,976	91,511	<b>821,629</b>
Long-Term Liabilities .....	<b>30,705</b>	31,685	31,610	41,091	37,667	<b>247,621</b>
Shareholders' Equity .....	<b>170,011</b>	160,302	146,933	131,794	126,615	<b>1,371,056</b>
Equity Ratio (%) .....	<b>55.0</b>	53.8	52.4	47.5	47.7	
Shareholders' Equity per Share of Common Stock (Yen, U.S. Dollars) .....	<b>1,599</b>	1,507	1,382	1,239	1,161	<b>12.90</b>

- Notes: 1. Benesse Corporation and its domestic consolidated subsidiaries adopted tax allocation accounting, beginning with the fiscal year ended March 31, 1999. Berlitz International, Inc. has applied accounting for allocation of income taxes.  
2. The computation of the number of shares outstanding at fiscal year-end is retroactively adjusted for the effect of a 1:1.5 stock split made on May 20, 1996, a 1:1.2 stock split made on May 20, 1997, and a 1:2 stock split made on May 19, 2000.  
3. Certain reclassifications of previously recorded amounts have been made to conform with the 2001 presentation.

## 2.Cash Flows

Cash and cash equivalents at the end of fiscal 2000 rose by ¥10.2 billion (15.5%) to ¥76.1 billion (U.S. \$614 million).

Net cash provided by operating activities fell by ¥10.7 billion (32.8 %) to ¥21.9 billion (U.S. \$176 million). This decline was due to the effects of a decrease in advances received following a review of the method of determining the month of contract in the Preschool Courses in *Shinkenzeni*, and the absence of the accrued pension costs worth ¥3.4 billion accounted in the previous year.

Net cash used in investing activities fell from the previous

year by ¥11.1 billion (58.6%) to ¥7.8 billion (U.S. \$63 million). The chief factor in this was that the proceeds from sales of marketable securities exceeded purchases because of the shift to short-term funds due within 3 months in the Company.

Net cash used in financing activities, at ¥4.3 billion (U.S. \$35 million), was largely unchanged from the previous year.

Also, in October 2000, the Company merged with Minamigata Enterprise Co., Ltd., and following this, cash and cash equivalents increased by a merger, which accounted for ¥45 million.

## Cash Flows

Years ended March 31	Millions of Yen					Thousands of U.S.Dollars
	2001	2000	1999	1998	1997	2001
Net Cash Provided by Operating Activities .....	<b>¥21,853</b>	¥32,525	¥32,309	¥13,677	¥19,535	<b>\$176,234</b>
Net Cash Used in Investing Activities .....	<b>(7,830)</b>	(18,910)	(1,687)	(17,739)	(3,106)	<b>(63,145)</b>
Net Cash Used in Financing Activities .....	<b>(4,339)</b>	(5,169)	(16,925)	(3,995)	(9,712)	<b>(34,992)</b>
Foreign Currency Translation Adjustments on Cash and Cash Equivalents .....	<b>502</b>	(983)	(949)	344	371	<b>4,048</b>
Net Increase (Decrease) in Cash and Cash Equivalents .....	<b>10,231</b>	7,463	12,748	(7,713)	7,088	<b>82,508</b>

Note: Changes to cash and cash equivalents are as follows:  
(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.

Benesse Corporation and Consolidated Subsidiaries  
**Consolidated Balance Sheets**

**ASSETS**

March 31, 2001, 2000 and 1999	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	2001
<b>CURRENT ASSETS:</b>				
Cash and time deposits .....	¥ 25,019	¥ 32,974	¥ 44,119	\$ 201,766
Marketable securities (Note 4) .....	51,683	47,869	24,047	416,798
Trade receivables:				
Accounts .....	16,771	14,585	14,141	135,250
Due from unconsolidated subsidiary and affiliates .....	101	242	201	815
Allowance for doubtful receivables .....	(1,797)	(1,590)	(1,413)	(14,492)
Inventories (Note 5) .....	14,900	15,824	16,528	120,161
Other current assets (Note 11) .....	9,459	7,056	6,784	76,283
<b>Total current assets .....</b>	<b>116,136</b>	<b>116,960</b>	<b>104,407</b>	<b>936,581</b>
<b>PROPERTY AND EQUIPMENT:</b>				
Land (Note 8) .....	33,506	32,435	30,746	270,210
Buildings, and leasehold improvements (Note 8) .....	57,180	54,301	53,820	461,129
Equipment and fixtures .....	20,014	18,955	18,040	161,403
Construction in progress .....	1,251		111	10,088
Total .....	111,951	105,691	102,717	902,830
Accumulated depreciation .....	(33,111)	(29,399)	(26,852)	(267,024)
<b>Net property and equipment .....</b>	<b>78,840</b>	<b>76,292</b>	<b>75,865</b>	<b>635,806</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>				
Investment securities (Notes 4 and 8) .....	32,818	23,715	22,806	264,661
Investments in and advances to unconsolidated subsidiary and affiliates .....	304	254	150	2,452
Goodwill (Note 6) .....	56,613	49,630	56,756	456,556
Foreign currency translation adjustments .....		9,603	3,400	
Other assets (Notes 8, 11 and 14) .....	24,550	21,374	17,236	197,984
<b>Total investments and other assets .....</b>	<b>114,285</b>	<b>104,576</b>	<b>100,348</b>	<b>921,653</b>
<b>TOTAL .....</b>	<b>¥309,261</b>	<b>¥297,828</b>	<b>¥280,620</b>	<b>\$2,494,040</b>

See Notes to Consolidated Financial Statements.

## LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

March 31, 2001, 2000 and 1999	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	2001
<b>CURRENT LIABILITIES:</b>				
Short-term bank loans (Note 8) .....	¥ 203	¥ 15	¥ 55	\$ 1,637
Current portion of long-term debt (Note 8) .....	2,591	1,659	1,197	20,895
Trade payables:				
Accounts .....	27,213	22,710	23,449	219,460
Due to unconsolidated subsidiary and affiliates .....	292	2,080	309	2,355
Advances received .....	55,705	56,715	52,457	449,234
Income taxes payable .....	6,484	7,971	8,001	52,290
Other current liabilities (Note 11) .....	9,394	7,629	8,192	75,758
<b>Total current liabilities .....</b>	<b>101,882</b>	<b>98,779</b>	<b>93,660</b>	<b>821,629</b>
<b>LONG-TERM LIABILITIES:</b>				
Long-term debt, less current portion (Note 8) .....	17,692	18,680	22,484	142,677
Liability for retirement benefits (Note 9) .....	5,025	6,169	2,474	40,524
Other long-term liabilities (Notes 7 and 11) .....	7,988	6,836	6,652	64,420
<b>Total long-term liabilities .....</b>	<b>30,705</b>	<b>31,685</b>	<b>31,610</b>	<b>247,621</b>
<b>MINORITY INTERESTS .....</b>	<b>6,663</b>	<b>7,062</b>	<b>8,417</b>	<b>53,734</b>
<b>SHAREHOLDERS' EQUITY (Notes 10, 15 and 17):</b>				
Common stock, ¥50 par value— authorized, 405,282,040 shares at March 31, 2001, 148,666,000 shares at March 31, 2000 and 1999; issued and outstanding, 106,353,453 shares at March 31, 2001, 53,176,764 shares at March 31, 2000 and 1999 .....	13,600	13,600	13,600	109,677
Additional paid-in capital .....	29,358	28,715	28,715	236,758
Retained earnings .....	130,708	117,994	104,627	1,054,097
Unrealized gain on available-for-sale securities .....	757			6,105
Foreign currency translation adjustments .....	(4,412)			(35,581)
<b>Total .....</b>	<b>170,011</b>	<b>160,309</b>	<b>146,942</b>	<b>1,371,056</b>
Treasury stock—at cost .....	(0)	(7)	(9)	(0)
<b>Total shareholders' equity .....</b>	<b>170,011</b>	<b>160,302</b>	<b>146,933</b>	<b>1,371,056</b>
<b>TOTAL .....</b>	<b>¥309,261</b>	<b>¥297,828</b>	<b>¥280,620</b>	<b>\$2,494,040</b>

See Notes to Consolidated Financial Statements.

Benesse Corporation and Consolidated Subsidiaries  
**Consolidated Statements of Income**

Years Ended March 31, 2001, 2000 and 1999	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	2001
<b>NET SALES</b> .....	<b>¥262,948</b>	¥260,964	¥259,852	<b>\$2,120,548</b>
<b>COST OF SALES</b> (Notes 9 and 12) .....	<b>123,766</b>	120,687	120,698	<b>998,113</b>
Gross profit .....	<b>139,182</b>	140,277	139,154	<b>1,122,435</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> .....	<b>108,904</b>	107,323	108,173	<b>878,258</b>
(Notes 9, 12, 13 and 14)				
Operating income .....	<b>30,278</b>	32,954	30,981	<b>244,177</b>
<b>OTHER INCOME (EXPENSES):</b>				
Dividend income .....	<b>149</b>	169	330	<b>1,202</b>
Interest expense—net (Note 8) .....	<b>(327)</b>	(537)	(971)	<b>(2,637)</b>
Gain on investments—net (Notes 7 and 14) .....	<b>1,415</b>	1,566	2,382	<b>11,411</b>
Equity in net earnings of unconsolidated subsidiary and affiliates .....	<b>73</b>	55	43	<b>589</b>
Expenses on recognition of past service costs of pension (Note 3) .....		(3,400)		
Other—net .....	<b>(1,603)</b>	(1,061)	(1,264)	<b>(12,927)</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b> ..	<b>29,985</b>	29,746	31,501	<b>241,815</b>
<b>INCOME TAXES</b> (Note 11):				
Current .....	<b>13,700</b>	15,486	15,727	<b>110,484</b>
Deferred .....	<b>240</b>	(1,703)	(244)	<b>1,936</b>
Total income taxes .....	<b>13,940</b>	13,783	15,483	<b>112,420</b>
<b>MINORITY INTERESTS IN NET INCOME</b> .....	<b>(453)</b>	(450)	(18)	<b>(3,653)</b>
<b>NET INCOME</b> .....	<b>¥ 16,498</b>	¥ 16,413	¥ 16,036	<b>\$ 133,048</b>

	Yen			U.S.Dollars
<b>PER SHARE OF COMMON STOCK</b> (Note 2.n):				
Net income .....	<b>¥ 155</b>	¥ 154	¥ 151	<b>\$ 1.25</b>
Cash dividends applicable to the year .....	<b>29</b>	58	48	<b>0.23</b>

See Notes to Consolidated Financial Statements.

Benesse Corporation and Consolidated Subsidiaries

## Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2001, 2000 and 1999	Thousands		Millions of Yen				
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
<b>BALANCE, APRIL 1, 1998</b>	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				1,572			
Treasury stock acquired—net							(8)
<b>BALANCE, MARCH 31, 1999</b>	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
<b>BALANCE, MARCH 31, 2000</b>	53,177	13,600	28,715	117,994			(7)
Net income				16,498			
Cash dividends, ¥43.5 per share				(2,871)			
Bonuses to directors and corporate auditors				(175)			
Transfer to common stock (Note 10)		0	(0)				
Stock split (Note 10)	53,176						
Increase from merger (Note 10)	14,718	735	643				
Stock cancelled from merger (Note 10)	(14,718)	(735)		(641)			
Unrecognized pension liabilities of foreign consolidated subsidiaries				(97)			
Unrealized gain on available-for-sale securities					¥757		
Foreign currency translation adjustments						¥(4,412)	
Treasury stock sold—net							7
<b>BALANCE, MARCH 31, 2001</b>	106,353	¥13,600	¥29,358	¥ 130,708	¥757	¥(4,412)	¥(0)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
<b>BALANCE, MARCH 31, 2000</b>	\$109,677	\$231,573	\$ 951,564				\$ (56)
Net income			133,048				
Cash dividends, \$0.35 per share			(23,153)				
Bonuses to directors and corporate auditors			(1,411)				
Transfer to common stock (Note 10)	0	(0)					
Increase from merger (Note 10)	5,927	5,185					
Stock cancelled from merger (Note 10)	(5,927)		(5,169)				
Unrecognized pension liabilities of foreign consolidated subsidiaries			(782)				
Unrealized gain on available-for-sale securities				\$6,105			
Foreign currency translation adjustments					\$(35,581)		
Treasury stock sold—net							56
<b>BALANCE, MARCH 31, 2001</b>	\$109,677	\$236,758	\$1,054,097	\$6,105	\$(35,581)		\$ (0)

See Notes to Consolidated Financial Statements.

Benesse Corporation and Consolidated Subsidiaries  
**Consolidated Statements of Cash Flows**

Years Ended March 31, 2001, 2000 and 1999	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	2001
<b>OPERATING ACTIVITIES:</b>				
Income before income taxes and minority interests .....	<b>¥29,985</b>	¥29,746	¥31,501	<b>\$241,815</b>
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization .....	<b>9,609</b>	9,199	8,841	<b>77,492</b>
Increase (decrease) in allowance for doubtful receivables, liability for retirement benefits and other reserves .....	<b>2,877</b>	405	(76)	<b>23,202</b>
Interest and dividend income .....	<b>(794)</b>	(781)	(1,447)	<b>(6,403)</b>
Interest expense .....	<b>972</b>	1,149	2,088	<b>7,838</b>
Gain on sales of marketable and investment securities .....	<b>(660)</b>	(734)	(810)	<b>(5,323)</b>
Other non-cash income and expenses—net .....	<b>244</b>	1,552	(1,107)	<b>1,968</b>
Change in assets and liabilities—net of effects from newly consolidated subsidiaries .....	<b>(4,633)</b>	7,473	9,854	<b>(37,363)</b>
Total .....	<b>37,600</b>	48,009	48,844	<b>303,226</b>
Interest and dividends received .....	<b>656</b>	820	1,421	<b>5,290</b>
Interest paid .....	<b>(955)</b>	(1,133)	(2,041)	<b>(7,701)</b>
Income taxes paid .....	<b>(15,448)</b>	(15,171)	(15,915)	<b>(124,581)</b>
Net cash provided by operating activities .....	<b>21,853</b>	32,525	32,309	<b>176,234</b>
<b>INVESTING ACTIVITIES:</b>				
(Increase) decrease in time deposits .....	<b>229</b>	(239)	1,000	<b>1,847</b>
Purchases of marketable securities .....	<b>(11,679)</b>	(26,324)	(28,512)	<b>(94,185)</b>
Proceeds from sales of marketable securities .....	<b>18,583</b>	22,236	31,285	<b>149,863</b>
Purchases of property and equipment .....	<b>(6,365)</b>	(6,865)	(4,260)	<b>(51,331)</b>
Proceeds from sales of property and equipment .....	<b>630</b>	3	135	<b>5,081</b>
Purchases of software .....	<b>(3,355)</b>	(4,261)	(1,968)	<b>(27,056)</b>
Purchases of investment securities .....	<b>(6,900)</b>	(3,584)	(2,618)	<b>(55,645)</b>
Proceeds from sales of investment securities .....	<b>6,595</b>	1,554	4,635	<b>53,185</b>
Purchases of controlling interest in company .....	<b>(3,465)</b>		(513)	<b>(27,944)</b>
Other—net .....	<b>(2,103)</b>	(1,430)	(871)	<b>(16,960)</b>
Net cash used in investing activities .....	<b>(7,830)</b>	(18,910)	(1,687)	<b>(63,145)</b>
<b>FORWARD</b> .....	<b>¥14,023</b>	¥13,615	¥30,622	<b>\$113,089</b>

Years Ended March 31, 2001, 2000 and 1999	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	2001
<b>FORWARD</b> .....	<b>¥14,023</b>	¥13,615	¥30,622	<b>\$113,089</b>
<b>FINANCING ACTIVITIES:</b>				
Proceeds from long-term debt .....	171	558	566	1,379
Repayment of long-term debt .....	(1,947)	(2,475)	(28,095)	(15,702)
Proceeds from issuance of convertible debentures .....			12,680	
Dividends paid .....	(2,871)	(2,898)	(2,340)	(23,153)
Other—net .....	308	(354)	264	2,484
Net cash used in financing activities .....	(4,339)	(5,169)	(16,925)	(34,992)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b> .....				
	502	(983)	(949)	4,048
<b>CASH AND CASH EQUIVALENTS INCREASED BY MERGER</b> .....				
	45			363
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b> .....	<b>10,231</b>	7,463	12,748	<b>82,508</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> .....	<b>65,917</b>	58,454	45,706	<b>531,589</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b> .....	<b>¥76,148</b>	¥65,917	¥58,454	<b>\$614,097</b>
<b>ADDITIONAL CASH FLOW INFORMATION:</b>				
Purchases of newly consolidated subsidiaries:				
Assets acquired .....	¥ 4,462			\$ 35,984
Liabilities assumed .....	4,487			36,185
Cash paid for the controlling interest .....	3,853			31,073
Goodwill .....	3,878			31,274
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>				
Assets acquired and liabilities assumed in merger (Note 10):				
Current assets acquired .....	¥ 45			\$ 363
Fixed assets acquired .....	1,377			11,105
Current liabilities assumed .....	42			339

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Years Ended March 31, 2001, 2000 and 1999

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## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Benesse Corporation (the “Company”) 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. 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.

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, 2001, 2000 and 1999, 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. Certain reclassifications have been made in the 2000 and 1999 financial statements to conform to classification used in 2001.

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 ¥124 to U.S. \$1, the approximate rate of exchange at March 31, 2001. 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 19 (14 in 2000 and 13 in 1999) significant subsidiaries (collectively, the “Companies”). Consolidation of the remaining unconsolidated subsidiary would not have a material effect on the accompanying consolidated financial statements in 2001, 2000 and 1999.

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.

The consolidated financial statements for the year ended March 31, 1999, are not retroactively adjusted. 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 4 affiliates and 1 unconsolidated subsidiary are accounted for by the equity method in 2001 (5 affiliates and 1 unconsolidated subsidiary in 2000 and 4 affiliates and 1 unconsolidated subsidiary in 1999).

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 net equity in domestic consolidated subsidiaries at acquisition (“Consolidation goodwill”) are amortized on a straight-line basis over 20 years. 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, which is included in marketable securities amounting to ¥51,129 million (\$412,331 thousand), ¥32,943 million and ¥14,335 million for the years ended March 31, 2001, 2000 and 1999, respectively.

**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**

Prior to April 1, 2000, marketable and investment securities listed on stock exchange were stated at the lower of cost, determined by the average method, or market. Other investments are stated at moving-average cost.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for financial instruments, including marketable and investment securities.

The standard requires all applicable securities to be classified and accounted for, depending on management’s intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in near term are reported at fair value, and the related unrealized gains and losses are included in the earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders’ equity.

The effect of adoption of the new standard was to increase income before income taxes and minority interests by ¥214 million (\$1,726 thousand).

Marketable securities classified as current assets decreased by ¥9,898 million (\$79,823 thousand) and investment securities increased by the same amount as of April 1, 2000.

**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 50 years in 2001, 2000 and 1999 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 and Pension Plans**

Prior to April 1, 2000, the annual provisions for retirement benefits of the Company and its domestic consolidated

subsidiaries are calculated to state the liability 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.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The full amount of the transitional obligation of ¥258 million (\$2,081 thousand), determined as of the beginning of year, is charged to income and included in as other expenses in the consolidated statements of income. As a result, net periodic benefit costs as compared with the prior method, increased by ¥860 million (\$6,935 thousand) and income before income taxes and minority interests decreased by ¥1,094 million (\$8,823 thousand).

Retirement benefits to directors and corporate auditors of the Company and its 3 domestic consolidated subsidiaries in 2001 (2 in 2000 and 1999) 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.

#### **j. Income Taxes**

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

#### **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.

#### **l. Foreign Currency Transactions**

Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

#### **m. Foreign Currency Financial Statements**

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen

at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Prior to April 1, 2000, differences arising from such translation were shown as "Foreign currency translation adjustments" as either all asset or liability in the balance sheet.

Effective April 1, 2000, such differences are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

#### 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 after giving retroactive adjustment for subsequent stock splits. The average number of common shares used in the computation was 106,353 thousand for 2001, 106,351 thousand for 2000 and 106,350 thousand for 1999, 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

Prior to April 1, 1999, 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 recognized past service costs totaling ¥3,400 million in the year ended March 31, 2000.

### 4. MARKETABLE AND INVESTMENT SECURITIES

The Companies' marketable and investment securities as of March 31, 2001, 2000 and 1999, consisted of the following:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
<b>Current:</b>				
Marketable equity securities .....		¥ 555	¥ 939	
Government and corporate bonds .....	¥11,197	50	185	\$ 90,298
Trust fund investments and other .....	40,486	47,264	22,923	326,500
Total .....	¥51,683	¥47,869	¥24,047	\$416,798
<b>Non-current:</b>				
Marketable equity securities .....	¥ 8,317	¥ 4,117	¥ 4,876	\$ 67,073
Government and corporate bonds .....	15,785	17,593	15,550	127,298
Trust fund investments and other .....	8,716	2,005	2,380	70,290
Total .....	¥32,818	¥23,715	¥22,806	\$264,661

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2001, was as follows:

	Millions of Yen			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Securities classified as:</b>				
Available-for-sale:				
Equity securities .....	¥ 4,108	¥1,860	¥300	¥ 5,668
Government and corporate bonds .....	10,397	25	39	10,383
Trust fund investments and other .....	9,275	56	287	9,044
Held-to-maturity .....	5,315	42	195	5,162

	Thousands of U.S.Dollars			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Securities classified as:</b>				
Available-for-sale:				
Equity securities .....	\$33,129	\$15,000	\$2,419	\$45,709
Government and corporate bonds .....	83,847	202	315	83,734
Trust fund investments and other .....	74,798	452	2,315	72,935
Held-to-maturity .....	42,863	339	1,573	41,629

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2001, were as follows:

	Carrying Amount	
	2001	
	Millions of Yen	Thousands of U.S.Dollars
<b>Available-for-sale:</b>		
Equity securities .....	¥ 2,649	\$ 21,363
Corporate bonds .....	87	702
Trust fund investments and other .....	51,355	414,153
Total .....	¥54,091	\$436,218

Proceeds from sales of available-for-sale securities for the year ended March 31, 2001 were ¥5,854 million (\$47,210 thousand). Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥636 million (\$5,129 thousand) and ¥85 million (\$685 thousand), respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2001, are as follows:

	Millions of Yen		Thousands of U.S.Dollars	
	<b>2001</b>			
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less .....	¥51,355		\$414,153	
Due after one year through five years .....	7,001	¥3,315	56,460	\$26,734
Due after five years through ten years .....	2,482	2,000	20,016	16,129
<b>Total</b> .....	<b>¥60,838</b>	<b>¥5,315</b>	<b>\$490,629</b>	<b>\$42,863</b>

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
	2000
<b>Current:</b>	
Carrying amount .....	¥9,473
Aggregate market value .....	9,432
Unrealized loss .....	¥ (41)
<b>Non-current:</b>	
Carrying amount .....	¥5,627
Aggregate market value .....	8,790
Unrealized gain .....	¥3,163

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 year ended March 31, 1999, was not required to be disclosed for consolidated financial statements under Japanese regulation.

## 5. INVENTORIES

Inventories at March 31, 2001, 2000 and 1999, consisted of the following:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Finished products .....	¥ 9,401	¥10,750	¥11,209	\$ 75,814
Work in process .....	4,786	4,430	4,729	38,597
Raw materials and supplies .....	713	644	590	5,750
Total .....	¥14,900	¥15,824	¥16,528	\$120,161

## 6. GOODWILL

Goodwill at March 31, 2001, 2000 and 1999, consisted of the following:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Goodwill associated with foreign consolidated subsidiaries .....	¥52,932	¥49,630	¥56,756	\$426,871
Consolidation goodwill .....	3,681			29,685
Total .....	¥56,613	¥49,630	¥56,756	\$456,556

## 7. INTERESTS IN PARTNERSHIPS

The Company has investments in limited partnerships. The original capital contributions to the partnerships amounted to ¥1,584 million (\$12,774 thousand), ¥1,690 million and ¥1,895 million as of March 31, 2001, 2000 and 1999, respectively, and the change in carrying value for the three years in the period ended March 31, 2001, were as follows:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Balance at beginning of period .....	¥(2,925)	¥(3,449)	¥(4,088)	\$(23,589)
Profits .....	304	524	641	2,452
Losses .....			(2)	
Balance at end of period .....	¥(2,621)	¥(2,925)	¥(3,449)	\$(21,137)

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

## 8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2001, 2000 and 1999, consisted of notes to banks. The annual interest rates applicable to the short-term bank loans were 1.5% at March 31, 2001, and ranged from 1.375% to 2.35% at March 31, 2000 and 1999.

Long-term debt at March 31, 2001, 2000 and 1999, consisted of the following:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
<b>Long-term debt, collateralized:</b>				
Banks and others, in yen, maturing serially through 2004 – with interest ranging from 1.474% to 3.30% in 2001, 2000 and 1999 .....	¥ 346	¥ 42	¥ 734	\$ 2,790
Banks and others, in U.S. dollars (including the Bank Facility) – with interest at the average rate of 6.99% in 1999 .....			379	
Government-owned bank, in yen, maturing serially through 2013 – with interest ranging from 3.5% to 5.45% in 2001, 2000 and 1999 .....	6,944	8,016	9,089	56,000
Total long-term debt, collateralized .....	7,290	8,058	10,202	58,790
<b>Long-term debt, unsecured:</b>				
Banks, in yen, maturing serially through 2004 – with interest ranging from 1.57% to 3.1% in 2001, 2000 and 1999 .....	1,366	1,324	1,909	11,016
Banks and others, in U.S. dollars – with interest at the average rate of 4.62% in 2001 and 5.33% in 2000 .....	152	717		1,226
5% U.S. dollar convertible debentures, convertible into BI's common stock at \$33.05 per share, due 2011 .....	11,475	10,240	11,570	92,540
Total long-term debt, unsecured .....	12,993	12,281	13,479	104,782
Total long-term debt .....	20,283	20,339	23,681	163,572
Less current portion .....	(2,591)	(1,659)	(1,197)	(20,895)
Long-term debt, less current portion .....	¥17,692	¥18,680	¥22,484	\$142,677

Annual maturities of long-term debt at March 31, 2001, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S.Dollars
2002 .....	¥2,591	\$20,895
2003 .....	1,294	10,436
2004 .....	688	5,548
2005 .....	610	4,919
2006 .....	587	4,734
2007 and thereafter .....	14,513	117,040
<b>Total .....</b>	<b>¥20,283</b>	<b>\$163,572</b>

At March 31, 2001, assets having the following carrying values were pledged as collateral for the long-term debts in yen in the amount of ¥7,290 million (\$58,790 thousand) by the Company and its domestic consolidated subsidiaries.

	Millions of Yen	Thousands of U.S.Dollars
	<b>2001</b>	
Land .....	<b>¥15,163</b>	<b>\$122,282</b>
Buildings — net of accumulated depreciation .....	<b>14,822</b>	<b>119,532</b>
Investment securities .....	<b>1,564</b>	<b>12,613</b>
Other assets .....	<b>1,007</b>	<b>8,121</b>
<b>Total .....</b>	<b>¥32,556</b>	<b>\$262,548</b>

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

## 9. RETIREMENT AND PENSION PLANS

The Company and its certain domestic consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain domestic consolidated subsidiaries and annuity payments from a welfare annuity fund. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, or by death, etc. The liability for retirement benefits at March 31, 2001, 2000 and 1999 for directors and corporate auditors was ¥1,132 million (\$9,129 thousand), ¥1,083 million and ¥986 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The Company and its domestic consolidated subsidiaries have a contributory defined benefit pension 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.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at March 31, 2001, consisted of the following:

	Millions of Yen	Thousands of U.S.Dollars
	<b>2001</b>	
Projected benefit obligation .....	¥13,336	\$107,548
Fair value of plan assets .....	(7,974)	(64,306)
Unrecognized actuarial gain .....	(1,492)	(12,032)
Prepaid pension expenses .....	23	185
Net liability .....	¥ 3,893	\$ 31,395

The components of net periodic benefit costs for the year ended March 31, 2001, are as follows:

	Millions of Yen	Thousands of U.S.Dollars
	<b>2001</b>	
Service cost .....	¥1,223	\$9,863
Interest cost .....	352	2,839
Expected return on plan assets .....	(355)	(2,863)
Amortization of transitional obligation .....	258	2,080
Net periodic benefit costs .....	¥1,478	\$11,919

Assumptions used for the year ended March 31, 2001, are set forth as follows:

	<b>2001</b>
Discount rate .....	3.0%
Expected rate of return on plan assets .....	5.5%
Recognition period of actuarial gain .....	8 years
Amortization period of transitional obligation .....	1 year

Total provisions for retirement allowances and pension costs charged to income were ¥4,018 million and ¥574 million for the years ended March 31, 2000 and 1999, respectively.

A 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. And projected benefit obligation, accrued benefit liability and net periodic benefit costs are ¥1,378 million (\$11,113 thousand), ¥1,357 million (\$10,944 thousand) and ¥288 million (\$2,323 thousand) for the year ended March 31, 2001, respectively.

## 10. 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 (\$27,419 thousand) as of March 31, 2001, 2000 and 1999, 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 ¥500.

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. 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. On October 1, 2000, the Company merged with Minamigata Enterprise Co., Ltd., a company privately held by the Company's president and family. Accordingly, 14,717,885 new shares were issued, and 14,717,960 shares were cancelled.

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, 2001, retained earnings recorded on the Company's books were ¥124,975 million (\$1,007,863 thousand) which is available for future dividends subject to the approval of the shareholders.

## 11. 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% for the years ended March 31, 2001 and 2000 and 47% for the year ended March 31, 1999, respectively.

The tax effects of significant temporary differences which result in deferred tax assets and liabilities at March 31, 2001, 2000 and 1999, are as follows:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
<b>Deferred tax assets:</b>				
Enterprise tax .....	¥ 597	¥ 726	¥ 771	\$ 4,814
Allowance for doubtful receivables .....	58	134	137	468
Provision for employees' bonuses .....	489	308	124	3,944
Loss on investment securities .....	182	177	168	1,468
Liability for retirement benefits .....	1,891	2,328	800	15,250
Deferred tax assets of the foreign consolidated subsidiaries* .....	639	306	150	5,153
Unrealized profit of fixed asset .....	218	197	109	1,758
Unrealized gain on available-for-sale securities .....	(549)			(4,427)
Others .....	723	337	243	5,830
<b>Total .....</b>	<b>¥4,248</b>	<b>¥4,513</b>	<b>¥2,502</b>	<b>\$34,258</b>
<b>Deferred tax liabilities:</b>				
Allowance for doubtful receivables .....			¥ 26	
Unrealized gain on land held by a consolidated subsidiary .....	¥ 409	¥ 409	409	\$ 3,298
<b>Total .....</b>	<b>¥ 409</b>	<b>¥ 409</b>	<b>¥ 435</b>	<b>\$ 3,298</b>

\*The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities of the foreign consolidated subsidiaries at March 31, 2001, 2000 and 1999, are as follows:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
<b>Deferred tax assets:</b>				
Accrued expenses .....	¥602	¥617	¥193	\$4,855
Net operating losses .....	201	320	420	1,621
Deferred revenue .....	397	236	255	3,202
Foreign tax credits .....	501	31	359	4,040
Restructuring charge .....	265			2,137
Others .....	304	314	294	2,451
Total .....	2,270	1,518	1,521	18,306
<b>Deferred tax liabilities:</b>				
Publishing rights amortization .....	587	550	651	4,734
Others .....	328	284	206	2,645
Total .....	915	834	857	7,379
Net deferred tax assets .....	1,355	684	664	10,927
Valuation allowance .....	(716)	(378)	(514)	(5,774)
Net deferred tax assets .....	¥639	¥306	¥150	\$5,153

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2001 and 2000, and the actual effective tax rates reflected in the accompanying consolidated statements of income are as follows:

	2001	2000
Normal effective statutory tax rate .....	42.0%	42.0%
Goodwill amortization in the foreign consolidated subsidiaries .....	4.9	3.8
Permanently non-deductible expenses of social expenses, etc. ....	0.4	1.4
Other .....	(0.8)	(0.9)
Actual effective tax rate .....	46.5%	46.3%

The normal effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2001 and 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.

## 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,268 million (\$18,290 thousand), ¥2,244 million and ¥1,864 million for the years ended March 31, 2001, 2000 and 1999, respectively.

## 13. ADVERTISING COSTS

Advertising costs charged to income were ¥27,296 million (\$220,129 thousand), ¥27,175 million and ¥30,685 million for the years ended March 31, 2001, 2000 and 1999, respectively.

## 14. 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 ¥2,227 million (\$17,960 thousand), ¥1,878 million and ¥1,572 million for the years ended March 31, 2001, 2000 and 1999, 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, 2001, 2000 and 1999, and obligations under finance leases on an “as if capitalized” basis at March 31, 2001, 2000 and 1999, which included imputed interest, were as follows:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Acquisition cost .....	<b>¥11,385</b>	¥8,297	¥8,826	<b>\$91,815</b>
Accumulated depreciation .....	<b>5,155</b>	3,538	4,396	<b>41,573</b>
Net leased property .....	<b>¥ 6,230</b>	¥4,759	¥4,430	<b>\$50,242</b>

### Obligations under Finance Leases:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Due within one year .....	<b>¥2,219</b>	¥1,643	¥1,628	<b>\$ 17,895</b>
Due after one year .....	<b>4,011</b>	3,116	2,802	<b>32,347</b>
Total .....	<b>¥6,230</b>	¥4,759	¥4,430	<b>\$ 50,242</b>

Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method for the years ended March 31, 2001, 2000 and 1999, are equivalent to the amount of total lease payments above.

A foreign consolidated subsidiary leases certain equipment, office space and other assets, under noncancellable operating leases. And effective April 1, 2000, the Company and a domestic consolidated subsidiary lease certain land, building and other asset, under noncancellable operating leases.

The minimum rental commitments under noncancellable operating leases at March 31, 2001, 2000 and 1999, were as follows:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Due within one year .....	<b>¥ 2,058</b>	¥1,721	¥1,777	<b>\$16,597</b>
Due after one year .....	<b>11,840</b>	7,041	7,725	<b>95,484</b>
<b>Total .....</b>	<b>¥13,898</b>	¥8,762	¥9,502	<b>\$ 112,081</b>

## (2) Lessor

The Company, as lessor, participates in the leveraged lease of an aircraft. The balance of the leased asset at March 31, 2001, 2000 and 1999, is included in other assets.

Total income derived from this lease was ¥503 million (\$4,056 thousand) for the years ended March 31, 2001, 2000 and 1999.

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, 2001, 2000 and 1999, and lease receivables under finance leases at March 31, 2001, 2000 and 1999, were as follows:

### Aircraft

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Acquisition cost .....	<b>¥5,000</b>	¥5,000	¥5,000	<b>\$40,323</b>
Accumulated depreciation .....	<b>4,618</b>	4,519	4,394	<b>37,242</b>
<b>Net leased property.....</b>	<b>¥ 382</b>	¥ 481	¥ 606	<b>\$ 3,081</b>

### Lease Receivables under Finance Leases:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Due within one year .....	<b>¥826</b>	¥ 442	¥ 417	<b>\$6,661</b>
Due after one year .....		826	1,268	
<b>Total .....</b>	<b>¥826</b>	¥1,268	¥1,685	<b>\$6,661</b>

Depreciation expense computed by the declining-balance method, and interest received which is not reflected in the accompanying consolidated statements of income, for the three years ended March 31, 2001, were as follows:

Years Ended March 31	Millions of Yen		Thousands of U.S.Dollars	
	Depreciation Expense	Interest Received	Depreciation Expense	Interest Received
2001 .....	<b>¥ 99</b>	<b>¥ 60</b>	<b>\$798</b>	<b>\$484</b>
2000 .....	125	84		
1999 .....	157	108		

### (3) Sublease

Pro forma lease receivables under sublease arrangements that do not transfer ownership of the lease property to lessee at March 31, 2001, 2000 and 1999, which included imputed interest, were as follows:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Due within one year .....	<b>¥14</b>	¥17	¥16	<b>\$113</b>
Due after one year .....	<b>5</b>	17	30	<b>40</b>
Total .....	<b>¥19</b>	¥34	¥46	<b>\$153</b>

Pro forma obligations under sublease agreements that do not transfer ownership of the lease property to lessee at March 31, 2001, 2000 and 1999, which included imputed interest, were as follows:

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	2001
Due within one year .....	<b>¥12</b>	¥15	¥13	<b>\$ 97</b>
Due after one year .....	<b>4</b>	12	25	<b>32</b>
Total .....	<b>¥16</b>	¥27	¥38	<b>\$129</b>

## 15. 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 are managed by the Company's Finance Department applying internal control policies which regulate the authorization and credit limit amount. Each derivative transaction is reported to the director of the Finance Department daily, and reported to the Board of Directors quarterly. 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, 2001 and 2000, consisted of the following:

	Millions of Yen					
	2001			2000		
	Contract or Notional Amount	Market Value	Unrealized Gain (Loss)	Contract or Notional Amount	Market Value	Unrealized Gain (Loss)
Currency coupon swaps:						
U.S. dollar receipt, yen payment .....	<b>¥10,981</b>	<b>¥ (65)</b>	<b>¥ (65)</b>	¥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 .....	<b>915</b>	<b>6</b>	<b>6</b>	817	(3)	(3)

	Thousands of U.S. Dollars		
	2001		
	Contract or Notional Amount	Market Value	Unrealized Gain (Loss)
Currency coupon swaps:			
U.S. dollar receipt, yen payment .....	<b>\$88,556</b>	<b>\$(524)</b>	<b>\$(524)</b>
U.S. dollar receipt, British pound payment .....	<b>7,379</b>	<b>48</b>	<b>48</b>

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.

## 16. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Companies for the years ended March 31, 2001, 2000 and 1999, is as follows:

### a. Industry Segments

#### (1) Sales and Operating Income

	Millions of Yen							Consolidated
	2001							
	Children & Students Company	School & Teacher Support Company	Women & Family Company	Senior Company	Language Instruction and Translation	Others	Eliminations/Corporate	
Sales to customers .....	¥168,733	¥15,253	¥9,182	¥ 3,861	¥55,258	¥10,661		¥262,948
Intersegment sales .....		19			34	40,637	¥(40,690)	
Total sales .....	168,733	15,272	9,182	3,861	55,292	51,298	(40,690)	262,948
Operating expenses .....	136,769	14,313	10,374	6,010	53,690	50,762	(39,248)	232,670
Operating income (loss) .....	¥ 31,964	¥ 959	¥(1,192)	¥(2,149)	¥ 1,602	¥ 536	¥ (1,442)	¥ 30,278

	Thousands of U.S. Dollars							Consolidated
	2001							
	Children & Students Company	School & Teacher Support Company	Women & Family Company	Senior Company	Language Instruction and Translation	Others	Eliminations/Corporate	
Sales to customers .....	\$1,360,750	\$123,008	\$74,048	\$ 31,137	\$445,629	\$ 85,976		\$2,120,548
Intersegment sales .....		153			274	327,718	\$(328,145)	
Total sales .....	1,360,750	123,161	74,048	31,137	445,903	413,694	(328,145)	2,120,548
Operating expenses .....	1,102,976	115,427	83,661	48,468	432,984	409,371	(316,516)	1,876,371
Operating income (loss) .....	\$ 257,774	\$ 7,734	\$ (9,613)	\$(17,331)	\$ 12,919	\$ 4,323	\$(11,629)	\$ 244,177

(The change of industry segment)

Prior to 2001, the industry segments have been based on the similarity of the products and markets, and the Company had four segments of "Correspondence course," "Language instruction and translation," "Test and study aid" and "Publishing and other."

Effective April 1, 2000, the Company reclassified the four segments to six segments of "Children & students company," "School & teacher support company," "Women & family company," "Senior company," "Language instruction and translation" and "Others." In addition, the Company introduced a customer-based company structure and the new structure was established this year.

This change was made to show the new financial and business administration structure more clearly.

“Women & family company” and “Senior company” had been classified as “Publishing and other” in the past. This reclassification was made in accordance with the change of the Company structure and because of the importance of each market.

To conform to the segmentation used in 2001, the segment information of the years ended March 31, 2000 and 1999, classified in accordance with the new standard is shown as below:

	Millions of Yen							Consolidated
	2000							
	Children & Students Company	School & Teacher Support Company	Women & Family Company	Senior Company	Language Instruction and Translation	Others	Eliminations/ Corporate	
Sales to customers .....	¥173,314	¥15,006	¥ 9,218	¥ 1,331	¥53,544	¥ 8,551		¥260,964
Intersegment sales .....	8	1			49	25,465	¥(25,523)	
Total sales .....	173,322	15,007	9,218	1,331	53,593	34,016	(25,523)	260,964
Operating expenses .....	139,460	14,853	9,855	2,669	52,375	32,863	(24,065)	228,010
Operating income (loss) .....	¥ 33,862	¥ 154	¥ (637)	¥ (1,338)	¥ 1,218	¥ 1,153	¥ (1,458)	¥ 32,954

	Millions of Yen							Consolidated
	1999							
	Children & Students Company	School & Teacher Support Company	Women & Family Company	Senior Company	Language Instruction and Translation	Others	Eliminations/ Corporate	
Sales to customers .....	¥168,225	¥14,450	¥ 9,872	¥ 826	¥59,294	¥ 7,185		¥259,852
Intersegment sales .....	8	2			54	23,135	¥(23,199)	
Total sales .....	168,233	14,452	9,872	826	59,348	30,320	(23,199)	259,852
Operating expenses .....	136,908	14,118	12,024	1,768	56,412	29,420	(21,779)	228,871
Operating income (loss) .....	¥ 31,325	¥ 334	¥ (2,152)	¥ (942)	¥ 2,936	¥ 900	¥ (1,420)	¥ 30,981

## (2) Assets, Depreciation and Amortization and Capital Expenditures

	Millions of Yen							Consolidated
	2001							
	Children & Students Company	School & Teacher Support Company	Women & Family Company	Senior Company	Language Instruction and Translation	Others	Eliminations/ Corporate	
Assets .....	¥65,506	¥9,044	¥6,024	¥8,719	¥80,858	¥22,909	¥116,201	¥309,261
Depreciation .....	4,554	737	277	285	3,481	435	(160)	9,609
Capital expenditures .....	4,206	437	220	3,240	2,713	246	213	11,275

Thousands of U.S. Dollars								
2001								
	Children & Students Company	School & Teacher Support Company	Women & Family Company	Senior Company	Language Instruction and Translation	Others	Eliminations/Corporate	Consolidated
Assets .....	\$528,274	\$72,935	\$48,581	\$70,315	\$652,081	\$184,750	\$937,104	\$2,494,040
Depreciation .....	36,726	5,944	2,233	2,298	28,073	3,508	(1,290)	77,492
Capital expenditures .....	33,921	3,525	1,767	26,130	21,880	1,985	1,719	90,927

Millions of Yen								
2000								
	Children & Students Company	School & Teacher Support Company	Women & Family Company	Senior Company	Language Instruction and Translation	Others	Eliminations/Corporate	Consolidated
Assets .....	¥68,337	¥10,397	¥5,969	¥3,020	¥73,425	¥18,914	¥117,766	¥297,828
Depreciation .....	3,901	814	131	118	3,488	645	102	9,199
Capital expenditures .....	5,968	629	107	750	3,671	640	(660)	11,105

Millions of Yen								
1999								
	Children & Students Company	School & Teacher Support Company	Women & Family Company	Senior Company	Language Instruction and Translation	Others	Eliminations/Corporate	Consolidated
Assets .....	¥66,674	¥10,579	¥7,295	¥1,650	¥80,318	¥16,286	¥97,818	¥280,620
Depreciation .....	3,674	816	127	115	3,673	564	(128)	8,841
Capital expenditures .....	2,857	353	131	41	3,153	410	(1,529)	5,416

## b. Geographical Segments

The foreign operations of the Companies for the years ended March 31, 2001, 2000 and 1999, are summarized as follows:

Millions of Yen					
2001					
	Japan	North America	Others	Eliminations/Corporate	Consolidated
Sales:					
To customers .....	¥218,455	¥17,767	¥26,726		¥262,948
Inter-area .....		21		¥ (21)	
Total sales .....	218,455	17,788	26,726	(21)	262,948
Operating expenses .....	189,708	16,605	26,378	(21)	232,670
Operating income .....	¥ 28,747	¥ 1,183	¥ 348	¥ (0)	¥ 30,278
Assets .....	¥115,251	¥55,951	¥14,552	¥123,507	¥309,261

	Thousands of U.S.Dollars				
	2001				
	Japan	North America	Others	Eliminations/ Corporate	Consolidated
Sales:					
To customers .....	\$1,761,734	\$143,282	\$215,532		\$2,120,548
Inter-area .....		170		\$ (170)	
Total sales .....	1,761,734	143,452	215,532	(170)	2,120,548
Operating expenses .....	1,529,903	133,912	212,726	(170)	1,876,371
Operating income .....	\$ 231,831	\$ 9,540	\$ 2,806	\$ (0)	\$ 244,177
Assets .....	\$ 929,444	\$451,218	\$117,355	\$996,023	\$2,494,040

	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

	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

### c. Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2001, 2000 and 1999, are as follows:

	Millions of Yen			Thousands of U.S.Dollars		
	<b>2001</b>					
	North America	Others	Total	North America	Others	Total
Sales to foreign customers (A) .....	¥17,767	¥26,985	¥ 44,752	\$143,282	\$217,621	\$ 360,903
Consolidated sales (B) .....			262,948			2,120,548
Ratio of foreign sales to consolidated sales (A)/(B) .....	6.7%	10.3%	17.0%	6.7%	10.3%	17.0%

	Millions of Yen		
	<b>2000</b>		
	North America	Others	Total
Sales to foreign customers (A) .....	¥17,502	¥26,914	¥ 44,416
Consolidated sales (B) .....			260,964
Ratio of foreign sales to consolidated sales (A)/(B) .....	6.7%	10.3%	17.0%

	Millions of Yen		
	<b>1999</b>		
	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%

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

### 17. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2001, were approved by the Company's shareholders at a meeting held on June 27, 2001:

	Millions of Yen	Thousands of U.S.Dollars
	<b>2001</b>	
Year-end cash dividends, ¥14.5 (\$0.12) per share .....	¥1,542	\$12,435
Bonuses to directors and corporate auditors .....	175	1,411

# Independent Auditors' Report

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**Deloitte  
Touche  
Tohmatsu**

To the Board of Directors and Shareholders of Benesse Corporation:

We have examined the consolidated balance sheets of Benesse Corporation and consolidated subsidiaries as of March 31, 2001, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2001, 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, 2001, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, 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.

As discussed in Note 2, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments and a revised accounting standard for foreign currency transactions.

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 27, 2001

## Board of Directors and Corporate Auditors (As of June 27, 2001)

### 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: 16,044 thousand

### Vice President

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/

Division Support Center  
(Legal, General Affairs and  
Human Resources Department)  
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: 62 thousand

### Director/

Corporate Office  
(Strategic Finance and  
Operations Management Office),  
Division Support Center  
(Accounting Department)  
Kazuo Yamakawa  
(Born 1940/2/5)  
Number of shares held: 6 thousand

### Director/

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

### Director/

Women & Family Company,  
Division Support Center  
(Privacy Protection Promotion Office)  
Nobuya Kashihara  
(Born 1959/8/28)  
Number of shares held: 34 thousand

### Director/

Corporate Office  
(Group Operations Planning Office),  
Division Support Center  
(Customer Relations Development Office)  
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/

Division Support Center  
(Office of Infrastructural  
Management & Support  
Technologies),  
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, 2001)

### Number of Shares Outstanding:

106,353,453 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:

32,208

### 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

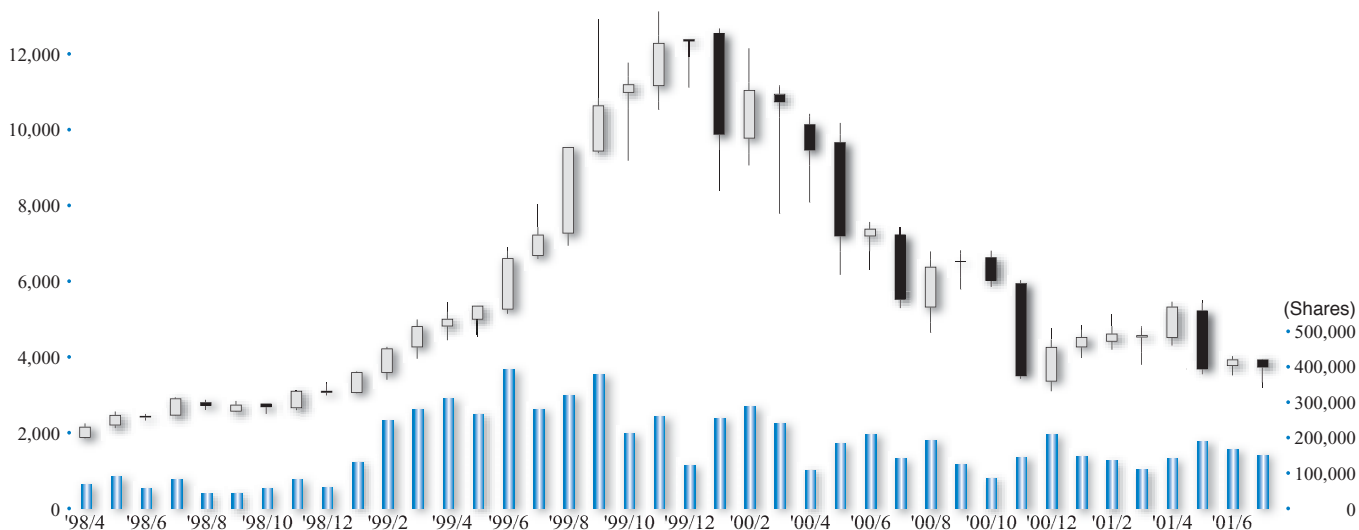
### Stock Cancellation:

1,334,000 shares on January 7, 1998

### Stock Price Range & Trading Volume (Osaka Securities Exchange):

(Yen)

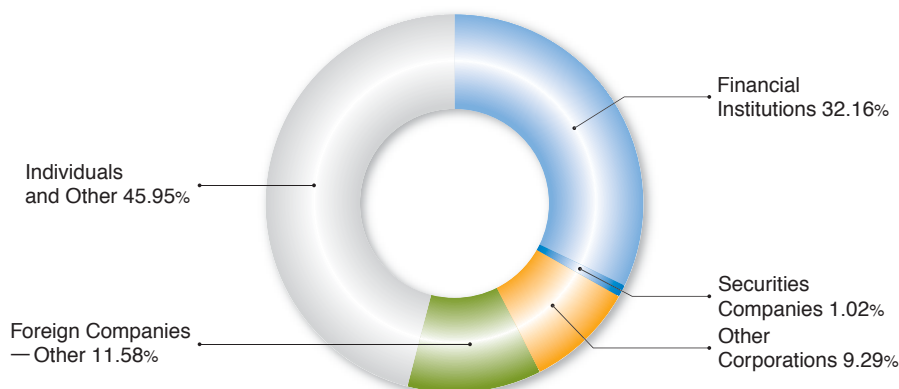
14,000



### Top 10 Shareholders:

	Shares (Thousands)	Percentage (%)
Soichiro Fukutake .....	16,044	15.08
Japan Trustee Services Bank, Ltd. ....	4,794	4.50
The Chugoku Bank, Ltd. ....	4,337	4.07
The Chuo Mitsui Trust & Banking Co., Ltd. ....	4,326	4.06
Reiko Fukutake .....	3,174	2.98
Mitsuko Fukutake .....	2,790	2.62
Mitsubishi Trust and Banking Corporation .....	2,782	2.61
Nobuko Fukutake .....	2,769	2.60
Junko Matsuura .....	2,675	2.51
The Toyo Trust & Banking Co., Ltd. ....	2,504	2.35

### Shares (in %) by Type of Shareholder:



# 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 begins offering the Kansai Simulated Exams (now *Shinken Simulated Exams*) for senior high school students.
- 1969** The Correspondence Education Seminar (now *Shinkenzeni*) 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 (now the *Shinkenzeni* Junior High School Courses) for junior high school students is launched.
- 1973** The Kansai Simulated Exams are renamed *Shinken Simulated Exams*. The Correspondence Education Seminar is renamed *Shinkenzeni*.
- 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 *Shinkenzeni* Elementary School Courses are 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 *Shinkenzeni* Preschool Courses are 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 *Shinkenzeni* Preschool Courses, now called “*Kodomo Challenge*,” for children (age 2-3) and their parents are established.  
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!* 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** Customer-based in-house company system is introduced.
- 2000** Benesse Care Corporation is established.  
The Company lists on the First Section of the Tokyo Stock Exchange.  
The Company acquires a controlling stake in Shinkoukai Co., Ltd.
- 2001** Learn-S Co., Ltd. is established.

# Benesse Corporation and Consolidated Subsidiaries

## Benesse Corporation

Okayama Head Office:  
3-7-17, Minamigata,  
Okayama-shi,  
Okayama 700-8686  
81-86-225-1100  
Tokyo Head Office:  
1-34, Ochiai, Tama-shi,  
Tokyo 206-8686  
81-42-356-1100

## Telemarketing Japan, Inc.

Hourai Bldg., 1-20-2,  
Nishi-Shinjuku, Shinjuku-ku,  
Tokyo 160-0023  
81-3-5321-0801

## Synform Co., Ltd.

10-1, Takayanagi-Higashi-cho,  
Okayama-shi,  
Okayama 700-0034  
81-86-256-0202

## Sympres Co., Ltd.

10-1, Takayanagi-Higashi-cho,  
Okayama-shi,  
Okayama 700-0034  
81-86-255-6660

## Okayama Language Center

Dai-ichi Central Bldg., 3F,  
6-36, Hon-machi, Okayama-shi,  
Okayama 700-0901  
81-86-222-2353

## Plandit Co., Ltd.

Kotsu Zaidan Bldg.,  
1-32-1, Ochiai,  
Tama-shi,  
Tokyo 206-0033  
81-42-357-1561

## Simul International, Inc.

Shinjuku Green Tower Bldg., 9F,  
6-14-1, Nishi-Shinjuku, Shinjuku-ku,  
Tokyo 160-0023  
81-3-5324-3100

## CRM Direct, Inc.

Hourai Bldg., 1-20-2,  
Nishi-Shinjuku, Shinjuku-ku,  
Tokyo 160-0023  
81-3-5321-3378

## Shinkoukai Co., Ltd.

3-384-1, Mineoka-cho, Hodogaya-ku,  
Yokohama-shi,  
Kanagawa 240-0064  
81-45-348-0123

## Naoshima Cultural Village Co., Ltd.

Gotanji, Naoshima-cho, Kagawa-gun,  
Kagawa 761-3110  
81-87-892-2030

## Simul Business Communications, Inc.

Shinjuku Green Tower Bldg., 9F,  
6-14-1, Nishi-Shinjuku, Shinjuku-ku,  
Tokyo 160-0023  
81-3-5323-7201

## Persons Inc.

3-7-17, Minamigata,  
Okayama-shi,  
Okayama 700-0807  
81-86-226-1105

## B.C. ESTATE Co., Ltd.

2-46-4, Hon-cho, Nakano-ku,  
Tokyo 164-0012  
81-3-5350-8161

## Okayama Fukutake Publishing Co., Ltd.

1-10-23, Ban-cho, Okayama-shi,  
Okayama 700-0811  
81-86-226-2860

## Carry Com Co., Ltd.

3-7-17, Minamigata, Okayama-shi  
Okayama 700-0807  
81-86-227-2933

## Benesse Music Publishing Co.

1-34, Ochiai, Tama-shi,  
Tokyo 206-8686  
81-42-356-1100

## Benesse Care Corporation

Sasazuka Center Bldg., 7F,  
2-1-6, Sasazuka, Shibuya-ku,  
Tokyo 151-0073  
81-3-5371-6710

## Learn-S Co., Ltd.

3-7-17, Minamigata,  
Okayama-shi,  
Okayama 700-0807  
81-86-221-5410

## 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

Benesse Corporation  
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](mailto:tokyoir@mail.benesse.co.jp)  
URL: <http://www.benesse.co.jp/IR>



## Benesse Corporation

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