



Grow With Us

Benesse Corporation

ANNUAL REPORT 2004

FOR THE YEAR ENDED MARCH 31, 2004



The name Benesse derives from the Latin words “bene,” meaning good or well, and “esse,” meaning to live or to be. Together, they embody our corporate philosophy of helping people live well. Benesse defines its business activities as education, languages, lifestyle and welfare, covering virtually all aspects of people’s lives—from childbirth to childrearing, school and family life, through to old age. In all these areas, we are striving to live up to our name.



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Today...

With Japan's largest private education service

Our *Shinkenzeni* and *Kodomo Challenge* home study correspondence courses cover children in all age groups, from toddlers right through to senior high school students. As of April 2004, enrollment totaled 3.83 million members—20% of all children in the target age group.

With Japan's leading simulated university entrance exams

Shinken Simulated Exams are the market leader in their field, with a total of 5.6 million students taking these exams in fiscal 2003. Benesse supplies these exams to 78% of Japan's high schools.

With the world's biggest language education company

Benesse consolidated subsidiary Berlitz International, Inc. is the world's biggest language education company, operating 518 language centers in 67 countries as of December 2003.

With Japan's largest private nursing home network

Through four nursing home brands—*Aria*, *Clara*, *Granny & Granda*, and *Madoka*—and a network of 73 homes as of March 2004, Benesse offers lifestyle support and care services. Benesse is the largest private operator in this field in Japan.

...And Tomorrow

By delivering value well into the future

Through our business activities, we are aiming to be a company that consistently delivers value—value unique to Benesse—to contribute to society not only today, but also well into the future.

By offering high-quality products and services

Striving to realize our goal of helping people live well, we are working to offer high-quality, pioneering products and services that have a positive impact on society.

By meeting the needs of all stakeholders

Benesse aims to remain a company that consistently meets the needs of all its stakeholders—customers, shareholders, employees, communities and society.

Benesse is growing with and for all its stakeholders

MESSAGE FROM THE CEO & COO

In fiscal 2003, ended March 31, 2004, we launched a far-reaching management restructuring program designed to propel Benesse to the next stage of growth. This restructuring is so fundamental that we positioned fiscal 2003 as the year of the company's third founding, following on from our second founding in 1995 when we changed the company name to Benesse Corporation. The first area we tackled was reform of our management structure, or our management OS (operating system), as we like to refer to it. In order to implement a bold and comprehensive restructuring program unfettered by past approaches, we took a number of steps that drastically

changed the way we manage the company. These included clearly separating business supervisory and executive functions, appointing a new president—an external appointment—and introducing a Corporate Executive Officer System and an independent director system. Together, these moves significantly reinforced corporate governance through the substantial transfer of authority to in-house companies and other moves. At the same time, we speeded up and enhanced the transparency of our decision-making processes.

The second important step we took was to draw up a new Medium-Term Management Plan, which runs from fiscal 2004 through fiscal 2006. Under this plan, which plays to our strengths as a company and aims to eliminate our weaknesses, we will reinforce our operating base, further expand our existing core businesses—education, language services, and services for senior citizens—and move into new markets. Based on these key policies, we are targeting operating income of ¥26,000 million in fiscal 2006. The plan also clearly defines the kind of corporate culture we want to foster in line with our third founding, and the common values and parameters that we want to instill in all our



Left : Soichiro Fukutake
Chairman and CEO

Right : Masayoshi 'Mike' Morimoto
President and COO

employees with respect to decision-making. At a time of fundamental change for Benesse, it is important to have a shared vision in order to effectively work toward a common goal. In short, with our new Medium-Term Management Plan we have clearly chosen the road we want to take, and we are confident that all our employees will work as one to reach our next destination.

Although we begin rolling out the plan in fiscal 2004, benefits are already emerging from the groundwork we laid during the year under review.

In fiscal 2003, we recorded a 26.9% increase in operating income, to ¥20,702 million, on a rise in net sales of 0.7%, to ¥260,142 million. Although we know we can do even better, this result was pleasing in the sense that it represented the first increase in operating income in four fiscal periods. In the Education Group, cumulative enrollment in the mainstay *Shinken-zemi* courses was down year on year, primarily because we were starting from a lower level of enrollment at the start of fiscal 2003 compared to fiscal 2002. However, we took a great deal of heart from the fact that figures began to recover in the second half of the year thanks to a stronger product lineup more capable of satisfying customer needs.

FINANCIAL HIGHLIGHTS

Benesse Corporation and Consolidated Subsidiaries

Years ended March 31, 2004 and 2003	Millions of Yen		Percentage Change	Thousands of U.S. Dollars
	2004	2003		2004
FOR THE YEAR:				
Net Sales	¥260,142	¥258,289	0.7%	\$2,454,170
Operating Income	20,702	16,317	26.9	195,302
Income before Income Taxes, Minority Interests and Impairment Loss on Goodwill	17,251	14,446	19.4	162,745
Net Income	9,394	6,973	34.7	88,623
AT YEAR-END:				
Total Assets	¥292,100	¥275,516	6.0%	\$2,755,660
Shareholders' Equity	170,781	169,428	0.8	1,611,142
				U.S. Dollars
PER SHARE OF COMMON STOCK:				
Net Income	¥ 88	¥ 65		\$ 0.83
Shareholders' Equity	1,641	1,612		15.48
Cash Dividends Applicable to the Year	40	29		0.38
				U.S. Dollars
RATIOS:				
Percentage				
Equity Ratio	58.5%	61.5%		
Return on Equity (ROE)	5.5	4.1		
Return on Assets (ROA)	3.3	2.5		
Employees				
Employees	8,599	8,081		

Notes: 1. U.S. dollar figures are translated, for convenience only, at the rate of ¥106 to U.S.\$1, the effective rate of exchange prevailing on March 31, 2004.

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. Return on Assets is calculated based on the average of total assets at the beginning and end of each fiscal year.

Objectives

Achieve Our Medium-Term Objectives

Fiscal 2006

Grow sales and generate operating income of ¥26 billion

2 Strengthen Existing Businesses

- Meet customer needs for off-campus education
- Restructure Berlitz
- Aggressively grow the senior business

3 Move Into New Markets

- Accelerate business development in East Asia

1 Reinforce the Operating Base

- Strengthen marketing
- Enhance R&D

Targets

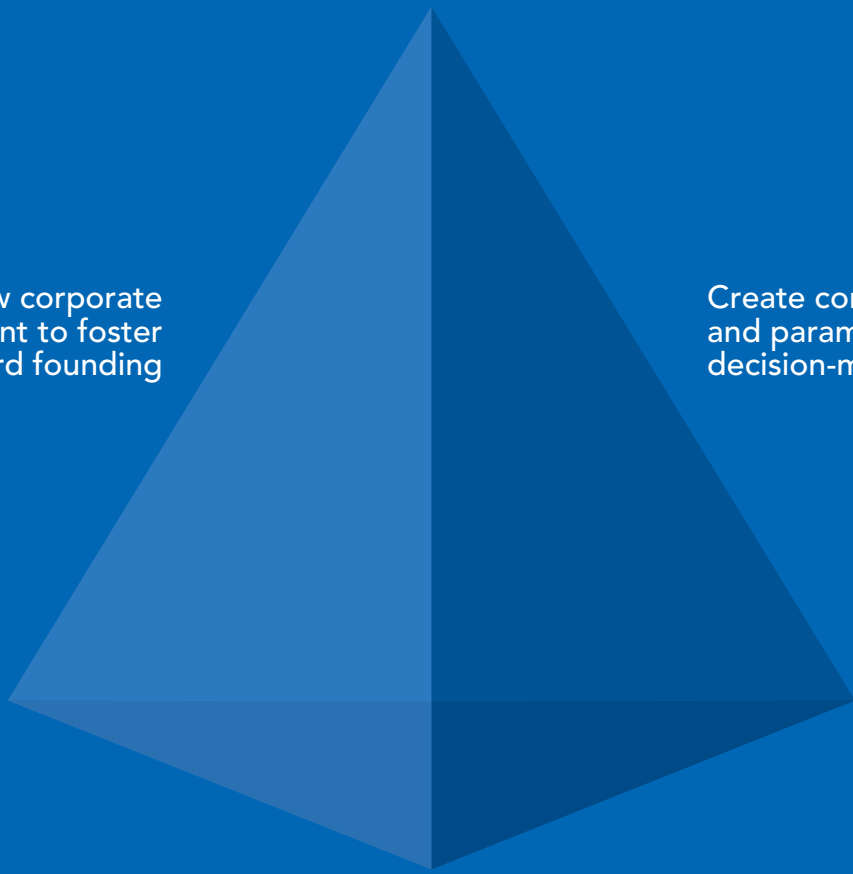
Our Medium-Term Targets

Achieve operating income in fiscal 2006 of
¥26 billion

Devise the new corporate
culture we want to foster
on our third founding

Create common values
and parameters for
decision-making

Formulate major
management policies



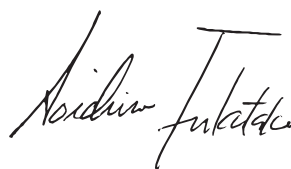
As a result, we have successfully arrested the decline in enrollment since 2000. In fact, with the start of the new academic year in Japan in April 2004, we are already seeing a return to growth in students signing up to *Shinkenzeremi* courses compared to the same period in the previous year. Meanwhile, extensive cost reductions in the Education Group made a significant contribution to Benesse's improved profitability. In the Women & Family (W&F) Company, we took bold steps to withdraw from underperforming businesses, while in the Senior Company, expansion of our network of nursing homes helped to steadily drive revenues higher.

In light of Benesse's performance in fiscal 2003, we raised the annual dividend per share by ¥11.0 to ¥40.0. We have always been committed to returning profits to shareholders based on a basic policy of ensuring a stable level of dividend payments. However, from the year under review, we decided to more clearly define our dividend policy, aiming to achieve a sustainable dividend payout ratio target of at least 35%. For fiscal 2004, we plan to raise the dividend per share by a further ¥10.0 to ¥50.0, representing the second fiscal year in a row that we have increased the dividend. Going forward, we will continue to enhance capital efficiency and raise shareholder value.

Fiscal 2004 is the first year of our Medium-Term Management Plan, which we have divided into three incremental phases. The first year is a crucial period for us: we must lay the groundwork that will kick-start our next stage of growth after fiscal 2006. In this initial phase, we will aggressively invest in three areas—marketing, research & development, and the East Asia market, particularly China—in order to build an operating base to support medium- and long-term growth. We have also started restructuring Berlitz International, Inc., a wholly owned subsidiary, with the aim of putting the Language Company on a firmer footing. With our new management OS in place, we will work to further enhance Benesse's presence in its three core business fields: education, language services and services for senior citizens.

All of us at Benesse remain committed to raising the Group's enterprise value by meeting the expectations of our shareholders, investors, customers, employees, and all our other stakeholders.

July 2004



Soichiro Fukutake
Chairman and CEO



Masayoshi 'Mike' Morimoto
President and COO

A CONVERSATION WITH THE PRESIDENT

You have been in office for a year now. What are your feelings as you look back on your first year?

Q1

A I am satisfied with what we have achieved in the past year. In fiscal 2003, we laid the groundwork that will kick-start our next stage of growth and defined the direction in which we want to take our business. We also restored profit growth for the first time in four years.

When I joined Benesse, I saw that corporate governance, or our management OS (operating system) as I sometimes refer to it, had to be strengthened. Consequently, in fiscal 2003, we fundamentally reformed Benesse's corporate governance system with the full support of Chairman Soichiro Fukutake and many employees, including key management personnel. We introduced a Corporate Executive Officer System that separates the executive and supervisory roles of management, and a system of independent directors. At the same time, we promoted greater transparency and faster decision-making. Our next important step was to shape a Medium-Term Management Plan to take us through to fiscal 2006. This plan sets the target of boosting consolidated operating income to ¥26,000 million in its final year. At Benesse, we are well aware that we have to reform our organization and change our corporate culture if we are to meet our medium-term targets. I am always telling our employees the same thing: We cannot be trapped by our history and past successes, as well as traditional ways of interacting. In short, we must approach our business from a zero base and take an entirely new tack.

We want to make sure that everybody in Benesse shares our corporate vision. To achieve this, we have distributed a leaflet to all employees that outlines our management policies. This leaflet, which employees are asked to carry at all times, highlights three themes, "Major Management Policies," "The New Corporate Culture We Want to Foster on Our Third Founding," and "Common Values and Parameters for Decision-Making." For me, these are the three sides of a triangle that has our goal of ¥26,000 million in consolidated operating income at its apex.

As the meaning of our corporate vision takes root, Benesse will be better able to bring all its human resources into full play, including external advisors, support staff and outsourcers, to realize further success.

Can you tell us more about Benesse's new Medium-Term Management Plan and your priorities for this fiscal year?

Q2

A The plan defines education, language services and services for senior citizens as our core businesses. We will channel resources into these areas to boost sales and profitability. Based on these key policies, we are targeting operating income of ¥26,000 million on sales of ¥330,000 million in fiscal 2006.

The first year of the plan is the most important, in that our achievements in this period will have an important bearing on future growth. We must further strengthen our business foundations to assure future growth. In fiscal 2004, we will step up marketing and strengthen research and development. Expansion in East Asian markets is also an important theme for this year, while restructuring Berlitz International will be key to putting the Language Company on a firmer footing.

Reinforce

Reinforce Our Operating Base

Strengthening marketing

Establish Headquarters Marketing Division

- Break away from overemphasis on DM marketing
- Employ long-term, cross-company customer strategy = CRM strategy
- Create new marketing opportunities
 - Link up with Japan Football Association, Tokyo Philharmonic Orchestra

Establish Area Sales Promotion Division

- Reinforce existing mass (nationwide) marketing with targeted (local) marketing strategy
 - Use marketing tailored to different regions (promotional events etc.)
Strategically collect, analyze and supply local education-related information
- Develop new sales promotion and marketing channels
 - Marketing channels other than the direct marketing channel
(demonstrations at bookshops, shopping malls and other locations)

Enhancing R&D

Establish Education R&D Division

- Selectively use resources (personnel, time and investments) to rapidly develop new education services
 - Develop mobile learning/e-learning
- Carry out research into extra-curricular and career education
 - Benesse Department of Educational Advanced Technology established at the Interfaculty Initiative in Information Studies, Graduate School of Interdisciplinary Information Studies, University of Tokyo

Expand

Expand the Lineup of Education Services

Sales growth diagram

Amount spent per customer

3 Increase amount spent per customer

Grow sales of peripheral products

- Focus on peripheral products related to *Kodomo Challenge* and Elementary School Courses
→ *Preschool English Courses, Korasho English Courses, BE-GO, Kid's English Classrooms, Kodomo Challenge every, and i-Shimajiro*

4 Continue to cultivate existing customers

Strengthen lineup of *Shinkenzeni* products

- Introduce course materials for different academic levels
- Enhance on-demand services
- Upgrade website services for members

Enrich services with *Shinkenzeni + α*

- *Classroom Learning*
- Optional course materials

2 Capture new customers

Use media-mix marketing

- Shift from reliance on DM to a media-mix approach of TV commercials, web-based marketing, mobile marketing and other channels

Enhance products and services for private school students

- *Shinkenzeni* courses for students at elite combined private junior and senior high schools
- Reinforce product lineup for private high school students

Number of customers



First, let me comment on what we are doing in the marketing area. In April 2004, we established a Headquarters Marketing Division at head office that is charged with coordinating the marketing activities across the company. Simultaneously, we established an Area Sales Promotion Division responsible for all our domestic regional markets. Traditionally, we had relied heavily on direct mail (DM) marketing, which individual operating divisions had handled independently. In addition to expanding our customer base, what we need now is a CRM (Customer Relationship Management & Continuous Relationship Management) strategy that supports us in retaining customers for longer. We are strongly aware of the importance of proactive marketing and we have set up a new marketing organization that is developing a range of marketing tools that integrates our direct mail approach with different multimedia marketing tools, such as the Internet, mobile phone networks and promotional and demonstration events. These marketing methods are also being tailored more accurately to individual customer segments and geographical markets. By using shopping malls and other locations to create more opportunities for contact with potential customers, we are also diversifying our existing direct marketing approach to develop new sales channels.

Next, I want to comment on what we are doing to strengthen R&D. Our *Shinkenzemi* home study correspondence courses are designed around traditional learning tools: books, paper and writing implements. We are determined to go beyond the traditional bounds of *Shinkenzemi* and develop new educational services by embracing e-learning systems and promoting tie-ups with cram schools. We are also diversifying into extra curricular educational services and educational services that leverage the potential of IT. In April 2004, we established an Education R&D Division that reports to me directly and actively pursues research and development in the educational field.

We have defined East Asia as the market second in importance only to our home market. We will be aggressively expanding operations there. We already offer home study courses for infants and elementary school children in Taiwan. Our Taiwan operations moved into the black in fiscal 2003, and we will look for future growth there. We are still exploring how best to enter the Chinese market. We are conducting extensive marketing research and putting the groundwork in place, while continuing to search for suitable partners to support the rapid launch of *Kodomo Challenge*, our infant preschool course business and other products in China. South Korea is a promising market for preparatory materials for entrance examinations; our focus in the country is on assessment materials.

Enrollment in your mainstay *Shinkenzeremi* home study courses seems to be recovering. What is driving this recovery?

Q3

A Enrollment in April 2004 was 3.5% up against the same month a year earlier, at 3.83 million. This was the first increase in enrollment in four years, since April 2000. The rebound in enrollment in Junior High School and Elementary School courses, a sector representing 60% of sales in *Shinkenzeremi* courses, is an important change. At the same time, enrollment in *Shinkenzeremi* Senior High School Courses has bottomed out. Enrollment in *Kodomo Challenge* infant preschool courses declined marginally due mainly to the falling birthrate.

In the past, the focus has been on providing study materials on a national scale designed to meet demand for perceived average academic abilities. However, the education market is changing; diversifying along with the academic capabilities and needs of students. In response to these shifts, we divided our existing *Shinkenzeremi* Junior High School Courses into two separate courses, and similarly, divided *Shinkenzeremi* Senior High School Courses into three separate courses. This was carried out to give more focus to the needs of students with differing academic capabilities.

Regarding marketing, we switched to a media-mix strategy, adding the television and the Internet advertising channels to our existing direct mail oriented approach.

The environment in which we operate also witnessed significant changes. In 2002, new curriculum guidelines outlined in the New Course of Study were introduced into elementary and junior high schools, with the goal of bringing about a less rigid education system. However, the curriculum guidelines were reviewed in December 2003 and the government gave the go ahead to the progressive roll out of lessons in schools that went beyond the curriculum.

I feel that amid these ongoing changes, the introduction of products to meet the needs of students with differing academic capabilities combined with a marketing strategy that leveraged these products is what drove the recovery in enrollment in our home study courses.

Please tell us about restructuring at Berlitz.

Q4

A Berlitz's business is expanding favorably in Japan, underpinned by strong demand for English language education. However, overall sales have stagnated as economic sluggishness in the U.S. and Europe has dampened core corporate demand for language instruction. In a move to strengthen corporate governance at Berlitz, Benesse appointed Mr. Toru Noda as CEO. He has already identified a number of issues at the company and is currently developing remedial measures.

Fundamental restructuring of the corporate organization is now under way. The focus is on decentralization, localization and the transfer of authority from the headquarters to regional units. The worldwide business is now being managed by a system of three regional headquarters, in North and South America, Europe and Asia. We have combined this move with a 35% reduction in staff at the Princeton head office in the U.S. in order to streamline headquarters functions and enhance efficiency. These reforms should help Berlitz back on the path to profitability.

Grow

Aggressively Grow the Senior Business

1 Accelerate expansion of nursing home network

Accelerate expansion of nursing home network from fiscal 2004

→ Expansion to be led by *Aria* and *Madoka* brand nursing home chains

2 Differentiate ourselves from competitors

Provide more diverse services

→ Provide services through 4 nursing home brands

Deliver high-quality services

→ Enhance training of personnel supplying services

Offer high value-added services

→ Forge stronger links with medical institutions

Fiscal 2003

73

Homes

Fiscal 2006 Target

174

Homes

Accelerate

Accelerate Business Development in East Asia

China

- Promote cooperation with Children Enterprise Development Group of the All-China Women's Federation (from April 2004)
- Initially use the *Kodomo Challenge* brands to launch business in the country
- Aggressively expand Berlitz operations

South Korea

- Established Benesse Korea Co., Ltd. in July 2004
Launch business with assessment materials for senior high school students, and then steadily move into other business fields
- Plans call for entering the junior high school market
- Promote links with Berlitz (*GTEC* and other product sales)

Hong Kong

- Benesse Hong Kong Co., Ltd., a toy and educational equipment company established in December 2003
- Use Hong Kong as a base for integrated manufacture and supply of educational equipment, toys and other Benesse products

Taiwan

- Benesse already offers *Kodomo Challenge* and *Shinkenzeni* Elementary School Courses (Enrollment as of April 2004: about 180,000 students) with profitability achieved in the year under review
- Expand peripheral businesses (English language courses with focus on infants and elementary school students)



In terms of growing sales, priority will be given to the East Asian region, particularly lucrative markets like Japan, China and South Korea.

Please tell us about Benesse's strategies for the senior market.

Q5

A As the Japanese population ages and the Long-term Care Insurance System becomes more widely used, demand for nursing care services will increase. As a leading provider of nursing care through nursing homes, we will continue to focus on nursing homes, combining this with strategies geared to individual customer segments. Last December, we added a high-end brand, *Aria* nursing homes. This fourth service brand joins our three existing nursing home brands: *Clara*, *Granny & Granda* and *Madoka*. As of the end of March 2004, we operated a total of 73 nursing homes, making us the leading private sector operator of nursing homes in Japan.

We plan to more than double the pace of nursing home openings from 12 in fiscal 2003, to 29 in fiscal 2004. Risk factors in this business are the availability of suitable locations and the acquisition of human resources. Successfully addressing these issues is the key to accelerating expansion without hurting the quality of service. In December 2003, we established Benesse Style Care Co., Ltd., thereby consolidating nursing care operations previously handled by three subsidiaries. On the service side, we are building closer alliances with medical facilities to provide high value-added services that give us a clear competitive advantage over competitors.

Please tell us more about strategies for the East Asian market.

Q6

A We have identified East Asia as the second most important market for the company after Japan. Consequently, we have started active expansion in this region. In Taiwan we already offer home study courses for infants and lower elementary school students. Enrollment had reached around 180,000 as of April 2004. We have also started marketing English language study materials. I am glad to report that operations in Taiwan moved into the black in fiscal 2003. Future expansion there will focus on infants and early elementary school children. China and South Korea are our next priority markets.

The rapid expansion of the Chinese economy is translating into increased demand for educational services. We are already moving into the market with *Kodomo Challenge*, infant preschool courses based on our popular tiger character, *Shimajiro*. The infant education market in China is believed to be at least as big as, if not bigger than, that of Japan. We recently completed negotiations with a partner for this market and hope to launch operations in China soon. We already have a presence in Hong Kong in the form of a subsidiary, Benesse Hong Kong Co., Ltd., established in December 2003 to purchase and provide educational tools and toys.

We established a subsidiary, Benesse Korea Co., Ltd., in South Korea in July 2004, and started marketing assessment materials to senior high school students. There is a strong demand for assessment materials in South Korea's educational services market and we want to fully leverage our position as the leading supplier of these materials in Japan to expand in South Korea.

The language instruction business also holds excellent potential. We have hitherto been slow in expanding in East Asian markets, but we see the region as offering excellent growth potential in view of the strong demand for language instruction. Berlitz will lead our expansion in the region.

To reiterate what I just said, the main thrust of our expansion will be in the *Kodomo Challenge* infant preschool courses, assessment materials, and language services.

Could you comment on Benesse's dividend policy?

Q7

A Our basic policy on returning profits to shareholders is to make a comprehensive judgment based on our financial results, investment plans and the dividend payout ratio. The comprehensive restructuring that we launched in fiscal 2003 is already yielding results on the operating front and we reported our first earnings growth in four years. In light of Benesse's performance in fiscal 2003 and to share more profit with our shareholders, we declared a year-end dividend of ¥25.5 per common share. This brings the annual dividend to ¥40.0, an ¥11.0 increase on the previous year. This represented a payout ratio on a consolidated basis of 44.3%.

We have so far not declared any goal for the payout ratio. However, from the year under review, we decided to more clearly define our dividend policy, setting a dividend payout ratio target of at least 35% to ensure the sustainable return of profits to shareholders. Going forward, we will continue to enhance capital efficiency.

In accordance with this policy, we expect to declare an annual dividend of ¥50.0 per common share in fiscal 2004, comprising a ¥25.0 interim dividend and ¥25.0 year-end dividend. This will be the second dividend increase in a row.

Benesse currently holds a large amount of cash. How do you plan to use these funds?

Q8

A Cash and cash equivalents on hand totaled approximately ¥100 billion as of the end of March 2004. Setting aside average operating expenses for three months, this still leaves liquidity of about ¥40 billion. We will be channeling these funds into three priority areas: education, language services and services for senior citizens. We are also seeking M&A opportunities in areas that promise growth. Another way to use these funds is to maintain the payout ratio at a minimum of 35% and implement a flexible financial strategy that will include a share buyback program, in order to enhance shareholder value.

In fiscal 2003, the repurchase of up to five million shares of stock to a maximum of ¥10 billion was authorized for the company's share buyback program. During the year, we repurchased 963,300 shares to a value of ¥2,059 million, representing 19.3% and 20.6% of the respective authorized limits.



Can you tell us about your approach to risk management and the measures Benesse is taking?

Q9

A We essentially run a membership-based business, so we have to handle a great deal of personal information. Naturally, we recognize our deep responsibilities in the management of this information and we constantly ensure that we deserve the trust our customers place in us. Based on this thinking, we are taking steps to comply with the enforcement of a law to protect personal information in Japan in fiscal 2005. In 1999, we set up a dedicated department charged with protecting personal information, and we have since established company-wide compliance, education and training systems. More recently, to assure the effectiveness of the overall structure, we set up a Privacy Protection Committee that has encompassed the entire organization since December 2002. An additional step was taken in April 2004 with the appointment of a Chief Privacy Officer (CPO).

Risk management is particularly relevant to our fast growing senior services business. Our clients are the elderly and we must take every care since the services we offer can potentially involve matters of life and death. With this awareness at the forefront, we must maintain a high level of awareness among employees and incorporate procedures into standard business practices to ensure a rapid response in the event of emergency.

Benesse continually strives to minimize risk arising from any lack of awareness and the actions of its employees.

What is Benesse's thinking on CSR?

Q10

A By consistently offering stakeholders unique value through our business activities—value that only Benesse can offer—we are aiming to be a company that contributes to society not only today, but also well into the future. This represents our fundamental thinking on corporate social responsibility (CSR).

When I talk about unique value, what I mean is high-quality products and services, and approaches that are always pioneering and innovative. By offering this value, we are striving to have a positive impact on people's lifestyles, ultimately helping all our customers "to live a better life." Our hope is that Benesse's innovative approaches will also create original lifestyles, opening the door to new business opportunities. This will allow us to boost profits and support the long-term and sustainable growth of the company.

Other important initiatives will support this approach to business development: corporate governance reform, compliance and risk management measures, human resources development, and efforts to protect the environment. In this way, we will continue to be a company that strives to meet the expectations of not just its customers, shareholders and employees, but also communities and society as a whole.

CORPORATE GOVERNANCE

Benesse has recognized that greater transparency and speed of decision-making, together with strengthened supervisory functions for management, were necessary if it was to successfully move ahead to achieve its corporate goals. An improved corporate governance system would support these goals.

Management Structure

Benesse introduced the Corporate Executive Officer System in April 2003. The new management structure comprises six directors, two of whom are independent directors, 14 Corporate Executive Officers, one of whom is also a director, five Group Executive Officers and four Statutory Auditors, three of whom are outside auditors. The COO is the only Corporate Executive Officer on the board. The new structure separates the supervisory and executive roles of management.

Decision-making Organization

The Headquarters Management Committee (HMC) chaired by the President and COO is the core decision-making body for implementing management policies and deciding important management issues. Company Management Committees (CMCs), comprising in-house company presidents (Corporate Executive Officers) and presidents of subsidiaries (Group Executive Officers), are the decision-making bodies for in-house companies

and major subsidiaries. Information on discussions and decisions carried out by these committees is disclosed to all parties concerned in order to ensure transparency of the decision-making process, with anyone permitted to attend the meetings, subject to approval of the chairman.

In fiscal 2003, the HMC held 23 meetings and CMCs met 24 times.

The Board of Directors, chaired by the Chairman and CEO, is responsible for making decisions on important management issues and for making decisions on issues that require Board of Director approval and supervision. By reducing the size of the board, we expect to improve the quality of discussions and accelerate the decision-making process. By appointing independent directors, we are bringing in outside opinions and improving management transparency.

The Board of Directors held 15 meetings in fiscal 2003.

In addition to the above, we have established a Business Ethics and Compliance Committee, a Compensation

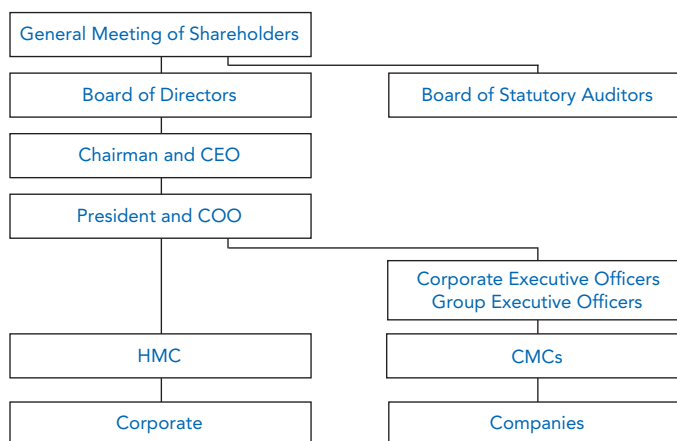
Committee, and a Privacy Protection Committee to assure effective management and supervision.

Audit System

Statutory auditors carry out strict internal audits by attending the meetings of the Board of Directors, receiving reports from Corporate Executive Officers, reviewing important documents such as resolutions and investigating operations in accordance with the guidelines set by the Board of Statutory Auditors, which includes three outside statutory auditors.

An Audit Office, established as an internal oversight organization, conducts internal audits to assess the effectiveness of internal control systems, compliance with laws and regulations and the adequate functioning of risk management of each division, including subsidiaries. The internal audits provide the basis for its reports, including recommendations for improvements.



CORPORATE GOVERNANCE SYSTEM



BOARD OF DIRECTORS, STATUTORY AUDITORS, CORPORATE EXECUTIVE OFFICERS, AND GROUP EXECUTIVE OFFICERS














As of June 25, 2004

Board of Directors and Statutory Auditors


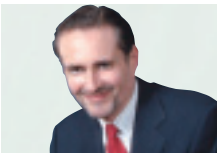



 Chairman and CEO Soichiro Fukutake	 Vice Chairman Makoto Sato	 President and COO Masayoshi Morimoto	 Director Kenjiro Kaneshiro	 Director* Tamotsu Adachi Managing Director, Japan Representative, The Carlyle Group
 Director* Hiroshi Matsumoto President, AlphaPurchase Co., Ltd.	 Standing Statutory Auditor** Toichiro Miyakawa	 Standing Statutory Auditor Kimie Sakuragi	 Statutory Auditor** Kazuo Ichikawa	 Statutory Auditor** Tomoji Wada Lawyer

*: Independent directors **: Outside statutory auditors

Corporate Executive Officers

 Corporate Senior Executive Vice President Tamotsu Fukushima President, Senior High School & Junior High School Education Company and Director, Headquarters Marketing Division	 Corporate Senior Executive Vice President Shigemi Asano President, Benesse Style Care Co., Ltd.	 Corporate Senior Executive Vice President Kenichi Fukuhara Vice President, Benesse Style Care Co., Ltd.	 Corporate Executive Vice President Akira Kataoka Director, Corporate Planning Division and Area Sales Promotion Division	 Corporate Executive Vice President Yoshinori Matsumoto Director, Personnel & General Affairs Division, Legal & Compliance Department, and Corporate Communication & Investor Relations Department
 Corporate Executive Vice President Yoji Shiraiishi Managing Director, Alliance with Up Inc.	 Corporate Executive Vice President Hiroaki Kawamura Director, Information Systems & Process, Infrastructure Management Division	 Corporate Executive Vice President Eiji Aketa President, School & Teacher Support Company	 Corporate Senior Vice President Kenji Nakajima General Manager, Kid's English Department	 Corporate Senior Vice President Naoto Sugiyama CFO
 Corporate Senior Vice President Daisuke Okada President, Elementary School Education Company	 Corporate Senior Vice President Haruna Okada President, Preschool Education Company	 Corporate Senior Vice President Masaaki Ito President, Women & Family Company		

Group Executive Officers

 Group Executive Officer Toru Noda President and CEO, Berlitz International, Inc.	 Group Executive Officer Mark Harris Chief Marketing Officer, Berlitz International, Inc., COO, Europe/Middle East Division and President and CEO, ELS Language Centers	 Group Executive Officer Kimiko Kunimasa Director, Benesse Style Care Co., Ltd.	 Group Executive Officer Takao Miyazawa President and CEO, Telemarketing Japan, Inc.	 Group Executive Officer Hisao Nose President, Synform Co., Ltd.
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CORPORATE SOCIAL RESPONSIBILITY

By offering stakeholders unique value through our business activities—value that only Benesse can offer—we are aiming to be a company that contributes to society not only today, but also well into the future. Below are just some of the steps we are taking towards this goal.

1. Building a robust and sound company

1. Corporate governance initiatives

In fiscal 2003, we introduced a Corporate Executive Officer System to clearly separate executive and supervisory functions. In addition, we have appointed independent directors, and set up a Headquarters Management Committee and Company Management Committees to enhance management transparency and clarify decision-making processes. These initiatives are part of active efforts to strengthen management and corporate governance at Benesse.

2. Initiatives on business ethics and compliance

(1) Establishment of a compliance system and compliance promotion

Benesse established an independent Risk Management & Compliance Promotion Section within the Legal & Compliance Department. The office works to promote compliance, including drawing up the Business Ethics and Compliance Rules.

(2) Establishment of ethical standards

In 2001, Benesse drew up the "Benesse Code of Corporate Conduct." This has been published in the form of a booklet that employees are asked to carry with them at all times.

(3) Establishment of an internal and external monitoring system

In 1999, Benesse established the Ethics Line, a confidential helpline for employees to anonymously report any potential transgressions of Benesse's ethical standards.

We have also been carrying out annual employee awareness surveys (GAMBA) since 1992 to measure the level of awareness of management policies, the accuracy of perceptions of management at the divisional and in-house company levels, and the degree of employee job satisfaction.

We combine the above with internal audits, business partner opinion surveys and internal and external systems for monitoring strict compliance with our standards for business ethics.

3. Risk management

We have implemented several measures designed to pre-empt the emergence of risk, including documentation rules and compliance training courses. Our Risk Management Handbook defines the crisis management procedures to be applied in cases of emergency. To assure that we can smoothly respond to emergencies, we conduct annual simulation training.

4. Promoting protection of personal information

In 1999, Benesse carefully defined policies about the protection of personal information. Among the measures it formulated are the drawing up of in-house guidelines on the protection of personal information and the establishment of an independent division responsible for personal information protection issues.

We followed up our commitment to personal information protection by establishing a Privacy Protection Committee in December 2002 and appointing a Chief Privacy Officer (CPO) in April 2004. The CPO is responsible for determining regulations and rules related to the protection of personal information, as well as estab-



Publications by Benesse Advanced Education Research Center



Child Research Net
(<http://www.childresearch.net/>)



Benesse House
©Tadasu Yamamoto

lishing a related compliance system and creating a company-wide education and training system.

We also strengthened our personal information protection systems following the promulgation of a law to protect personal information with measures that strive to precisely address the issue. This law is scheduled to come into force in fiscal 2005.

5. Personnel systems designed to support diversified and flexible employee work styles and activities, and allow female personnel to demonstrate their full capabilities

Benesse was the first company in Japan to introduce a Cafeteria Plan System, offering a menu of welfare services from which employees can choose those that suit their lifestyles. We have also introduced a range of other employee benefits and services. Programs include the Maternity Leave System; Nursing Care Leave System; a Blue Paper System, a system enabling employees to request transfers; and the Professional Development Point System, a financial support plan to aid professional development.

In 1999, Benesse became the first company to win the Family-Friendly Company Prize, a Minister of Health, Labor and Welfare award that recognizes corporate efforts to offer various welfare plans to employees that enable them to reconcile work commitments with child-rearing and care for elderly relatives, thereby achieving more diversified and flexible lifestyles.

These personnel initiatives support women's participation in the labor force. At present around 60% of our 1,517 em-

ployees are women. We are also actively appointing women to executive and director posts. Fully 30% of our directors and management executives are women. We are an equal opportunity employer in recruiting, training and promotions.

II. Corporate citizen initiatives

(1) Conducting surveys and studies on issues related to education trends and children

For more than 20 years, Benesse has carried out studies and research in this area. Two in-house research centers, the Benesse Advanced Education Research Center and the Benesse Educational Research Center, are currently responsible for carrying out surveys in the education field and for studying key public issues, particularly those involving children and education. We make the results of this research widely available to the public via publications and the Internet.

(2) Development and management of Benesse Art Site Naoshima

Benesse operates an art site on Naoshima, a small island in Japan's Inland Sea. The project is based on the concept of integrating lifestyles with modern art, architecture and nature. The site includes an integrated art museum and hotel called Benesse House, as well as the Naoshima International Camping Ground, and the Art House Project in Naoshima, which fuses modern art with the traditional style of Naoshima's historic houses. As many as 40,000 people from around the world visit

Benesse Art Site Naoshima every year.

In addition to the above, we conduct a range of social activities, with a focus on education and culture:

- We provide financial support for the Child Research Net (CRN), an organization engaged in research into child-related issues
(URL: <http://www.childresearch.net/>)
- Benesse contributes to the development of science, culture and education by supporting the Fukutake Science and Culture Foundation, Fukutake Education Foundation and the Fukutake Culture Foundation.
- The Okayama Head Office (Okayama City) and the Tokyo Headquarters (Tama City) participate actively in social activities in the cities in which they are located.

III. Contributing to environmental protection

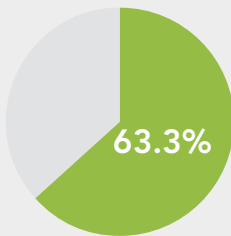
Benesse recognizes that contributing to environmental protection is an important corporate responsibility, all the more so because environmental issues are becoming more serious. In April 2004, we started a company-wide drive to prepare for obtaining ISO14001 certification in the publishing industry category.

Our current focus in this area is to reduce consumption of raw materials, reduce waste, and promote the use of recycled products. By moving environmental protection to the core of management decision-making we aim to become even more committed to the ongoing protection of the environment.

BUSINESS ACTIVITIES EDUCATION GROUP

Growing Confidence

SEGMENT SALES TO TOTAL SALES



The Education Group has a comprehensive range of products and services that meet out-of-school education needs and provide support for schools and teachers. In the former, Benesse focuses on *Shinken zemi* and *Kodomo Challenge*, which together enable Benesse to offer home study correspondence courses for children of all ages. *Shinken Simulated Exams*, mock university entrance examinations for high school students, are Benesse's mainstay product in the school support field. The education market is undergoing unprecedented change due to a raft of educational reforms, globalization, and the impact of IT innovations. In response, the Education Group will expand its product lineup to accurately meet the diversifying and individual needs of students and teachers.

Overview

1. Off-campus education

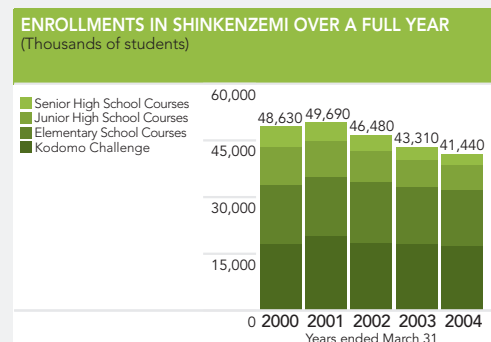
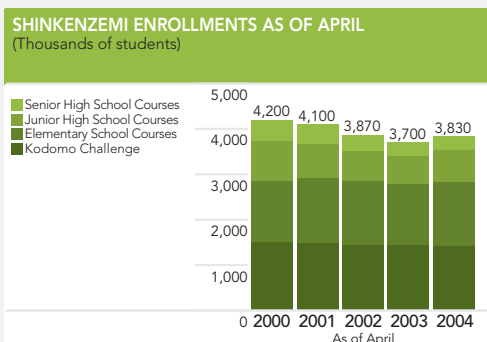
Benesse is Japan's largest private education company offering an extensive range of home study correspondence courses for the out-of-school education market. With *Kodomo Challenge*, we provide courses for toddlers aged from six months to six years, and with *Shinken zemi*, we offer correspondence courses from the first year of elementary school through to the third and final year of senior high school. Combined, we provide a total of 18 high-quality correspondence courses covering all age groups.



Kodomo Challenge

Correspondence course enrollment recovers

In our mainstay *Shinken zemi* home study correspondence courses, we began a far-reaching review of course materials from the year under review to enhance the competitiveness of the product lineup. In particular, new materials for Upper Elementary, Junior and Senior High School courses were launched designed for individual academic abilities. This enabled the group to offer services carefully tailored to the increasingly diverse learning needs of the market. Initiatives were also taken to bolster marketing. In addition to the traditional focus on direct-mail (DM) marketing approaches, we began using other marketing tools such



as TV commercials and the Internet in an attempt to reach potential customers through a wider range of media channels. "Ideal for helping students pass entrance examinations" and "Optimized to individual student capabilities," were the key messages of marketing campaigns for *Shinkenzemi* courses during the year. Despite beginning the year from a lower starting point in terms of enrollment, which dragged full-year cumulative enrollment figures down, particularly in Senior High School Courses, the benefits of these initiatives began to emerge in the second half of the year with a rebound in student numbers.

This recovery was illustrated by enrollment figures. As of April 2004, total enrollment in all our home study correspondence courses stood at 3.83 million, 3.5% higher than the 3.70 million students at the same point in the previous year. This strong growth was primarily due to a marked increase in the high volume Elementary and Junior High School courses, and success in halting the decline in Senior High School Courses during the year under review.

Expanding peripheral businesses

In a move to sustain enrollment growth and boost sales per student, we focused on driving expansion in peripheral products, centered on *Kodomo Challenge* and *Shinkenzemi* Elementary School Courses.

In *Kodomo Challenge*, we steadily

rolled out *Preschool English Courses* from January 2003, a range of English courses that use picture books and dedicated electronic learning materials. As of March 31, 2004, combined membership in these courses for 4-5 year old children and 5-6 year old children totaled 68,000. During the year, we also launched *Kodomo Challenge every*, a line of high-quality everyday items such as shoes, umbrellas and bicycles designed to grow with children as they develop, and *Kodomo Challenge Picture Books*, a collection of high quality picture books for infants. Sales of both these *Kodomo Challenge* products are running well ahead of projections.

In the elementary school student market, we offer *BE-GO*, a computer and Internet-based self-study English language course, and in July 2003, we launched *Korasho English Courses*, English learning materials for elementary school students that use characters from *Shinkenzemi* Elementary School Courses. Membership in both these courses is growing steadily.

2. Support services for schools

With *Shinken Simulated Exams* and other products, we provide comprehensive support services for schools, including on-site backup for teachers giving career and academic counseling to students. Benesse has an overwhelmingly strong position in the senior high school market, and counted 4,238 out of the 5,450

senior high schools in Japan among its clients during the year, representing a penetration rate of 77.8%. As educational reforms are implemented, teachers are being given more discretion in the classroom environment. Benesse sees this as an opportunity to leverage its know-how accumulated in school support services to meet the diversifying needs of teachers by launching new products and services.

Strong performances in all school markets

During fiscal 2003, the Education Group recorded higher unit sales of *Shinken Simulated Exams*, our mainstay product in this field for high school students, and *Study Support*, a learning assessment study aid, despite a declining student population. The number of students who took *Shinken Simulated Exams* and other Benesse tests during the year under review rose to a cumulative 5.63 million, making our simulated tests the market leader in Japan. Furthermore, there was a strong increase in sales of other products: *Course Map*, which tests aptitude and basic academic ability to help students choose their ideal educational or professional career; multimedia educational materials used during elementary and junior high school lessons; and field trips planned in cooperation with travel agencies.



Shinkenizemi Middle Elementary School Courses



Shinkenizemi courses for students at elite combined private junior and senior high schools



Kodomo Challenge every

Strategy

Holding onto customers with courses that meet individual student needs

In fiscal 2003, we introduced courses tailored to students with different levels of academic ability, allowing members to pick courses as they progress. In this way, we are upgrading our product and service lineup to ensure that *Shinkenizemi* courses better address the needs of individual students.

Initiatives we are rolling out in fiscal 2004 include:

Enhanced assessment of student progress in Senior High School Courses

In courses for senior high school students, we are now able to offer products that match individual student progress in school coursework. In addition to upgrading the level of content we provide, we are also enhancing our ability to assess the pace of classwork by increasing our nationwide coverage to almost all high schools in Japan. This is enabling us to significantly increase the types of progress we monitor, giving us more information to more accurately tailor courses to individual needs.

We are also taking steps in the assessment field to upgrade our services. Specifically, we have started offering on-demand sample questions designed to address the weak points of a student, and launched an

advisory service to help users get the best from our educational materials.

Expanding the range of courses tailored to academic ability

In fiscal 2003, we renewed our course materials, mainly from *Shinkenizemi* Senior High School Courses down to Upper Elementary School Courses, with a focus on providing materials for individual student's academic abilities. In fiscal 2004, we are extending this course material renewal program to cover *Shinkenizemi* Middle Elementary School Courses.

Expanding the service menu with *Shinkenizemi + α*

In fiscal 2003, we started *Classroom Learning* services for students enrolled in our *Shinkenizemi* Elementary School Courses. This classroom-based education is designed to help students who are finding it hard to gain the maximum benefit from the home study approach. Classroom instruction enhances knowledge of the subject and motivates students, which in turn encourages these students to continue taking *Shinkenizemi* courses. As of March 31, 2004, we had 10 classrooms up and running, and plans call for full-fledged expansion to bring the network to 250 classrooms by the end of March 2005.

In order to satisfy diversifying student needs, we are also develop-

ing optional educational materials. In fiscal 2003, we launched workbooks focusing on subjects that students in Junior High School Courses traditionally have difficulty with, and in fiscal 2004, we launched study development workbooks targeting students in higher grading bands and enrolled in Elementary School Courses. Going forward, we will continue to expand our service menu with optional study materials that meet student needs.

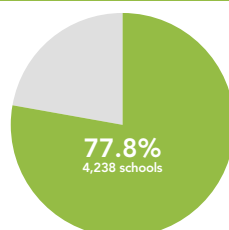
Building our presence in new market segments

Leveraging our wealth of education data and our library of content, we rolled out a new *Shinkenizemi* courses for students at elite combined private junior and senior high schools. Until now, our courses have been largely targeted at public junior and senior high schools, but by extending them to elite combined private schools, we are expanding our customer base and raising the visibility of the *Shinkenizemi* brand in the entrance examination market.

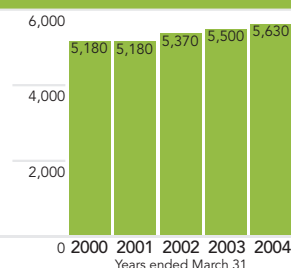
Students attending combined private junior and senior high schools that do not require students to pass an entrance examination to advance to high school, usually complete their entire six-year course of study in five years. This leaves a full year to focus on coursework oriented to passing university entrance examinations. Our new course is specifically designed to keep in step with the fast pace of



Shinken Simulated Exams

PERCENTAGE OF CLIENT HIGH SCHOOLS TO TOTAL HIGH SCHOOLS IN JAPAN


Year ended March 31, 2004

NUMBER OF STUDENTS TAKING SHINKEN SIMULATED EXAMS AND OTHER EXAMS (Thousands)


Years ended March 31

coursework at these schools. Although we will initially only offer *Shinkenzeni* courses for first-year students at elite combined private junior and senior high schools in fiscal 2004, we plan to gradually expand coverage to students in their final year of senior high school.

In fiscal 2004, we also added a new high-level workbook for existing Senior High School Course students with strong academic abilities. Based on these initiatives, targeting schools where the pace of academic progress is rapid, we are steadily improving our ability to meet the needs of students attending elite private schools.

Expanding peripheral businesses

The Education Group, until fiscal 2003, primarily focused on selling peripheral products to existing *Shinkenzeni* students. However, by using retail sales, web-based mail-order sales and other channels we are now beginning to capture demand from customers not enrolled in *Shinkenzeni* and other courses.

Examples of the kind of approach we are taking include the launch of mobile phone site *i-Shimajiro* in June 2004, themed around *Shimajiro*, a popular tiger character featured in materials for *Kodomo Challenge*. And we are steadily expanding our range of everyday items for children, called *Kodomo Challenge every*. In another initiative in May 2004, we added an introductory course to our existing

Korasho English Courses for beginners.

Going forward, we will continue to grow sales by expanding our product line and adding new sales channels.

Strengthening marketing capabilities with a media-mix strategy

Aware of the importance of dynamic marketing, we are developing a range of marketing tools that integrate our direct-mail (DM) approach with multimedia marketing tools, such as TV commercials, the Internet and locally based marketing. Starting in fiscal 2004, we are implementing a company-wide Customer Relationship Management and Continuous Relationship Management strategy, reducing our dependence on DM marketing, and at the same time cultivating new marketing channels. These strategies are being rolled out by a newly established Headquarters Marketing Division and an Area Sales Promotion Division, which are working closely to strengthen Benesse's overall marketing capabilities.

Full-fledged entry into the higher education market

There is growing competition among universities to attract students, due to the falling birthrate in Japan that has made it easier for students to win university places. In response, universities will have to be better prepared to provide career counseling, and will only be able to bring in students by becoming more attractive places to study.

Demand for services to support such initiatives is rising. As part of our moves into this promising market, we consolidated affiliate Shinken-AD Co., Ltd. into the Group in October 2003. This company primarily provides advertising services to attract prospective students to enter higher education institutions.

Shinken-AD counts around 600 of Japan's universities among its clients, some 85% of the market. This is an opportunity for us to leverage the academic and career counseling expertise accumulated during our years in the high school market. By combining these strengths with the marketing know-how and information assets of Shinken-AD, we plan to enhance our preparatory courses for students about to enter university and career advice services for university students, to create a comprehensive support menu for the tertiary education market.

Consolidated subsidiaries

Shinken-AD Co., Ltd.
 Plandit Co., Ltd.
 Benesse Music Publishing Co.
 Learn-S Co., Ltd.
 Benesse Base-Com, Inc.
 Shinken Advertising (New York), Inc.
 IPU Corporation, Ltd.
 Benesse Hong Kong Co., Ltd.

A LOOK AT EDUCATION TRENDS IN JAPAN

Recent reforms have brought significant change to Japan's education system, particularly the introduction of the new curriculum guidelines outlined in 2002's New Course of Study. In this section we will look at recent trends in education policy in Japan and discuss how our clients—the children and their parents—view these changes, as revealed by a survey carried out by the Benesse Advanced Education Research Center. In our opinion, the present changes create unprecedented opportunities for the private education sector. In the final section we will discuss how our business is affected by changes in the role of public education and the perceptions of our customers.

(1) Changes in Japan's education system: from a system that gives more free time to students to one focused on enhancing academic capabilities

The round of reforms from 1968 through 1970 introduced curriculum guidelines for raising the academic level of students. The primary objective was to build up the human resources necessary to support Japan's high economic growth rate, cope with advances in science and technology and maintain Japan's heightening profile in the world. However, a system based on rote learning also generated social problems from the 1980s, among them an increasing number of students refusing to attend school, misconduct, classroom violence and bullying. In 2002, the Ministry of Education, Culture, Sports, Science and Technology responded by changing the emphasis in education from rote learning to giving students more free time, a move taken in the hope of nurturing motivated and open minded individuals.

The culmination of this approach were reforms highlighted by (1) reductions of textbook content by around 30%; (2) a two-day weekend to give students more free time; and (3) the go ahead for a progressive roll-out of lessons that went beyond the core curriculum.

However, these reforms provoked widespread public debate and serious concerns about an overall decline in children's academic abilities. In Japan, public schools account for 99% of elementary schools, 93% of junior high schools and 76% of senior high schools. Concerns rose about the quality of public-school education, particularly in big cities. As a result, the limited number of elite private schools in Japan have become more popular. As is evident from Figure 1, parents are increasingly concerned that they will have to supplement school education with private tuition.

The Ministry of Education, Culture, Sports, Science and Technology sought

to address these widespread concerns through a partial policy change, moving away from a system that gave more free time to students and redefining the goal as raising the academic level of students. In the past one to two years, the ministry has encouraged more homework and supplementary lessons, promoted lessons to match the academic abilities of students and increased the number of teachers. However, schools in some areas were ill prepared for sudden changes in policy and lacked funding. Results in some regions have fallen short of expectations.

These changes come amidst the transfer of authority to local authorities. Responsibility for matters related to school management is gradually being transferred from the central government to local school boards. There is strong belief in Japan that a centrally controlled education system best serves the interests of education. Absence of a clear uniform direction is causing confusion at a time

Figure 1: MAJOR CONCERNS RELATED TO CHILDREN'S EDUCATION
Feel concerned about the future of my child unless he/she receives supplementary education or attends a cram school

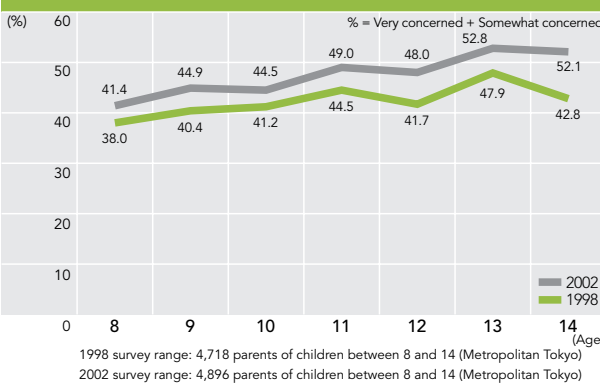
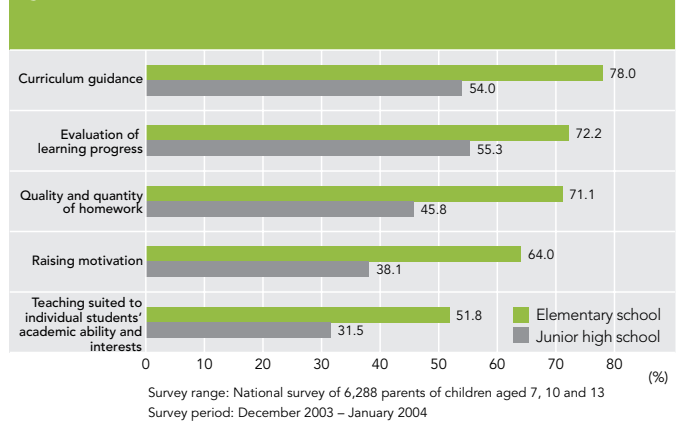


Figure 2: SCHOOL EDUCATION SATISFACTION LEVEL



when Japan's education system is experiencing profound changes.

(2) Changes in thinking among children and parents – from uniformity to diversity

What is the parents' response to all the confusion about school education? Figure 2 shows the level of their satisfaction with schools' responses to change. It is evident that parents of junior high school students are much less satisfied with educational guidance than the parents of elementary school students. The percentage of parents of elementary school children who believe the current system offers teaching suited to their child's academic ability and interests is 51.8%, while the figure for parents of junior high school students is 31.5%. This indicates that many parents feel that public schools fail to sufficiently address the educational needs of their children. As a result, around 80% of elementary and junior high school students take additional educational programs or attend cram schools.

This does not mean that all parents are unsatisfied with public education and are spending more on private education. In fact, spending on education per child has been static for several years and the main change is that spending patterns are fragmenting, with some parents prepared to pay extra, and others not. Parents concerned about their children's education are increasing spending on private education while those who are not par-

ticularly concerned are cutting back, as shown in Figure 3. For private educational service operators like Benesse, it is therefore important to be able to identify concerned parents and understand how best to approach them.

Schools used to start to teach English in the first year of junior high school, when students are aged 12. Today, there is growing interest in an earlier start to English-language instruction (Figure 4), even at the infant or early elementary-school level. A growing number of parents feel that, as Japan internationalizes, their children will be disadvantaged in academic and professional careers if they do not understand a foreign language. It is important for Benesse to pinpoint educational fields in which demand will grow.

So far both children and their parents have looked to private education to acquire the knowledge and examination-taking techniques necessary to pass entrance examinations. This basic need is unlikely to change but a greater awareness of the need for other content is already emerging. At the same time, parents are demanding that instruction should not be uniform for all students; instead, the emphasis should be on designing courses suited for the academic ability and the characteristics of individual students. The ability to provide educational instruction suited to the academic ability and interest of individual students, something public schools are ill prepared to do, will be the

key to success in private education.

(3) Outlook for the private-education sector

As explained previously, the confusion over public education has raised concerns about public education among some parents, and they are looking for extra-curricular education. It is important to precisely identify the needs of parents anxious to improve their children's education, and supply products and services to meet these needs.

Moreover, parents' attitudes and children's needs are also diversifying, creating a need to supply content and to develop teaching methods that suit the needs of individual students. In response, Benesse is creating a range of new content that supports all needs related to bringing up children and their career counseling, and is adding this to its educational materials focused on raising the academic ability of students. Of course, content development alone is not enough. We must also develop channels that will support us in delivering this content at affordable prices. Benesse is developing ICT (Information and Communications Technology) -based teaching methods. We are convinced that an adequate response to the diversifying needs for content and educational methodology is the prerequisite for success in the education business.

Figure 3: MONTHLY SPENDING ON EDUCATION BY LEVEL OF CONCERN
Feel concerned about the future of my child unless he/she receives supplementary education or attends a cram school

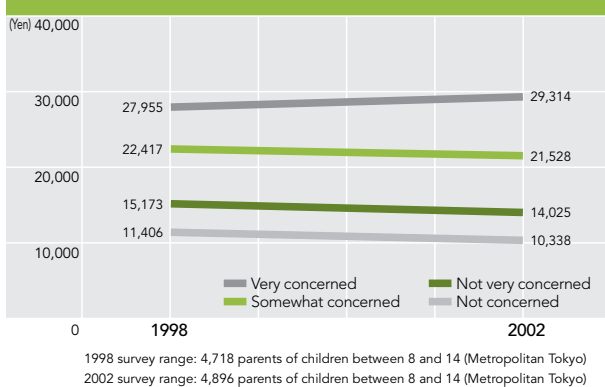
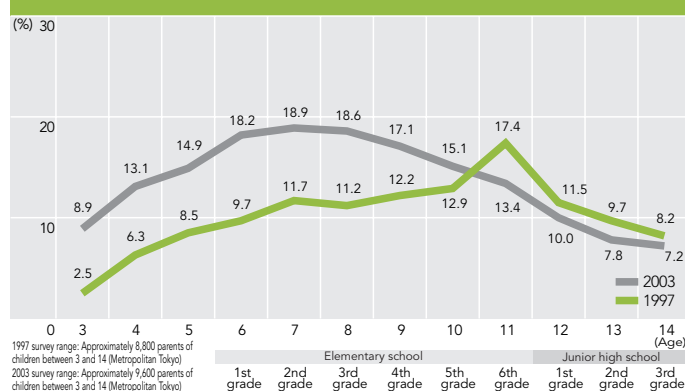


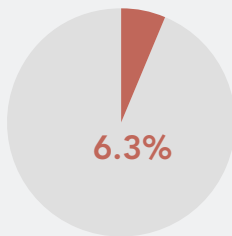
Figure 4: PERCENTAGE OF CHILDREN ATTENDING PRIVATE ENGLISH LANGUAGE SCHOOLS



BUSINESS ACTIVITIES WOMEN & FAMILY COMPANY

Growing Lifestyles

SEGMENT SALES TO TOTAL SALES



The core operations of the Women & Family (W&F) Company are the publication of magazines, mail order services, foodstuff delivery services and the operation of websites, all supporting women to get involved in society and pursue their chosen lifestyles, often while maintaining households and rearing children.

Overview

The W&F Company maintained robust sales of *Tamago Club* and *Hiyoko Club*, magazines for expectant mothers and mothers of young children respectively, and of the lifestyle information magazine *THANK YOU!* In addition, we increased circulation of *DOG'S HEART*, a direct-sales magazine targeting families with pet dogs launched in the previous fiscal year, and the *Benesse Food Delivery Service* operated by Benesse en-Famille Inc. saw substantial increases in subscribers and users, moving it into the black. The W&F Company launched a new direct-sales magazine, *Hand & Heart*, with an editorial focus on crafts and hobbies.

While expanding businesses where we saw opportunities, we did not hesitate to close down unprofitable operations. We withdrew from the travel agency business, liquidating subsidiary Benesse Cross World, Inc., and ended the publication of two direct-sales magazines *Aile for You* and *Great New Places*, as well as

our mail-order catalog *Benemo*. These moves largely completed a series of initiatives to discontinue unprofitable operations

Review of operations

Magazines for mothers and mothers-to-be

Services focus on pregnancy, child-birth and childcare magazines: *Tamago Club*, *Hiyoko Club* and *Tamahiyoko Kokko Club*, primarily for women in their twenties and thirties. As of March 2004, *Tamago Club* had a circulation of 260,000, *Hiyoko Club* 360,000 and *Tamahiyoko Kokko Club* 200,000. *Tamago Club* and *Hiyoko Club* are the leading magazines in their respective sectors, accounting for more than 70% of the market share. Both magazines have won popularity by promoting reader participation. Businesses associated with magazine publication, including *Tamahiyoko SHOP*, a mail-order service focusing on childcare goods, also expanded favorably.



Tamago Club, Hiyoko Club, Tamahiyo Kokko Club



DOG'S HEART



bon merci! little

Lifestyle magazine

Circulation numbers for the information magazine on housekeeping and lifestyles for housewives, *THANK YOU!*, saw a substantial increase from March 2003, up by 40,000 to 520,000 as of March 2004. We also continued to publish the *mook** series of books on cooking, storage of household items and other subjects.

*A book-magazine hybrid

Family diet and health magazines

The company publishes *bon merci! little*, a direct-sales magazine that features food and health issues for families with toddlers (aged three to six) and *bon merci! school*, a magazine for families with elementary school children.

These titles are published on a membership basis and the combined membership as of March 2004 stood at 220,000.

Pet magazine

The company publishes *DOG'S HEART*, a magazine for people with dogs. The magazine covers a range of subjects of interest to dog owners, from training to grooming. The magazine also includes supplements providing information on available presents. In addition, Benesse provides a consultation service on pet issues, markets dog goods through a mail order service, and operates an Internet portal site. Membership as of March 2004 had risen to 150,000.

Food delivery service

Benesse en-Famille Inc., a joint venture with a leading food delivery company Taihei Co., Ltd., operates a food delivery service that provides daily changing menus for families with toddlers. Excluding some areas, the service is available in 30 Japanese prefectures and membership is growing steadily.

Benesse Women's Park

Benesse Women's Park is a free, female members-only Internet portal site operated by Benesse. Membership as of March 2004 stood at 365,000, making it the top portal site for women in Japan, including in terms of the high number of people accessing the site (based on a March 2004 survey by NetRatings). The Internet portal site allows members to exchange information and is rich in content, providing information on childcare and family life in coordination with other magazines published by Benesse. It also has a message board, an e-friend site, and a recycled products exchange function. It encourages greater communication among like-minded women.

W&F Company Magazines and Others

		(Circulation: Thousands)			
Average Monthly Circulations	Years ended March 31	2004	2003	2002	2001
<i>Tamago Club</i>		260	260	260	260
<i>Hiyoko Club</i>		360	360	320	320
<i>Tamahiyo Kokko Club</i>		200	200	200	200
<i>THANK YOU!</i>		520	480	430	430
		(Subscribers: Thousands)			
Subscriptions	As of March				
<i>bon merci!</i>		220	220	190	85
<i>Benesse Women's Park</i>		365	261	172	61
<i>DOG'S HEART</i>		150	92	-	-

Strategy

Quickly moving into the black

In fiscal 2003, the W&F Company withdrew from four businesses in an effort to boost profitability. Plans call for making the company profitable and propelling it onto a growth track, with the goal of achieving ¥1,000 million in operating income in fiscal 2006.

The four major initiatives toward this goal are:

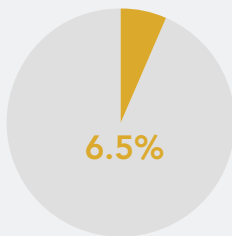
- (1) Maintain profitability in *Tamago Club*, *Hiyoko Club* and *THANK YOU!* operations.
- (2) Further expand *DOG'S HEART* and food delivery services.
- (3) Quickly move *bon merci!*, *Hand & Heart* and *Benesse Women's Park* operations into the black.
- (4) Diversify into other potential growth areas.

Consolidated subsidiary

Benesse en-Famille Inc.

Growing Comfort

SEGMENT SALES TO TOTAL SALES



Centered on Benesse Style Care Co., Ltd., the Senior Company operates nursing homes for the elderly. It also provides home help services, training courses and human resources services.

Overview

1. Nursing homes

Benesse Style Care Co., Ltd. manages nursing homes for the elderly in Japan under four different brands : *Aria*, *Clara*, *Granny & Granda*, and *Madoka*.

Benesse Style Care is the leading company in this sector in Japan, both in terms of revenue and the number of nursing homes in its network.

Three consolidated subsidiaries merged to form Benesse Style Care

Benesse Style Care Co., Ltd. was established in December 2003 through the merger of three consolidated subsidiaries: Benesse Care Corporation, Benesse Senior Style Corp., and Shinkoukai Co., Ltd.

The consolidation of business under a single roof is expected to accelerate business expansion. Unified operations will make it easier to clarify and strengthen individual brand strategies for each line of nursing homes. Consolidated operation will enhance marketing efficiency, and raise man-

agement efficiency by speeding up decision-making and other management processes.

Benesse launches high-end nursing home brand – *Aria*

Benesse Style Care originally operated three brands of nursing homes: *Clara*, *Granny & Granda*, mid-range nursing homes, and *Madoka*, a lower-end nursing home. The high-end brand *Aria*, added in December 2003, emphasizes on-site medical attention and includes a 24-hour nurse station in the home. We plan to open *Aria* nursing homes in midtown districts, areas where incomes are relatively high and there is a strong need for nursing homes. The first two homes opened recently have got off to a smooth start.

Number of nursing homes and residents increasing steadily

As of the end of March 2004, the Senior Company operated a total of 73 homes, an increase of 12 from a year earlier. The number of residents



Clara nursing home resident and staff



Benesse Home Madoka Higashi Kasai

in our new homes is rising steadily and the occupancy rate, including new nursing homes, currently exceeds 90%.

2. Home help services

As of the end of March 2004, 16 Benesse Nursing Care Centers and three Benesse Day Care Centers offered home help services, including care plan management, home nursing care, and day care.

3. Training courses and human resources services

Benesse endeavors to nurture skilled home-helpers and to offer high-quality care in nursing-related fields through its *Home-Helper Level-Two Training Course*. Courses are offered at 13 locations throughout Japan.

Our consolidated subsidiary Benesse MCM Corp. offers human resources and temporary help services in the medical, healthcare, nursing and nursing care fields.

business in a single organization. The addition of *Aria*, a new high-end nursing home brand, has created a lineup of four brands. The different brands allow interested seniors to choose from a wide variety of services. Plans for expanding the network initially place the primary focus on the high-end *Aria* brand and the lower-end *Madoka* brand.

Differentiation from competitors through services

In addition to expanding our nursing home network we are also focusing on improving the quality of our services in a bid to clearly differentiate ourselves from our competitors. To do this, we will more clearly define the services we offer through each of our four brands, while strengthening human resources development to train the skilled staff necessary to support our services. Plans also call for strengthening alliances with medical institutions to offer higher value-added services.

Consolidated subsidiaries

Benesse Style Care Co., Ltd.
Benesse MCM Corp.

Strategy

Accelerating network expansion

As of the end of March 2004, the Senior Company operated a total of 73 nursing homes, making it the leading nursing home operator in Japan. Benesse Style Care was established in December 2003, achieving the consolidation of Benesse's nursing-care

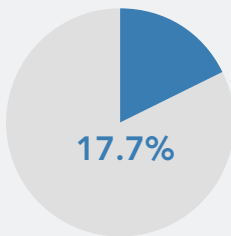
Number of Homes by Brand

As of March 31

	2004	2003	2002	2001	2000
<i>Aria</i>	2	—	—	—	—
<i>Clara</i>	33	29	22	12	3
<i>Granny & Granda</i>	35	31	25	18	—
<i>Madoka</i>	3	1	—	—	—
Total	73	61	47	30	3

Growing Careers

SEGMENT SALES TO TOTAL SALES



The Language Company offers language instruction, translation and interpretation services, mainly through two consolidated subsidiaries, Berlitz International, Inc. and Simul International, Inc. In September 2003, the Language Company also launched its *Global Test of English Communication (GTEC)*, a new online test that evaluates business English communication skills.

Overview

1. Berlitz International, Inc.

Berlitz is the world's largest language education company, operating 518 language centers in 67 countries and regions as of December 2003. In addition to its core language education business, Berlitz also provides support for students wishing to study in the U.S. through its ELS Language Centers brand.

Slight rise in the number of lessons

In the year to December 2003, the number of lessons taken at worldwide Berlitz language centers increased by 74,000 year on year, to 6.22 million lessons, due in part to the expansion of the language center network in Japan.

Strong expansion in Japan

With an eye on robust growth in demand for language services in Japan, the Benesse Group has positioned the country as a priority mar-

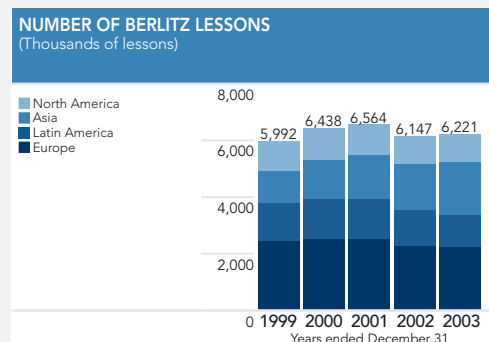
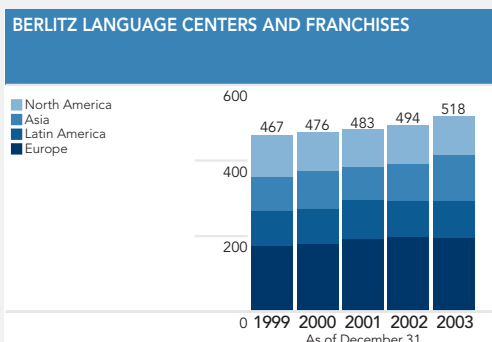
ket. Expansion of the language center network in Japan is currently under way. Berlitz added 19 language centers in the year to December 2003, bringing the total number of centers in the network to 86. Benefiting from this active expansion, the number of lessons taken in Japan increased by 220,000 to 1.53 million.

2. Simul International, Inc.

Founded in 1965, Simul International provides high-quality interpretation, translation and other services to government agencies, business associations and corporations in support of their international communications. With its primary focus on the interpretation business, Simul operates the Simul Academy to train professional interpreters and translators, and provides language instruction to corporations and associations.



Lesson at Berlitz Language Center in Japan



3. Global Test of English Communication (GTEC)

GTEC is a new type of online test designed by Benesse to evaluate all-round English language ability for the business environment. It assesses and measures active speaking and writing skills, as well as passive listening and reading ability. The service is powered by a highly accurate proprietary system that uses item response theory (IRT) to rapidly match test questions with individual student abilities. Launched in September 2003, the test was in use at 150 corporations by the end of April 2004.

Strategy

Fundamental restructuring of Berlitz International

In July 2003, the Benesse Group appointed a new Berlitz president. He has carried out a comprehensive review of the company's management framework, and is now implementing fundamental business restructuring to lift the company into a phase of renewed revenue and earnings growth. The reforms will primarily focus on decentralizing operations. Specifically, the functions of the head office in Princeton, U.S. are being significantly streamlined, and global operations are to be managed by a network of three regional head offices covering

North and South America, Europe and Asia. Substantial authority for activities in these regions has also been transferred to these regional head offices. This change is allowing Berlitz to shift away from an approach based on the provision of identical services and uniform instruction in all its global markets, to one where services and instruction methods are more accurately tailored to local needs and characteristics. In addition, some Princeton head office functions, particularly strategic planning, are being moved to Tokyo, allowing Benesse to further strengthen corporate governance at Berlitz.

In parallel with these changes, steps will be taken to introduce a new IT-based data management system and expand into the online learning business.

Dynamic expansion in Japan and East Asia (China and South Korea)

Berlitz will continue to focus on

growing its language education business in Japan, while also expanding its East Asian network to meet similar growing needs for language services in the region.

Using GTEC to move into new business areas

Benesse will actively promote GTEC and seek to position it as the de facto standard for testing business English communication skills. As GTEC wins broader acceptance, Benesse hopes to use it as tool to expand demand for language education services from corporations and educational institutions and increase enrollment at Berlitz language centers.

Consolidated subsidiaries

Berlitz International, Inc.
Simul International, Inc.
Okayama Language Center
Simul Business Communications, Inc.
Simul Technical Communications, Inc.



Berlitz Language Center in Shinagawa (Tokyo), Japan



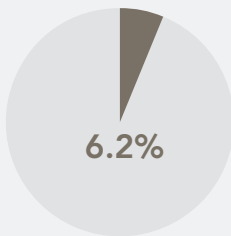
GTEC

BUSINESS ACTIVITIES OTHERS



A Telemarketing Japan call center

SEGMENT SALES TO TOTAL SALES



As of March 31, 2004, Benesse had 13 subsidiaries in this segment, most of them specialists in services essential to the development of the parent company. Many of these group companies were formed when Benesse spun-off its specialized operations to create independent entities. The companies include Telemarketing Japan, Inc., a call center outsourcing service firm, and Synform Co., Ltd., a computer systems development firm.

Telemarketing Japan

Telemarketing Japan was established in 1992 when Benesse spun-off its call center services for *Shinkenzemi*. Sales in the fiscal year ended March 2004 rose 15.9% year-on-year to ¥18,770 million. Telemarketing Japan has evolved into a multi-channel communications service firm connecting businesses with their customers following the emergence of the Internet and mobile phones. Its call centers provide a full range of services and support businesses in operations as diverse as the development and implementation of CRM strategies to mobile marketing. The company's sales and profit are growing rapidly, supported by state-of-the-art systems and advanced technologies.

Backed by a strong presence in telecommunications, insurance, securities and other sectors, external sales are likely to account for 74% of

total sales in the fiscal year ended March 2004.

Synform

Synform provides a range of IT services, from building customer databases for *Shinkenzemi* home study courses to maintaining and operating the Benesse Group's IT systems. Leveraging the advanced know-how and technology acquired in-house, Synform is now venturing outside the Group to offer computer-system development and operation services for non-Group organizations.

Consolidated subsidiaries (total of 13 subsidiaries)

Telemarketing Japan, Inc.
Synform Co., Ltd.
Carry Com Co., Ltd.
Persons Inc.

FINANCIAL SECTION

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SIX-YEAR SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

Benesse Corporation and Consolidated Subsidiaries

Years ended March 31	Millions of Yen					
	2004	2003	2002	2001	2000	1999
FOR THE YEAR:						
Net Sales	¥260,142	¥258,289	¥267,250	¥262,948	¥260,964	¥259,852
Cost of Sales	125,312	133,223	128,382	123,766	120,687	120,698
Selling, General and Administrative Expenses	114,128	108,749	114,279	108,904	107,323	108,173
Operating Income	20,702	16,317	24,589	30,278	32,954	30,981
Income before Income Taxes, Minority Interests and Impairment Loss on Goodwill	17,251	14,446	24,195	29,985	29,746	31,501
Income Taxes	7,628	7,553	11,693	13,940	13,783	15,483
Impairment Loss on Goodwill	—	—	13,195	—	—	—
Net Income	9,394	6,973	327	16,498	16,413	16,036
Capital Expenditures	¥ 9,851	¥ 8,046	¥ 10,934	¥ 11,275	¥ 11,105	¥ 5,416
Depreciation and Amortization	7,820	8,572	10,700	9,609	9,199	8,841
Yen						
PER SHARE OF COMMON STOCK:						
Net Income	¥ 88	¥ 65	¥ 2	¥ 153	¥ 309	¥ 302
Retroactively Adjusted	88	65	2	153	154	151
Cash Dividends Applicable to the Year	40	29	29	29	58	48
Retroactively Adjusted	40	29	29	29	29	24
Millions of Yen						
AT YEAR-END:						
Total Assets	¥292,100	¥275,516	¥291,393	¥309,261	¥297,828	¥280,620
Shareholders' Equity	170,781	169,428	171,826	170,011	160,302	146,933
Yen						
Shareholders' Equity						
per Share of Common Stock	¥ 1,641	¥ 1,612	¥ 1,616	¥ 1,599	¥ 3,015	¥ 2,763
Retroactively Adjusted	1,641	1,612	1,616	1,599	1,507	1,382
Number of Shares of Common Stock Issued (in thousands)	106,353	106,353	106,353	106,353	53,177	53,177

Notes: 1. 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.

2. The computation of the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at the fiscal year-end is retroactively adjusted for the effect of a 1:2 stock split made on May 19, 2000.

3. Net Income per Share of Common Stock for the years ended March 31, 2004, 2003, 2002 and 2001 is computed in accordance with the new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. However, Net Income per Share of Common Stock for the years ended March 31, 2000 and 1999 has not been retroactively adjusted.

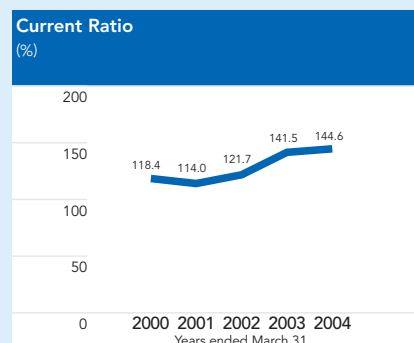
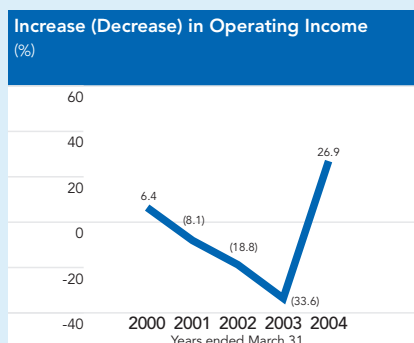
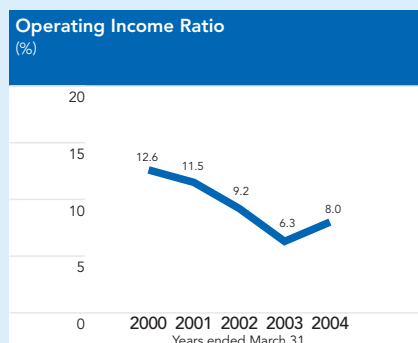
Years ended March 31	%					
	2004	2003	2002	2001	2000	1999
PROFITABILITY:						
Operating Income Ratio	8.0%	6.3%	9.2%	11.5%	12.6%	11.9%
Net Income Ratio	3.6	2.7	0.1	6.3	6.3	6.2
Return on Equity (ROE)	5.5	4.1	0.2	10.0	10.7	11.5
Return on Assets (ROA)	3.3	2.5	0.1	5.4	5.7	5.7
Operating Income per Employee (Thousands of Yen)	¥2,407	¥2,019	¥2,717	¥3,334	¥4,002	¥ -
Net Income per Employee (Thousands of Yen)	¥1,092	¥ 863	¥ 36	¥1,817	¥1,993	¥ -
GROWTH TRENDS:						
Increase (Decrease) in Net Sales	0.7%	(3.4)%	1.6%	0.8%	0.4%	7.6%
Increase (Decrease) in Operating Income	26.9	(33.6)	(18.8)	(8.1)	6.4	7.1
Increase (Decrease) in Net Income	34.7	2,034.6	(98.0)	0.5	2.4	30.9
STABILITY:						
Current Ratio	144.6%	141.5%	121.7%	114.0%	118.4%	111.5%
Fixed Assets Ratio	84.5	90.7	103.5	113.6	106.8	117.6
Equity Ratio	58.5	61.5	59.0	55.0	53.8	52.4
Liquidity (Months)	4.2	3.5	3.2	3.6	3.4	2.9
Debt-to-Equity Ratio	3.6	5.5	9.9	12.4	14.4	22.6
Interest Coverage (Times)	85.0	34.6	26.4	31.9	29.4	15.5

Notes: 1. ROE and ROA are calculated using the average amounts of shareholders' equity and total assets at the beginning and end of each fiscal year.

2. Liquidity = Cash and time deposits (yearly average) + marketable securities (yearly average) / average monthly sales

3. Debt-to-Equity Ratio = Interest-bearing liabilities (yearly average) / shareholders' equity (yearly average) X 100

4. Interest Coverage = (Operating income + interest and dividend income) / interest expense



MANAGEMENT'S DISCUSSION AND ANALYSIS

1. MARKET ENVIRONMENT

During fiscal 2003, ended March 31, 2004, there were some positive signs in the Japanese economy, including increasing exports in some industries from the second half of the year, which boosted corporate earnings and translated into higher levels of capital investment. However, the economic recovery lacked any real strength as weakness persisted in both consumer spending and the employment market.

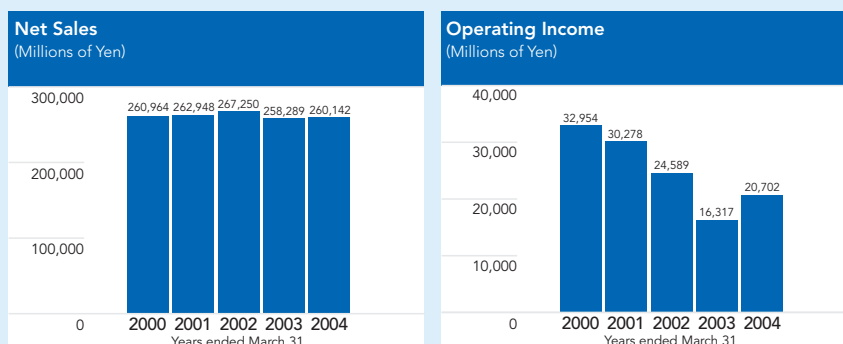
Benesse continued to experience a difficult business environment, particularly in its core operating field, the education market. Here, the Education Group was faced with a number of challenges, including the falling birthrate, diversifying customer needs sparked by a raft of educational reforms such as the launch of new curricula for elementary and junior high schools in fiscal 2002 and senior high schools in fiscal 2003, as well as intensifying competition from cram schools and other businesses in the private education market.

Despite extremely strong demand for English language study in Japan, the Language Company's operating environment remained tough overall, mainly due to the fact that there was only a weak rebound in corporate demand in both Europe and North and South America. On a more positive note, the Senior Company's market continued to expand, supported by the increasing numbers of elderly in Japan and greater use of the Long-term Care Insurance System.

2. OPERATING RESULTS

In this environment, the year under review was positioned as the year of the company's third founding, following a second founding in fiscal 1995 when the company name was changed from Fukutake Publishing Co., Ltd. to Benesse Corporation. Benesse sought to use the major changes in its operating environment as opportunities to achieve further progress and also launched sweeping management reforms to propel the Group to the next stage of growth. Underpinning these reforms were steps to strengthen corporate governance based on far-reaching organizational changes, including the appointment of a President from outside the Group and the introduction of a Corporate Executive Officer System. These changes were made so as to facilitate the implementation of reforms unencumbered by precedent. Benesse also formulated a new Medium-Term Management Plan covering the three-year period from fiscal 2004 to fiscal 2006, which contains concrete initiatives aimed at realizing growth. The first initiatives have already been rolled out. In the core Education Group, existing products and services were reviewed and costs reduced. These actions were carried out in parallel with the launch of new products and services designed to satisfy the increasingly diverse needs of the market place, and efforts to enhance Benesse's presence in peripheral business fields. Steps have also been taken to enhance marketing capabilities. Instead of solely focusing on the direct-mail approaches of the past, the Group has now started using a more diverse range of media, including TV commercials and the Internet.

As a result of the above, operating income rose ¥4,385 million, or 26.9%, to ¥20,702 million on consolidated net sales of ¥260,142 million, up ¥1,853 million, or 0.7% year on year. This represented the first improvement in operating profitability in four fiscal periods.



(1) Net Sales

Consolidated net sales in fiscal 2003, ended March 31, 2004, increased ¥1,853 million, or 0.7%, to ¥260,142 million. This represented the first improvement in sales in two fiscal periods. Net sales were affected by a decline in cumulative enrollment in the mainstay home study correspondence course business and the sale of the translation business of U.S. subsidiary Berlitz International, Inc. during the previous fiscal year. However, these negative factors were outweighed by steadily rising numbers of new residents at the Senior Company's nursing homes, and steady growth at Education Group peripheral businesses such as English language materials for preschoolers and elementary school students. Sales were also boosted by the consolidation of Shinken-AD Co., Ltd. following an increase in Benesse's holding in this company.

Net Sales by Segment

Years ended March 31	Millions of Yen					
	2004	2003	2002	2001	2000	1999
Net Sales	¥260,142	¥258,289	¥267,250	¥262,948	¥260,964	¥259,852
Education Group	164,780	162,835	174,729	184,154	188,320	182,675
W&F Company	16,264	14,757	10,946	9,182	9,218	9,872
Senior Company	16,761	12,149	7,145	3,861	1,331	826
Language Company	46,096	54,939	62,247	55,258	53,544	59,294
Others	16,241	13,609	12,183	10,493	8,551	7,185

Notes: 1. Segment sales are based on outside sales and intersegment sales are not included.

2. In the year ended March 31, 2003, the Children & Students (C&S) Company, mainly providing correspondence courses, and the School & Teacher Support (S&TS) Company, offering simulated exams and other services to schools, were combined into a single business segment, the Education Group. Data for the years ended March 31, 2002 and 2001, has been recalculated based on this new business classification, while data for the years ended March 31, 2000 and 1999, is the unaudited simple sum of figures for the C&S Company and the S&TS Company.

3. The Language Instruction and Translation segment was renamed the Language Company from the year ended March 31, 2003.

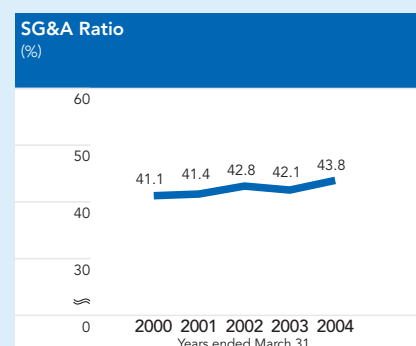
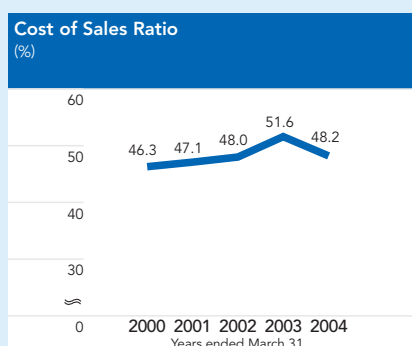
(2) Cost of Sales and SG&A Expenses

The cost of sales decreased ¥7,911 million, or 5.9%, to ¥125,312 million. This pushed down the cost of sales ratio from 51.6% to 48.2%. This decrease reflected a review of the lineup of *Shinkenzenmi* course materials and educational tools that helped to reduce production costs.

Cost of Sales Ratio and SG&A Ratio

Years ended March 31	2004	2003	2002	2001	2000	1999
Cost of Sales Ratio	48.2%	51.6%	48.0%	47.1%	46.3%	46.4%
SG&A Ratio	43.8	42.1	42.8	41.4	41.1	41.7

Selling, general and administrative (SG&A) expenses climbed ¥5,380 million, or 4.9%, to ¥114,128 million, increasing the SG&A ratio from 42.1% to 43.8%. This mainly reflected a year-on-year increase of ¥3,372 million in direct mail and advertising expenses in connection with a drive to strengthen marketing capabilities by boosting spending on direct mail and TV advertisements. This is aimed at increasing enrollment in home study correspondence courses in fiscal 2004.



(3) Operating Income

Operating income rose ¥4,385 million, or 26.9%, to ¥20,702 million, lifting the operating income ratio from 6.3% to 8.0%. The main contributing factors were initiatives in the Education Group to cut production costs alongside growth in Education Group peripheral businesses outside home study correspondence courses; higher profits in the Senior Company on the back of rising sales; and withdrawal from unprofitable businesses in the Women & Family Company.

Operating Income (Loss) by Segment

Years ended March 31	Millions of Yen					
	2004	2003	2002	2001	2000	1999
Operating Income (Loss)	¥20,702	¥16,317	¥24,589	¥30,278	¥32,954	¥30,981
Education Group	20,844	17,649	27,021	32,789	34,016	31,659
W&F Company	(1,361)	(2,811)	(2,016)	(1,192)	(637)	(2,152)
Senior Company	1,615	463	(1,064)	(2,149)	(1,338)	(942)
Language Company	392	1,016	584	1,602	1,218	2,936
Others	1,902	1,851	1,545	763	1,153	900

Notes: 1. Operating Income (Loss) for each segment is before eliminations in consolidated totals.

2. In the year ended March 31, 2003, the Children & Students (C&S) Company, mainly providing correspondence courses, and the School & Teacher Support (S&TS) Company, offering simulated exams and other services to schools, were combined into a single business segment, the Education Group. Data for the years ended March 31, 2002 and 2001, has been recalculated based on this new business classification, while data for the years ended March 31, 2000 and 1999, is the unaudited simple sum of figures for the C&S Company and the S&TS Company.

3. The Language Instruction and Translation segment was renamed the Language Company from the year ended March 31, 2003.

(4) Other Income (Expenses)

Other expenses (net) increased ¥1,579 million to ¥3,451 million. The main reasons were the absence of a ¥3,150 million gain on exemption from future pension obligation of the governmental program booked in fiscal 2002, and a valuation loss of ¥2,242 million on fixed assets in connection with the liquidation of consolidated subsidiary B.C. ESTATE Co., Ltd.

These were partly offset by the absence of a loss of ¥2,110 million on the sale of the translation business of subsidiary Berlitz International booked in fiscal 2002.

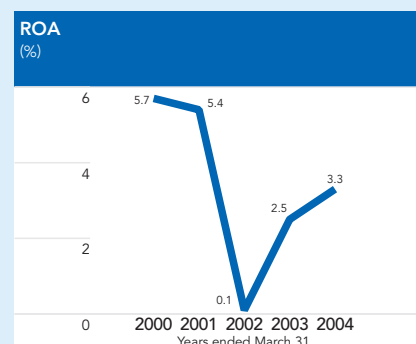
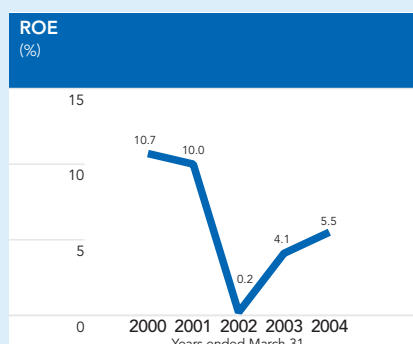
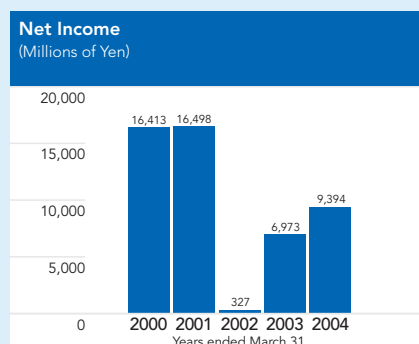
(5) Income Before Income Taxes, Minority Interests and Impairment Loss on Goodwill

Income before income taxes, minority interests and impairment loss on goodwill rose ¥2,805 million, or 19.4%, to ¥17,251 million.

(6) Income Taxes

Income taxes rose ¥75 million, or 1.0%, to ¥7,628 million. The actual effective tax rate decreased from 52.3% to 44.2%. The main reason was a change in the tax rate related to the loss on the sale of the translation business in Berlitz International in fiscal 2002.

Following the enactment of a tax reform law in Japan on March 31, 2003, the normal effective statutory tax rate will be lowered from the current rate of 42.0% to 40.6% from the fiscal year ending March 2005.



(7) Net Income

Net income rose ¥2,421 million, or 34.7%, to ¥9,394 million. The net income ratio increased from 2.7% in the previous fiscal year to 3.6%.

Return on equity rose from 4.1% to 5.5% year on year, while return on assets also increased, rising from 2.5% in the previous fiscal year, to 3.3% in the year under review.

ROE and ROA

Years ended March 31	2004	2003	2002	2001	2000	1999
ROE	5.5%	4.1%	0.2%	10.0%	10.7%	11.5%
ROA	3.3	2.5	0.1	5.4	5.7	5.7

3. SEGMENT INFORMATION**(1) Education Group**

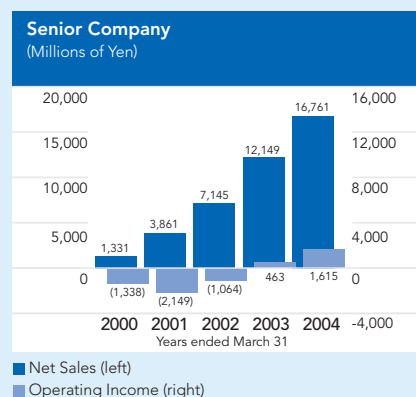
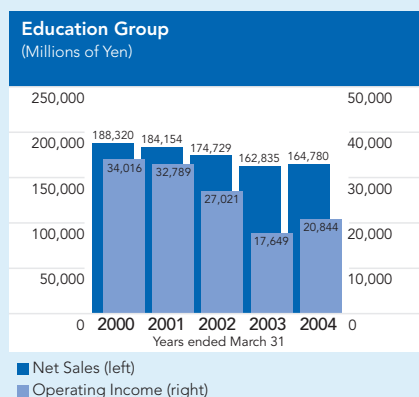
Net sales in this segment rose ¥1,946 million, or 1.2%, to ¥164,780 million. The main reasons for this increase were expansion in new peripheral business areas outside home study correspondence courses, and the consolidation of Shinken-AD Co., Ltd. through an increase in Benesse's equity interest in this company.

In the mainstay *Shinken* home study correspondence courses, the Education Group began a far-reaching review of course materials from the year under review to enhance the competitiveness of its product lineup. In particular, new materials for Upper Elementary, Junior and Senior High School courses were launched designed for individual academic abilities, enabling the group to offer services carefully tailored to the increasingly diverse learning needs of the market. Initiatives were also taken to bolster marketing. In addition to the traditional focus on direct-mail marketing approaches, the group began using other marketing tools such as TV commercials and the Internet in an attempt to reach potential customers through a wider range of media channels. "Ideal for helping students pass entrance examinations" and "Optimized to individual student capabilities," were the key messages of marketing campaigns for *Shinken* courses during the year. All these initiatives spurred an increase in enrollment in *Shinken* courses in the latter half of the year, although this rebound could not compensate for the lower level of enrollment at the start of the fiscal year compared to fiscal 2002, which had a significant impact on full-year figures. As a result, cumulative enrollment in *Shinken* courses for the period was down year on year, particularly in Senior High School Courses.

In peripheral businesses, membership in a range of recently developed courses grew steadily. These included *Kodomo Challenge baby*, a new preschool variant of *Shinken* correspondence courses for infants aged six to 12 months and *Preschool English Courses*, launched in the previous fiscal year, as well as *Korasho English Courses* for elementary school children launched this year.

In businesses targeting schools and teachers, the mainstay *Shinken Simulated Exams* for senior high school students posted healthy growth. Other strong performers included *Study Support*, an aid for senior high school teachers to help them assess student ability; multi-media course materials targeting elementary and junior high schools; the School Trip Business, created through an alliance with a travel agent; and other services.

Operating income rose ¥3,195 million, or 18.1%, to ¥20,844 million, mainly as a result of measures to reduce production costs of *Shinken* course materials, primarily Elementary School Courses and Junior High School Courses, and rising profitability on the back of higher sales at peripheral businesses.



Breakdown of Net Sales for the Education Group

	Millions of Yen		Percentage Change
	2004	2003	
<i>Shinkenzemi:</i>			
Senior High School Courses	¥ 20,122	¥ 22,266	(9.6)%
Junior High School Courses	32,960	34,537	(4.6)
Upper Elementary School Courses	17,759	18,750	(5.3)
Middle Elementary School Courses	16,070	16,248	(1.1)
Lower Elementary School Courses	14,417	14,724	(2.1)
Kodomo Challenge	26,973	27,553	(2.1)
Subtotal	128,301	134,078	(4.3)
S&T Company	24,249	17,792	36.3
Other	12,230	10,965	11.5
Total	¥164,780	¥162,835	1.2%

(2) Women & Family Company

Net sales at the Women & Family Company increased ¥1,507 million, or 10.2%, to ¥16,264 million. Driving sales higher were healthy results at mainstay magazines *Tamago Club* and *Hiyoko Club*, which provide essential information on pregnancy, childbirth and childcare, and *THANK YOU!*, a lifestyle information magazine. In addition, subscribers to *DOG'S HEART*, a magazine for people with dogs launched in the previous fiscal year, continued to rise steadily. Meanwhile, the number of customers using home food-delivery services operated by consolidated subsidiary Benesse en-Famille Inc. also grew thanks to expansion of the sales area.

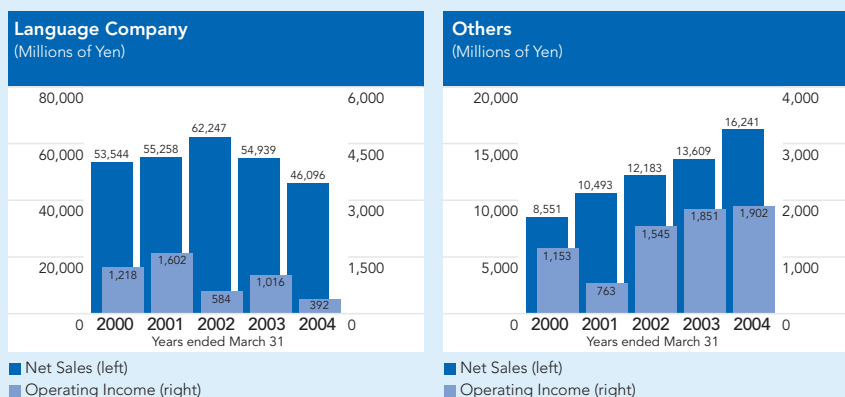
Profitability improved during fiscal 2003, seen in a ¥1,449 million narrowing of the operating loss to ¥1,361 million. This was mainly the result of a stronger top-line performance and steps to withdraw from unprofitable businesses. During the year, Benesse withdrew from a number of businesses: a travel services business operated by Benesse Cross World, Inc.; *Aile for You* and *Great New Places*, two subscription-based magazines; and *Benemo*, a mail-order catalog.

(3) Senior Company

Net sales at the Senior Company rose ¥4,612 million, or 38.0%, to ¥16,761 million. This increase was primarily driven by the rising number of new residents at nursing homes operated by Benesse Style Care Co., Ltd. in the company's core nursing home business. Benesse Style Care was established in December 2003 from the merger of the three subsidiaries that managed Benesse's nursing home networks: Benesse Care Corporation, Shinkoukai Co., Ltd., and Benesse Senior Style Corp. This move was made to reinforce brand strategy, integrate marketing capabilities, speed up decision-making, and accelerate business expansion.

The number of homes in each of Benesse's branded nursing home networks grew during the period. Four new homes in the *Clara* network were opened, bringing the total to 33; four new *Granny & Granda* branded homes were also opened, taking the total to 35 homes; and two new *Madoka* nursing homes were opened, for a total of three homes. In December 2003, Benesse Style Care also launched a new brand of luxury nursing homes called *Aria*. Two have since been opened. As a result of the above, there was a combined gain of 12 new homes during fiscal 2003, bringing the total number of homes in the Senior Company network to 73 as of March 31, 2004. The total occupancy rate, including new nursing homes, has already exceeded 90%, while the number of new residents has also increased steadily.

Operating income at the Senior Company climbed ¥1,152 million, or 249.0%, to ¥1,615 million in line with the rise in sales.



(4) Language Company

Net sales in this segment declined ¥8,843 million, or 16.1%, to ¥46,096 million. This fall was chiefly the result of lower sales at U.S. subsidiary Berlitz International. Net sales generated by Berlitz International's mainstay language services business were up year on year, primarily for two reasons: growth in the number of lessons being taken on the back of expansion in the language center network in Japan, and an improvement in average revenue per lesson across the company's entire global network. However, sales generated by the translation business of Berlitz International are no longer recorded due to the divesture of this business in fiscal 2002. This was the main reason for the year-on-year decrease in overall sales at Berlitz International.

Language Company operating income dropped ¥624 million, or 61.4%, to ¥392 million, mainly due to the above-mentioned sale of Berlitz International's translation business, and rising teacher salaries.

Other developments during the year included the launch of *GTEC (Global Test of English Communication)*, an English assessment test designed to measure all-round business English ability. Sales of these tests are growing steadily.

Breakdown of Net Sales for Berlitz International, Inc.

Years ended December 31	Thousands of U.S. Dollars		Percentage Change
	2003	2002	
Language Services:			
Instruction	\$328,000	\$293,286	11.8%
ELS	36,158	40,315	(10.3)
Publishing	—	1,393	—
Eliminations and other	8	(298)	—
Subtotal	364,166	334,696	8.8
Berlitz GlobalNET	—	75,172	—
Eliminations and other	229	120	—
Total	\$364,395	\$409,988	(11.1)%

(5) Others

This segment posted net sales of ¥16,241 million, an increase of ¥2,632 million, or 19.3%, year on year. Sales growth was mainly driven by higher sales to customers outside the group at consolidated subsidiaries Telemarketing Japan, Inc. and Synform Co., Ltd. Operating income rose ¥51 million, or 2.7%, to ¥1,902 million.

4. FINANCIAL POSITION AND LIQUIDITY

(1) Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2004 were ¥292,100 million, ¥16,584 million higher than the end of the previous fiscal year. The increase in total assets mainly reflected a rise in cash and time deposits due to increases in advances received, in line with an increase in enrollment for home study correspondence courses, and earnings growth underpinned by a steady performance in fiscal 2003.

Total current assets rose ¥25,779 million to ¥147,705 million, largely due to increases in cash and time deposits. Cash and time deposits rose in step with earnings growth supported by strong results, while the increase in advances received tracked rising enrollment in home study correspondence courses. Another factor behind the rise in cash and time deposits was a decrease in income taxes paid compared with the previous fiscal year.

Property and equipment was ¥69,394 million, down ¥2,036 million from the previous fiscal year. This was mainly due to the sale of the landholdings of real estate management firm B.C. ESTATE Co., Ltd., which was dissolved in fiscal 2003.

Investments and other assets decreased ¥7,160 million to ¥75,001 million. The decrease mainly reflected the strong yen's effect on the conversion of goodwill and other intangible assets of Berlitz International into yen.

Total liabilities climbed ¥15,260 million to ¥120,774 million. The main reason was an increase in advances received in step with higher enrollment in home study correspondence courses, and higher income taxes payable.

Total shareholders' equity increased ¥1,352 million to ¥170,781 million. This was mainly due to higher retained earnings on the back of the Benesse Group's strong results in fiscal 2003, which outweighed a decrease in shareholders' equity due to the acquisition of treasury stock of ¥2,063 million.

Financial Position

As of March 31	Millions of Yen					
	2004	2003	2002	2001	2000	1999
Total Assets	¥292,100	¥275,516	¥291,393	¥309,261	¥297,828	¥280,620
Current Assets	147,705	121,926	113,552	116,136	116,960	104,407
Property and Equipment	69,394	71,429	78,696	78,840	76,292	75,865
Investments and Other Assets	75,001	82,161	99,145	114,285	104,576	100,348
Current Liabilities	102,158	86,192	93,313	101,882	98,779	93,660
Long-Term Liabilities	18,616	19,323	25,324	30,705	31,685	31,610
Shareholders' Equity	170,781	169,428	171,826	170,011	160,302	146,933
Equity Ratio (%)	58.5	61.5	59.0	55.0	53.8	52.4
Shareholders' Equity per Share of Common Stock (Yen)	1,641	1,612	1,616	1,599	1,507	1,382

Notes: 1. The computation of per Share of Common Stock is based on the weighted average number of shares of common stock outstanding during each year.

2. The computation of the number of shares outstanding at the fiscal year-end is retroactively adjusted for the effect of a 1:2 stock split made on May 19, 2000.

(2) Cash Flows

Cash and cash equivalents at the end of the fiscal year stood at ¥94,147 million, ¥11,613 million higher than a year earlier. This was mainly due to an increase in advances received in line with rising enrollment in home study correspondence courses, a decrease in income taxes paid, and the absence of the previous fiscal year's redemption of convertible debentures at subsidiary Berlitz International.

Net cash provided by operating activities was ¥27,935 million, ¥10,430 million higher than in the previous fiscal year. The increase was chiefly the result of an increase of ¥5,671 million in advances received in line with rising enrollment in home study correspondence courses and a decrease of ¥6,566 million in income taxes paid. The main components of operating cash flows were income before income taxes, minority interests and impairment loss on goodwill of ¥17,251 million, depreciation and amortization of ¥7,821 million and an increase in advances received of ¥5,102 million.

Net cash used in investing activities was ¥9,661 million, a reversal of ¥26,440 million from the previous fiscal year. The reversal of investing cash flows mainly reflected the absence of the previous fiscal year's sharp improvement in net proceeds from the purchase and sale of marketable and investment securities through a shift of surplus funds to investments in highly liquid financial instruments; proceeds of ¥6,221 million from the sale of the translation services

business at Berlitz International; and proceeds of ¥5,473 million from the sale of works of art. The main cash outflows were ¥5,138 million in net expenses from the purchase and sale of property and equipment, and ¥2,486 million for the purchase of software.

Net cash used in financing activities was ¥6,044 million, a decrease of ¥7,486 million. This was mainly due to the absence of the previous fiscal year's redemption of ¥5,643 million in convertible debentures at Berlitz International. The main components were ¥3,031 million in dividends paid, ¥2,063 million for the purchases of treasury stock and the repayment of ¥1,072 million in long-term debt.

Cash Flows

Years ended March 31	Millions of Yen					
	2004	2003	2002	2001	2000	1999
Net Cash Provided						
by Operating Activities	¥27,935	¥17,505	¥ 8,286	¥21,853	¥ 32,525	¥ 32,309
Net Cash (Used in) Provided by						
Investing Activities	(9,661)	16,778	(11,701)	(7,830)	(18,910)	(1,687)
Net Cash Used						
in Financing Activities	(6,044)	(13,530)	(11,209)	(4,339)	(5,169)	(16,925)
Foreign Currency Translation						
Adjustments on Cash and						
Cash Equivalents	(617)	(470)	727	502	(983)	(949)
Net Increase (Decrease)						
in Cash and Cash Equivalents . . .	11,613	20,283	(13,897)	10,231	7,463	12,748

(3) Share Buyback Program

Benesse has an ongoing share buyback program aimed at improving capital efficiency and shareholder value. In fiscal 2003, we repurchased 963,300 shares of Benesse common stock to a value of ¥2,059 million. The number of shares repurchased represented 19.3% of the repurchase limit of 5 million shares, or 20.6% of the repurchase value limit of ¥10 billion.

In fiscal 2004, Benesse plans to continue implementing its share buyback program with flexibility, taking into account factors such as stock price trends and capital efficiency.

5. ISSUES AND POLICIES

(1) Issues Facing the Company

The Education Group is faced with dramatic change in its operating environment. Prompted by the launch of the New Course of Study for elementary and junior high schools from fiscal 2002, parents became increasingly concerned about the academic abilities of their children. In response, regulations that had been designed to limit course content were reviewed in December 2003, shifting the emphasis from a relaxed approach to education to distinctive styles of instruction at individual regions and schools to raise academic abilities. Amid these significant changes, the education needs of children and their parents are rapidly becoming more individual and diversified. As a result, Benesse must develop and provide new products and services that are carefully tailored to these fragmenting needs. In addition to steps taken in fiscal 2003 to introduce course materials specifically designed for children with differing academic abilities and to provide quality information on educational development, Benesse launched new *Shinken-zemi* courses for students at elite combined private junior and senior high schools in April 2004. This and other steps are aimed at satisfying the increasingly individual and diverse needs of the education market. These new products and services will underpin efforts to break into new customer segments. The Company will also improve the efficiency of its marketing activities by employing and combining a range of mass media and Internet marketing methods in addition to its existing direct-mail approaches.

Benesse has positioned East Asia, particularly China, South Korea and Taiwan, as secondary strategic markets alongside Japan, and will proactively develop businesses in this region. Business expansion will center on products and services aimed at infants in China, junior high schools and senior high schools in South Korea, and infants and elementary school students in Taiwan.

The Women & Family Company is tackling two issues: identifying and focusing on profitable businesses, and

ensuring new businesses are up and running as soon as possible. In fiscal 2003, progress was made in the first area with the withdrawal from businesses where there were no prospects of recovering initial investments. Going forward, Benesse will seek to employ its management resources more effectively to restore profitability in the Women & Family Company at the earliest possible opportunity.

The Senior Company is faced with intensifying competition in its operating environment as more private companies enter the nursing care business. Although all companies in this field have to secure nursing home locations and skilled staff if they want to grow, the Senior Company will capitalize on its industry-leading expertise and the strong Benesse brand to maintain its competitive advantage, and aggressively expand its nursing home network by taking advantage of rapid growth in the market.

In the Language Company, although Berlitz International is experiencing challenging business conditions in Europe and North and South America in particular, Berlitz will actively build its presence in rapidly growing Asian markets such as Japan, where demand for English language study is strong. From fiscal 2004, we began fundamentally restructuring Berlitz's management framework, aimed at ultimately driving a rapid turnaround in performance based on more efficient operational management.

Fiscal 2004, ending March 2005, marks the first year of Benesse's new Medium-Term Management Plan formulated in fiscal 2003. Also during the year under review, the Company introduced a Corporate Executive Officer System and other initiatives designed to fundamentally reform Benesse's core management organizations and systems. This has resulted in faster and more transparent decision-making processes and improvements to corporate governance. In fiscal 2004, the Company will upgrade its marketing and R&D capabilities, areas vital to the future of the Benesse Group, and focus on achieving the objectives laid out in its Medium-Term Management Plan.

In terms of corporate fiscal policy, Benesse will give greater attention to how it uses its funds to ensure resources are used even more effectively. And with regard to returning profits to shareholders, the Company will work to increase management transparency by disclosing its targeted dividend payout ratio.

(2) Outlook for the Fiscal Year Ending March 31, 2005

Benesse is projecting an 8.2% increase in full-year consolidated net sales, to ¥281.5 billion, primarily due to anticipated higher sales in the Education Group. More specifically, forecasts project rising enrollment, particularly in *Shinken-zemi* Elementary and Junior High School courses and the contribution of a full year of sales from subsidiary Shinken-AD Co., Ltd., which was consolidated in the second half of fiscal 2003. Expansion in the nursing home network operated by the Senior Company is also expected to contribute to higher sales.

Benesse is forecasting an 8.0% increase in ordinary income, to ¥23.4 billion, on the back of higher sales. This will outweigh anticipated costs related to the development of new businesses and the expansion of regional sales networks, as well as declining profitability in the Language Company. Net income is expected to rise 35.2% to ¥12.7 billion, primarily due to a decline in the valuation loss on property and equipment.

(3) Dividend Policy

Benesse's basic policy is to share profits with shareholders, with due consideration to business performance, investment plans, the payout ratio and other factors. In fiscal 2003, Benesse achieved earnings growth for the first time in four fiscal periods. Accordingly, management has declared a full-year dividend of ¥40.0 per common share for the fiscal year under review, consisting of an interim dividend of ¥14.5 and a year-end dividend of ¥25.5 per common share. This represents an increase of ¥11.0 per share over the previous fiscal year. Going forward, our policy will be to return profits to shareholders by aiming to achieve a sustainable dividend payout ratio of at least 35%.

In accordance with this policy, the Company plans to pay a full-year dividend of ¥50.0 per common share for fiscal 2004, consisting of an interim dividend of ¥25.0 and a year-end dividend of ¥25.0 per common share. This would represent an increase in dividends for two consecutive fiscal years.

The Company plans to make effective use of retained earnings to improve performance and to provide future returns to shareholders through new business activities, improvements to existing products and services, and the development of new products and services.

6. RISK FACTORS

(1) Declining Birthrate (Effect on core businesses)

The Benesse Group's home study correspondence courses, its core business, have a membership ranging from infants to senior high school students. As of April 2004, the number of members totaled 3.83 million, representing a 3.5% increase from a year earlier. The Benesse Group is implementing various measures to achieve further growth. One measure is to expand its presence in peripheral businesses to satisfy increasingly individual and diverse customer needs in the education market. Another is to improve the efficiency of its marketing activities by employing

and combining a range of mass media and Internet marketing methods in addition to its existing direct-mail approaches. Nevertheless, the Benesse Group's results and financial standing could be affected by a contraction in the overall size of the education market in step with Japan's declining birthrate.

(2) Regulations

(i) Educational System

In the Education field, the launch of new curricula for elementary and junior high schools from fiscal 2002 has prompted parents to become increasingly concerned about the academic abilities of their children. In response, regulations that had been designed to limit course content were reviewed in December 2003, shifting the emphasis from a relaxed approach to education to distinctive styles of instruction at individual regions and schools to raise academic abilities. On the other hand, there are calls for reforming Japan's entrance examination system. Amid these significant changes, the education needs of children and their parents are rapidly becoming more individual and diversified. As a result, Benesse must develop and provide new products and services that are carefully tailored to these fragmenting needs. The Benesse Group's results and financial position could be affected by an increase in cost requirements and other factors stemming from the need to respond to further changes in the educational system and customer needs.

(ii) Nursing Care

The Long-term Care Insurance Law contains a provision that requires local governments to review their insurance business plans every three years, starting from the law's enforcement date of April 1, 2000, in order to ensure the sound and proper management of nursing care insurance businesses. The Benesse Group's results and financial position could be affected by the need to review the nature of products and services, fee structures, and so on, due to revisions in standard reimbursement rates applicable to various nursing care services, payment limits commensurate with care requirements, insurance premiums paid by beneficiaries and other factors.

(3) Privacy Protection

The Benesse Group's core business involves the provision of products and services to individual customers centered on home study correspondence courses such as *Shinkenzeremi* and *Kodomo Challenge*. Customers are required to register personal information, such as their name, gender, birth date, address, telephone number, and name of guardian. This personal information is processed and stored in the Benesse Group's database.

The enactment of a law to protect personal information in May 2003, and its scheduled enforcement in April 2005, has stimulated growing societal interest in privacy protection. In this climate, laws and regulations may become still more strict in the future. In response, the Benesse Group has formulated internal rules and offered regular internal training on privacy protection, in parallel with actions to strengthen the security of its information systems, and takes sufficient care in managing its database and privacy protection. However, the Benesse Group's results and financial position could be affected by claims for damages, the loss of society's trust and other factors that may result from the leakage of personal information due to unpredictable events such as unauthorized access from the outside and other criminal acts.

(4) Accounting for Asset Impairment

Effective from the fiscal year ending March 2006, Japanese companies will be compelled to apply new accounting standards for long-lived asset impairment. The Benesse Group plans to begin the early application of these new standards in the fiscal year ending March 2005. At present, Benesse projects impairment losses of roughly ¥200 million on idle long-lived assets as a result of applying the new standards. The Benesse Group's results and financial position could be affected by the recording of additional impairment losses on landholdings and buildings in the event of a sharp decline in group profitability in the future.

Furthermore, goodwill and other intangible assets of U.S. subsidiary Berlitz International are tested for impairment every fiscal period in accordance with the Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." The Benesse Group's results and financial position could be affected should the impairment test for goodwill and intangible assets at Berlitz International determine that an impairment loss should be recognized on the goodwill and other intangible assets of this company.

CONSOLIDATED BALANCE SHEETS

Benesse Corporation and Consolidated Subsidiaries
March 31, 2004, 2003 and 2002

ASSETS	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
CURRENT ASSETS:				
Cash and time deposits (Note 8)	¥ 55,391	¥ 39,995	¥ 32,943	\$ 522,557
Marketable securities (Note 3)	44,701	43,157	34,484	421,708
Trade receivables:				
Accounts	18,959	15,647	18,100	178,858
Due from affiliates	4	220	205	38
Inventories (Note 4)	12,146	12,955	17,810	114,585
Other current assets (Note 16)	18,206	11,918	12,210	171,754
Allowance for doubtful receivables	(1,702)	(1,966)	(2,200)	(16,057)
Total current assets	147,705	121,926	113,552	1,393,443
PROPERTY AND EQUIPMENT:				
Land (Note 8)	31,666	34,210	33,735	298,736
Buildings and leasehold improvements (Note 8)	59,673	60,222	59,941	562,952
Equipment, fixtures and other (Note 12)	18,859	16,366	21,683	177,915
Total	110,198	110,798	115,359	1,039,603
Accumulated depreciation	(40,804)	(39,369)	(36,663)	(384,943)
Net property and equipment	69,394	71,429	78,696	654,660
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Note 3)	13,642	13,557	23,155	128,698
Investments in unconsolidated subsidiaries and affiliates	369	1,734	493	3,481
Goodwill and other intangible assets (Note 6)	43,851	49,075	59,367	413,689
Other assets (Notes 7, 9 and 16)	17,139	17,795	16,130	161,689
Total investments and other assets	75,001	82,161	99,145	707,557
TOTAL	¥292,100	¥275,516	¥291,393	\$2,755,660

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
CURRENT LIABILITIES:				
Short-term bank loans (Note 8)	¥ 1,056	¥ 310	¥ 1,170	\$ 9,962
Current portion of long-term debt (Note 8)	1,410	751	1,347	13,302
Trade payables:				
Accounts	27,964	22,747	23,446	263,811
Due to affiliates	380	298	303	3,585
Advances received	56,590	53,027	53,662	533,868
Income taxes payable	5,625	960	5,034	53,066
Other current liabilities	9,133	8,099	8,351	86,160
Total current liabilities	102,158	86,192	93,313	963,754
LONG-TERM LIABILITIES:				
Long-term debt, less current portion (Note 8)	4,584	4,281	10,951	43,245
Liability for retirement benefits (Note 9)	3,387	3,193	4,322	31,953
Other long-term liabilities (Notes 7 and 16)	10,645	11,849	10,051	100,424
Total long-term liabilities	18,616	19,323	25,324	175,622
MINORITY INTERESTS	545	573	930	5,142
SHAREHOLDERS' EQUITY (Notes 10, 15, 17 and 19):				
Common stock—authorized, 405,282,040 shares in 2004, 2003 and 2002; issued, 106,353,453 shares in 2004, 2003 and 2002	13,600	13,600	13,600	128,302
Capital surplus	29,358	29,358	29,358	276,962
Retained earnings	136,608	130,448	127,519	1,288,755
Unrealized gain (loss) on available-for-sale securities	490	(91)	(356)	4,623
Foreign currency translation adjustments	(4,615)	(1,290)	1,707	(43,538)
Total	175,441	172,025	171,828	1,655,104
Treasury stock—at cost—2,331,807 shares in 2004, 1,366,380 shares in 2003 and 719 shares in 2002	(4,660)	(2,597)	(2)	(43,962)
Total shareholders' equity	170,781	169,428	171,826	1,611,142
TOTAL	¥292,100	¥275,516	¥291,393	\$2,755,660

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Benesse Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004, 2003 and 2002

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2001	106,353	¥ 13,600	¥ 29,358	¥ 130,708	¥ 757	¥ (4,412)	¥ (0)
Net income				327			
Cash dividends, ¥29 per share				(3,084)			
Bonuses to directors and corporate auditors				(183)			
Unrecognized pension liabilities of foreign consolidated subsidiaries				(249)			
Unrealized loss on available-for-sale securities				(1,113)			
Foreign currency translation adjustments						6,119	
Treasury stock acquired—net	(0)						(2)
BALANCE, MARCH 31, 2002	106,353	13,600	29,358	127,519	(356)	1,707	(2)
Net income				6,973			
Cash dividends, ¥29 per share				(3,072)			
Bonuses to directors and corporate auditors				(82)			
Unrealized pension liabilities of foreign consolidated subsidiaries				(165)			
Decrease due to equity change of foreign consolidated subsidiaries				(725)			
Unrealized gain on available-for-sale securities					265		
Foreign currency translation adjustments						(2,997)	
Treasury stock acquired	(1,366)						(2,595)
BALANCE, MARCH 31, 2003	104,987	13,600	29,358	130,448	(91)	(1,290)	(2,597)
Net income				9,394			
Cash dividends, ¥29 per share				(3,031)			
Bonuses to directors and corporate auditors				(160)			
Unrealized pension liabilities of foreign consolidated subsidiaries				(7)			
Decrease due to removal of an equity method affiliated company				(36)			
Unrealized gain on available-for-sale securities					581		
Foreign currency translation adjustments						(3,325)	
Treasury stock acquired	(965)						(2,063)
BALANCE, MARCH 31, 2004	104,022	¥13,600	¥ 29,358	¥ 136,608	¥ 490	¥ (4,615)	¥ (4,660)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
BALANCE, MARCH 31, 2003	\$ 128,302	\$ 276,962	\$ 1,230,641	\$ (858)	\$ (12,170)	\$ (24,500)	
Net income			88,623				
Cash dividends, \$0.27 per share			(28,594)				
Bonuses to directors and corporate auditors			(1,509)				
Unrealized pension liabilities of foreign consolidated subsidiaries			(66)				
Decrease due to removal of an equity method affiliated company			(340)				
Unrealized gain on available-for-sale securities			5,481				
Foreign currency translation adjustments					(31,368)		
Treasury stock acquired						(19,462)	
BALANCE, MARCH 31, 2004	\$128,302	\$276,962	\$1,288,755	\$4,623	\$(43,538)	\$(43,962)	

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Benesse Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
OPERATING ACTIVITIES:				
Income before income taxes, minority interests and impairment loss on goodwill	¥ 17,251	¥ 14,446	¥ 24,195	\$ 162,745
Adjustments for:				
Income taxes—paid	(4,041)	(10,608)	(13,199)	(38,123)
Depreciation and amortization	7,821	8,666	10,738	73,783
Increase (decrease) in allowance for doubtful receivables, liability for retirement benefits and other reserves	768	(2,283)	(296)	7,245
Valuation loss on fixed assets	2,242			21,151
Loss on disposal of a part of translation segment		2,110		
Other non-cash expenses—net	1,066	2,599	299	10,057
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:				
(Increase) decrease in trade accounts receivable	(1,839)	119	(604)	(17,349)
Decrease (increase) in inventories	882	4,361	(2,784)	8,321
Increase (decrease) in trade accounts payable	2,539	39	(3,887)	23,953
Increase (decrease) in advances received	5,102	(568)	(2,543)	48,132
Other—net	(3,856)	(1,376)	(3,633)	(36,377)
Total adjustments	10,684	3,059	(15,909)	100,793
Net cash provided by operating activities	27,935	17,505	8,286	263,538
INVESTING ACTIVITIES:				
(Increase) decrease in time deposits—net	(85)	127	73	(802)
Purchases of marketable securities	(15,844)	(1,908)	(9,404)	(149,472)
Proceeds from sales of marketable securities	13,988	7,075	10,021	131,962
Purchases of property and equipment	(6,796)	(3,584)	(4,784)	(64,113)
Proceeds from sales of property and equipment	1,659	5,578	302	15,651
Purchases of software	(2,486)	(3,255)	(4,288)	(23,453)
Purchases of investment securities	(8,340)	(952)	(5,204)	(78,679)
Proceeds from sales of investment securities	7,587	9,317	6,014	71,575
Cash increased due to acquisition of controlling interest in a company	1,798			16,962
Acquisition of shares of a consolidated subsidiary			(4,901)	
Acquisition of shares of an affiliate		(1,105)		
Proceeds from sale of investments in an affiliate	976			9,208
Proceeds from disposal of a part of translation segment		6,221		
Other—net	(2,118)	(736)	470	(19,981)
Net cash (used in) provided by investing activities	(9,661)	16,778	(11,701)	(91,142)
FINANCING ACTIVITIES:				
(Decrease) increase in short-term bank loans—net	(16)	(860)	968	(151)
Repayment of long-term debt	(1,072)	(1,363)	(2,447)	(10,113)
Redemption of convertible debentures		(5,643)	(6,691)	
Dividends paid	(3,031)	(3,072)	(3,084)	(28,594)
Purchases of treasury stock	(2,063)	(2,595)	(6)	(19,462)
Other—net	138	3	51	1,301
Net cash used in financing activities	(6,044)	(13,530)	(11,209)	(57,019)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS				
	(617)	(470)	727	(5,821)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,613	20,283	(13,897)	109,556
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	82,534	62,251	76,148	778,623
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 94,147	¥ 82,534	¥ 62,251	\$ 888,179
ADDITIONAL CASH FLOW INFORMATION:				
Acquisition of controlling interest in a company:				
Current assets	¥ 4,206			\$ 39,679
Long-term assets	692			6,528
Consolidation goodwill	147			1,387
Current liabilities	(3,724)			(35,132)
Long-term liabilities	(1,205)			(11,368)
Minority interests	10			94
Increased value on equity method	1			10
Acquisition cost	127			1,198
Cash and cash equivalents of newly consolidated subsidiary	1,925			18,160
Cash increased due to acquisition of controlling interest in a company	¥ (1,798)			\$ (16,962)
Disposal of a part of translation segment:				
Assets disposed		¥ 12,428		
Liabilities transferred		914		
Loss on disposal of translation segment		2,110		
Gross cash received (net proceeds ¥6,221 million)		9,404		

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Benesse Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004, 2003 and 2002

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Benesse Corporation (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. 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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2003 and 2002 financial statements to conform to the classifications used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106 to U.S.\$1, the approximate rate of exchange at March 31, 2004. 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 consolidated financial statements include the accounts of the Company and its 29 (27 in 2003 and 23 in 2002) significant subsidiaries (collectively, the "Companies"). Consolidation of the remaining unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements in 2004, 2003 and 2002.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

Investments in 2 affiliates and 2 unconsolidated subsidiaries (4 affiliates and 2 unconsolidated subsidiaries in 2003 and 2002) are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Companies are eliminated.

b. Cash Equivalents—Cash equivalents on the consolidated 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 are included in marketable securities amounted to ¥38,756 million (\$365,622 thousand), ¥42,539 million and ¥29,308 million for the years ended March 31, 2004, 2003 and 2002, 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. Cost is determined using the weighted average cost method.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, 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.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property and Equipment—Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998 of the Company and its consolidated domestic subsidiaries, and all property and equipment of consolidated foreign subsidiaries. The ranges of useful lives in the Company and its domestic consolidated subsidiaries are principally from 8 to 50 years for buildings.

f. 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.

g. Goodwill and Other Intangible Assets—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. In addition, Consolidation goodwill which was incurred in the current period was completely amortized in this period. Goodwill and other intangible assets associated with foreign consolidated subsidiaries are amortized on a straight-line basis primarily over 40 years following the accounting practice in their respective countries. Effective January 1, 2002, a U.S. based subsidiary, Berlitz International, Inc. (“BI”), adopted a new accounting standard for goodwill, Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets” in accordance with accounting principles generally accepted in the United States of America. Under SFAS No. 142, goodwill and other intangible assets that are determined to have an indefinite life will no longer be amortized, but rather will be tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. As a result, BI recorded a goodwill and other intangible assets impairment charge associated with the adoption of this statement, at January 1, 2002. See Note 6 which discusses new accounting pronouncements regarding goodwill and other intangible assets. Prior to the adoption of SFAS No. 142, amortization expense of goodwill and other intangible assets that are determined to have an indefinite life of BI for the year ended December 31, 2001, was ¥1,848 million. Intangible assets that are determined not to have an indefinite life primarily consist of publishing rights. Publishing rights are amortized on a straight-line basis over 25 years.

h. Interests in Partnerships—The Company has interests in limited partnerships. The Company’s share of the partnerships’ profits or losses is credited or charged to income as incurred.

i. Retirement and Pension Plans—The Company and certain domestic consolidated subsidiaries have severance payment plans for employees, directors, corporate auditors and Company’s officers. The Company and certain domestic consolidated subsidiaries have non-contributory unfunded retirement benefit plan and contributory funded defined 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.

Retirement benefits to directors, corporate auditors and Company’s officers of the Company and its 4 domestic consolidated subsidiaries in 2004 (3 in 2003 and 2002) are calculated to state the liability for directors, corporate auditors and Company’s officers at the amount that would be required if all directors, corporate auditors and Company’s officers retired at each balance sheet date.

Foreign consolidated subsidiaries have defined contribution plans.

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

k. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

l. 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. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

m. Derivative Financial Instruments—The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange. Foreign exchange forward contracts and currency swap agreements are utilized by the Companies to reduce foreign currency exchange risks. The Companies do not enter into derivatives for trading or speculative purposes.

The Company marks the foreign exchange forward contracts to fair value, and the unrealized gains/losses are recognized in the consolidated statements of income.

A foreign consolidated subsidiary marks currency swap agreements 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.

n. 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.

o. Appropriations of Retained Earnings—Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

p. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period.

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

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

q. New Accounting Pronouncements—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company expects to adopt these pronouncements as of April 1, 2004 and is currently in the process of assessing the effect of adoption of these pronouncements.

**3. MARKETABLE
AND
INVESTMENT
SECURITIES**

Marketable and investment securities as of March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Current:				
Trading marketable securities	¥ 6			\$ 57
Government and corporate bonds	5,430	¥ 892	¥ 4,712	51,226
Trust fund investments and other	39,265	42,265	29,772	370,425
Total	¥44,701	¥43,157	¥34,484	\$421,708
Non-current:				
Marketable equity securities	¥ 4,019	¥ 2,874	¥ 4,716	\$ 37,915
Government and corporate bonds	8,618	6,937	11,102	81,302
Trust fund investments and other	1,005	3,746	7,337	9,481
Total	¥13,642	¥13,557	¥23,155	\$128,698

The carrying amounts and aggregate fair value of marketable and investment securities at March 31, 2004, 2003 and 2002, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as:				
Trading				¥ 6
Available-for-sale:				
Equity securities	¥2,001	¥826	¥ 19	2,808
Government and corporate bonds	7,006	21	9	7,018
Trust fund investments and other	1,014		9	1,005
Held-to-maturity	5,000	17	34	4,983
March 31, 2003				
Securities classified as:				
Available-for-sale:				
Equity securities	1,945	23	280	1,688
Government and corporate bonds	3,248		11	3,237
Trust fund investments and other	3,810	1	65	3,746
Held-to-maturity	4,301	43	93	4,251
March 31, 2002				
Securities classified as:				
Available-for-sale:				
Equity securities	3,211	293	609	2,895
Government and corporate bonds	10,580	13	72	10,521
Trust fund investments and other	7,884	21	267	7,638
Held-to-maturity	5,303	60	478	4,885

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as:				
Trading				\$ 57
Available-for-sale:				
Equity securities	\$18,877	\$7,793	\$ 179	26,491
Government and corporate bonds	66,094	198	85	66,207
Trust fund investments and other	9,566		85	9,481
Held-to-maturity	47,170	160	321	47,009

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004, 2003 and 2002, were as follows:

	Carrying Amount			Thousands of U.S. Dollars
	Millions of Yen			
	2004	2003	2002	2004
Available-for-sale:				
Equity securities	¥ 1,211	¥ 1,186	¥ 1,821	\$ 11,424
Government and corporate bonds	2,030	300		19,151
Trust fund investments and other	39,265	42,265	29,461	370,425
Total	¥42,506	¥43,751	¥31,282	\$401,000

Proceeds from sales of available-for-sale securities and related gross realized gains and losses on these sales, computed on the moving average cost basis for the years ended March 31, 2004, 2003 and 2002, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004			
	2004	2003	2002	2004
Proceeds from sales	¥3,004	¥4,132	¥ 1,136	\$28,340
Gross realized gains	¥ 230	¥ 165	¥ 619	\$ 2,170
Gross realized losses	(37)	(202)	(1,466)	(349)
Net realized gain (loss)	¥ 193	¥ (37)	¥ (847)	\$ 1,821

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2004		2004	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥28,227	¥3,000	\$266,292	\$28,302
Due after one year through five years	3,951	1,000	37,274	9,434
Due after five years through ten years	2,353	1,000	22,198	9,434
Total	¥34,531	¥5,000	\$325,764	\$47,170

4. INVENTORIES

Inventories at March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Finished products	¥ 8,557	¥ 8,628	¥12,993	\$ 80,726
Work in process	2,841	3,593	4,012	26,802
Raw materials and supplies	748	734	805	7,057
Total	¥12,146	¥12,955	¥17,810	\$114,585

5. 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 ¥2,153 million (\$20,311 thousand), ¥2,305 million and ¥2,931 million for the years ended March 31, 2004, 2003 and 2002, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation and obligations under finance leases which included imputed interest 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, 2004, 2003 and 2002, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Equipment and Fixtures and Other Assets				
Acquisition cost	¥9,142	¥11,652	¥13,425	\$86,245
Accumulated depreciation	5,605	6,763	7,406	52,877
Net leased property	¥3,537	¥ 4,889	¥ 6,019	\$33,368

Obligations under finance leases:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Due within one year	¥1,527	¥2,083	¥2,238	\$14,406
Due after one year	2,010	2,806	3,781	18,962
Total	¥3,537	¥4,889	¥6,019	\$33,368

Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, were computed by the straight-line method for the years ended March 31, 2004, 2003 and 2002.

A foreign consolidated subsidiary leases certain equipment, office space and other assets, under noncancellable operating leases. 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, 2004, 2003 and 2002, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Due within one year	¥ 4,007	¥ 3,286	¥ 3,747	\$ 37,802
Due after one year	22,436	20,108	23,556	211,660
Total	¥26,443	¥23,394	¥27,303	\$249,462

(2) Sublease

Pro forma lease receivables under sublease arrangements that do not transfer ownership of the leased property to the lessee at March 31, 2004, 2003 and 2002, which included imputed interest, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Due within one year	¥ 7	¥ 5	¥ 8	\$ 66
Due after one year	7	7	12	66
Total	¥14	¥12	¥20	\$132

Pro forma obligations under sublease agreements that do not transfer ownership of the leased property to the lessee at March 31, 2004, 2003 and 2002, which included imputed interest, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Due within one year	¥ 8	¥ 7	¥ 7	\$ 75
Due after one year	8	11	10	75
Total	¥16	¥18	¥17	\$150

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets at March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Consolidation goodwill	¥ 3,145	¥ 3,294	¥ 3,487	\$ 29,670
Goodwill associated with consolidated subsidiaries	7,803	8,400	10,554	73,613
Intangible assets that are determined to have an indefinite life with a foreign consolidated subsidiary	3,289	4,048	5,027	31,029
Intangible assets that are determined not to have an indefinite life with a foreign consolidated subsidiary	22,166	24,862	31,155	209,113
Software with the Company and its certain domestic consolidated subsidiaries	7,031	8,073	8,758	66,330
Other	417	398	386	3,934
Total	¥43,851	¥49,075	¥59,367	\$413,689

The Company recognized a goodwill impairment charge of ¥13,195 million associated with the adoption of SFAS No. 142 by BI for the year ended March 31, 2002.

7. INTERESTS IN PARTNERSHIPS

The Company has investments in limited partnerships. The original capital contributions to the partnerships amounted to ¥922 million (\$8,698 thousand), ¥1,054 million and ¥1,150 million as of March 31, 2004, 2003 and 2002, respectively, and the change in carrying value for the three years in the period ended March 31, 2004, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Balance at beginning of period	¥(1,908)	¥(2,148)	¥(2,621)	\$(18,000)
Profits	353	240	473	3,330
Balance at end of period	¥(1,555)	¥(1,908)	¥(2,148)	\$(14,670)

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, 2004, 2003 and 2002, consisted of notes to banks. The annual interest rates applicable to the short-term bank loans ranged from 1.15% to 4.54% at March 31, 2004, ranged from 1.28% to 1.375% at March 31, 2003 and ranged from 0.81% to 1.52% at March 31, 2002.

Long-term debt at March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Long-term debt, collateralized:				
Banks and others, in yen, maturing serially through 2010—with interest rates ranging from 1.49% to 3.13% in 2004, 2003 and 2002	¥ 96	¥ 99	¥ 250	\$ 906
Government-owned bank, in yen, maturing serially through 2013—with interest rates ranging from 3.5% to 5.45% in 2004, 2003 and 2002	4,212	4,799	5,871	39,736
Total long-term debt, collateralized	4,308	4,898	6,121	40,642
Long-term debt, unsecured:				
Banks, in yen, maturing serially through 2007—with interest rates ranging from 0.84% to 2.89% in 2004, 2003 and 2002	1,368	21	87	12,905
Banks and others, in U.S. dollars—with interest at the average rate of 8.02% in 2004, 6.45% in 2003 and 7.46% in 2002	48	113	152	453
Bonds due 2008— with interest rates ranging from 0.31% to 0.51%	270			2,547
U.S. dollar convertible debentures, convertible into BI's common stock at \$33.05 per share, due 2011			5,938	
Total long-term debt, unsecured	1,686	134	6,177	15,905
Total long-term debt	5,994	5,032	12,298	56,547
Less current portion	(1,410)	(751)	(1,347)	(13,302)
Long-term debt, less current portion	¥ 4,584	¥4,281	¥10,951	\$ 43,245

Annual maturities of long-term debt at March 31, 2004, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥1,410	\$13,302
2006	1,161	10,953
2007	854	8,057
2008	670	6,321
2009	573	5,405
2010 and thereafter	1,326	12,509
Total	¥5,994	\$56,547

At March 31, 2004, assets having the following carrying values were pledged as collateral for the short-term loans in the amount of ¥150 million (\$1,415 thousand) and the long-term debts in the amount of ¥4,308 million (\$40,642 thousand) by the Company and its domestic consolidated subsidiaries.

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥ 100	\$ 943
Land	14,728	138,944
Buildings—net of accumulated depreciation	11,678	110,170
Total	¥26,506	\$250,057

9. RETIREMENT AND PENSION PLANS

The Company and Its Certain Domestic Consolidated Subsidiaries

Retirement benefits for employees

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.

The Company and its domestic consolidated subsidiaries have a contributory defined benefit pension plan. The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program by the Company on behalf of the government and a corporate portion established at the discretion of the Company. The pension fund is administered by a board of trustees composed of management and employee representatives as required by government regulations.

According to the enactment of the Defined Benefit Pension Plan Law on April 1, 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained an approval for exemption from future obligation by the Ministry of Health, Labour and Welfare on March 14, 2003.

As a result of this exemption, the Company and its domestic subsidiaries recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥3,150 million in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003.

On April 1, 2004, the Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labour and Welfare. The actual transfer of the pension obligations and related assets to the government is to take place subsequently after the government's approval.

Effective from April 1, 2004 the Company and its certain domestic consolidated subsidiaries revised from the current benefits pension plan to cash-balance plan to reduce the Company's future risk for unexpected low return from pension fund.

The liability for employees' retirement benefits at March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Projected benefit obligation	¥ 8,169	¥ 8,737	¥ 16,678	\$ 77,066
Fair value of plan assets	(10,141)	(8,886)	(10,122)	(95,670)
Unrecognized actuarial loss	(54)	(957)	(3,854)	(509)
Unrecognized prior service cost	812			7,660
Prepaid pension expenses	3,255	3,083	395	30,708
Net liability	¥ 2,041	¥ 1,977	¥ 3,097	\$ 19,255

Prepaid pension expenses were included in other assets.

The components of net periodic benefit costs for the years ended March 31, 2004, 2003 and 2002, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Service cost	¥ 896	¥ 1,610	¥ 1,282	\$ 8,453
Interest cost	172	413	396	1,622
Expected return on plan assets	(178)	(202)	(279)	(1,679)
Recognized actuarial loss	178	505	186	1,679
Amortization of prior service cost	(8)			(75)
Net periodic benefit costs	¥ 1,060	¥ 2,326	¥ 1,585	\$ 10,000

Assumptions used for the years ended March 31, 2004, 2003 and 2002, were set forth as follows:

	2004	2003	2002
Discount rate	2.0%	2.0%	2.5%
Expected rate of return on plan assets	2.0%	2.0%	3.5%
Recognition period of actuarial loss	8 years	8 years	8 years
Amortization period of prior service cost	8 years		

Retirement benefits for directors, corporate auditors and Company's officers

The liability for retirement benefits at March 31, 2004, 2003 and 2002 for directors, corporate auditors and Company's officers was ¥1,346 million (\$12,698 thousand), ¥1,216 million and ¥1,226 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

A Foreign Consolidated Subsidiary—BI

BI has a Supplemental Executive Retirement Plan ("SERP") for the benefit of its Chairman of the Board, certain designated executives and their designated beneficiaries. Information for the SERP at March 31, 2004, 2003 and 2002, was set forth as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Projected benefit obligation	¥ 1,816	¥ 1,966	¥ 2,130	\$ 17,132
Accrued benefit liability	1,779	1,924	2,084	16,783
Net periodic benefit costs	238	300	365	2,245

**10. SHARE
HOLDERS'
EQUITY**

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

At the general shareholders meeting held on June 25, 2003, the Company's shareholders approved the acquisition of treasury stock, up to 5,000,000 shares of the Company's common stock (aggregate amount of ¥10,000 million). According to the resolution, the Company acquired 2,325,427 shares of common stock for the year ended March 31, 2004, at an aggregate cost of ¥4,650 million (\$43,868 thousand).

The amount of retained earnings available for dividends under the Code was ¥127,978 million (\$1,207,340 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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.

**11. SEGMENT
INFORMATION**

Information about industry segments, geographic segments and sales to foreign customers of the Companies for the years ended March 31, 2004, 2003 and 2002, was as follows:

a. Industry Segments
(1) Sales and Operating Income

	Millions of Yen						
	2004						
	Education Group	Women & Family Company	Senior Company	Language Company	Others	Eliminations/Corporate	Consolidated
Sales to customers	¥164,780	¥16,264	¥16,761	¥ 46,096	¥16,241		¥260,142
Intersegment sales	21			49	23,113	¥(23,183)	
Total sales	164,801	16,264	16,761	46,145	39,354	(23,183)	260,142
Operating expenses	143,957	17,625	15,146	45,753	37,452	(20,493)	239,440
Operating income (loss)	¥ 20,844	¥ (1,361)	¥ 1,615	¥ 392	¥ 1,902	¥ (2,690)	¥ 20,702

	Thousands of U.S. Dollars						
	2004						
	Education Group	Women & Family Company	Senior Company	Language Company	Others	Eliminations/Corporate	Consolidated
Sales to customers	\$1,554,529	\$153,434	\$158,122	\$434,868	\$153,217		\$2,454,170
Intersegment sales	198			462	218,047	\$(218,707)	
Total sales	1,554,727	153,434	158,122	435,330	371,264	(218,707)	2,454,170
Operating expenses	1,358,085	166,274	142,886	431,632	353,321	(193,330)	2,258,868
Operating income (loss)	\$ 196,642	\$(12,840)	\$ 15,236	\$ 3,698	\$ 17,943	\$ (25,377)	\$ 195,302

	Millions of Yen						
	2003						
	Education Group	Women & Family Company	Senior Company	Language Company	Others	Eliminations/Corporate	Consolidated
Sales to customers	¥162,835	¥14,757	¥12,149	¥54,939	¥13,609		¥258,289
Intersegment sales	25			92	31,928	¥(32,045)	
Total sales	162,860	14,757	12,149	55,031	45,537	(32,045)	258,289
Operating expenses	145,211	17,568	11,686	54,015	43,686	(30,194)	241,972
Operating income (loss)	¥ 17,649	¥ (2,811)	¥ 463	¥ 1,016	¥ 1,851	¥ (1,851)	¥ 16,317

(The change of industry segment)

Prior to June 1, 2002, the Company classified its business into six segments: "Children & students company," "School and teacher support company," "Women and family company," "Senior company," "Language instruction and translation" and "Others." Effective June 1, 2002, the Company reclassified these six segments into five segments by combining the Children & students company segment and School and teacher support company segment into the Education group segment.

This reclassification was implemented to enable the Company to remain a leading private education company by sharing such expertise and resources for creating educational materials as customer and other data accumulated in *Shinken* correspondence courses, a strength of the former Children & students company segment, and information from teachers in schools and educational course data accumulated through Shinken Simulated Exams, a strength of the former School and teacher support company segment. By this change, the Company will be able to maximize its collective strength in the education field.

To conform to the segmentation used in 2004 and 2003, the reclassified segment information of the year ended March 31, 2002, was shown as below:

	Millions of Yen						Consolidated
	2002						
	Education Group	Women & Family Company	Senior Company	Language Company	Others	Eliminations/Corporate	
Sales to customers	¥174,729	¥10,946	¥ 7,145	¥62,247	¥12,183		¥267,250
Intersegment sales	5			35	38,094	¥(38,134)	
Total sales	174,734	10,946	7,145	62,282	50,277	(38,134)	267,250
Operating expenses	147,713	12,962	8,209	61,698	48,732	(36,653)	242,661
Operating income (loss)	¥ 27,021	¥ (2,016)	¥(1,064)	¥ 584	¥ 1,545	¥ (1,481)	¥ 24,589

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

	Millions of Yen						Consolidated
	2004						
	Education Group	Women & Family Company	Senior Company	Language Company	Others	Eliminations/Corporate	
Assets	¥75,160	¥8,782	¥23,687	¥55,365	¥15,210	¥113,896	¥292,100
Depreciation and amortization	4,706	360	601	1,628	681	(156)	7,820
Capital expenditures	2,989	176	4,942	1,333	504	(93)	9,851

	Thousands of U.S. Dollars						Consolidated
	2004						
	Education Group	Women & Family Company	Senior Company	Language Company	Others	Eliminations/Corporate	
Assets	\$709,056	\$82,849	\$223,462	\$522,311	\$143,491	\$1,074,491	\$2,755,660
Depreciation and amortization	44,396	3,396	5,670	15,359	6,425	(1,472)	73,774
Capital expenditures	28,198	1,660	46,623	12,575	4,755	(877)	92,934

	Millions of Yen						Consolidated
	2003						
	Education Group	Women & Family Company	Senior Company	Language Company	Others	Eliminations/Corporate	
Assets	¥71,893	¥8,689	¥17,175	¥59,009	¥19,423	¥99,327	¥275,516
Depreciation and amortization	5,256	310	507	1,971	709	(181)	8,572
Capital expenditures	3,880	610	1,614	1,281	865	(204)	8,046

	Millions of Yen						Consolidated
	2002						
	Education Group	Women & Family Company	Senior Company	Language Company	Others	Eliminations/Corporate	
Assets	¥75,406	¥6,840	¥14,198	¥75,033	¥20,530	¥99,386	¥291,393
Depreciation and amortization	5,331	195	371	3,719	693	391	10,700
Capital expenditures	6,307	290	1,435	2,280	850	(228)	10,934

b. Geographical Segments

The foreign operations of the Companies for the years ended March 31, 2004, 2003 and 2002, were summarized as follows:

	Millions of Yen				
	2004				
	Japan	North America	Others	Eliminations/Corporate	Consolidated
Sales:					
To customers	¥227,115	¥10,199	¥22,828		¥260,142
Inter-area		23	49	¥ (72)	
Total sales	227,115	10,222	22,877	(72)	260,142
Operating expenses	207,688	8,000	23,824	(72)	239,440
Operating income (loss)	¥ 19,427	¥ 2,222	¥ (947)		¥ 20,702
Assets	¥116,102	¥45,848	¥12,533	¥117,617	¥292,100

	Thousands of U.S. Dollars				
	2004				
	Japan	North America	Others	Eliminations/Corporate	Consolidated
Sales:					
To customers	\$2,142,594	\$ 96,217	\$215,359		\$2,454,170
Inter-area		217	462	\$ (679)	
Total sales	2,142,594	96,434	215,821	(679)	2,454,170
Operating expenses	1,959,320	75,472	224,755	(679)	2,258,868
Operating income (loss)	\$ 183,274	\$ 20,962	\$ (8,934)		\$ 195,302
Assets	\$1,095,302	\$432,528	\$118,236	\$1,109,594	\$2,755,660

	Millions of Yen				
	2003				
	Japan	North America	Others	Eliminations/ Corporate	Consolidated
Sales:					
To customers	¥214,808	¥15,705	¥27,776		¥258,289
Inter-area		6		¥ (6)	
Total sales	214,808	15,711	27,776	(6)	258,289
Operating expenses	199,105	13,428	29,445	(6)	241,972
Operating income (loss)	¥ 15,703	¥ 2,283	¥ (1,669)		¥ 16,317
Assets	¥108,422	¥49,403	¥13,247	¥104,444	¥275,516

	Millions of Yen				
	2002				
	Japan	North America	Others	Eliminations/ Corporate	Consolidated
Sales:					
To customers	¥216,751	¥20,095	¥30,404		¥267,250
Inter-area		6		¥ (6)	
Total sales	216,751	20,101	30,404	(6)	267,250
Operating expenses	192,533	19,142	30,992	(6)	242,661
Operating income (loss)	¥ 24,218	¥ 959	¥ (588)		¥ 24,589
Assets	¥120,310	¥49,233	¥16,458	¥105,392	¥291,393

c. Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2004, 2003 and 2002, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2004			2004		
	North America	Others	Total	North America	Others	Total
Sales to foreign customers (A)	¥10,199	¥22,967	¥ 33,166	\$96,217	\$216,670	\$ 312,887
Consolidated sales (B)			260,142			2,454,170
Ratio of foreign sales to consolidated sales (A)/(B)	3.9%	8.8%	12.7%	3.9%	8.8%	12.7%

	Millions of Yen		
	2003		
	North America	Others	Total
Sales to foreign customers (A)	¥15,705	¥28,059	¥ 43,764
Consolidated sales (B)			258,289
Ratio of foreign sales to consolidated sales (A)/(B)	6.1%	10.8%	16.9%

	Millions of Yen		
	2002		
	North America	Others	Total
Sales to foreign customers (A) . . .	¥20,095	¥30,689	¥ 50,784
Consolidated sales (B)			267,250
Ratio of foreign sales to consolidated sales (A)/(B)	7.5%	11.5%	19.0%

Notes: North America consists of the United States of America and Canada.

Others consists of the United Kingdom, Germany and France.

12. RELATED PARTY TRANSACTION

Major transactions of the Company with a director for the year ended March 31, 2003, were as follows:

	Millions of Yen
	2003
Sales of property and equipment	¥5,473

Gain on sales of property and equipment was included in other—net in the amount of ¥501 million.

13. ADVERTISING COSTS

Advertising costs charged to income were ¥33,274 million (\$313,906 thousand), ¥29,902 million and ¥29,717 million for the years ended March 31, 2004, 2003 and 2002, respectively.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,905 million (\$17,792 thousand), ¥1,730 million and ¥2,047 million for the years ended March 31, 2004, 2003 and 2002, respectively.

15. DERIVATIVES

The Company and its foreign consolidated subsidiary enter into foreign exchange contracts and currency swap agreements to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

It is the Company's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities. The Company and its foreign consolidated subsidiary do not hold or issue derivatives for trading purposes.

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

Because the counterparties to these derivatives are limited to major international financial institutions, the Company 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 Directors approval, and each derivatives transaction is periodically reported to its Board of Directors.

Derivatives contracts outstanding at March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of Yen								
	2004			2003			2002		
	Contract or Notional Amount	Fair Value	Unrealized Gain	Contract or Notional Amount	Fair Value	Unrealized Gain	Contract or Notional Amount	Fair Value	Unrealized Gain
Foreign currency forward contracts:									
Receivables—U.S. dollars				¥10	¥10		¥ 1,037	¥1,068	¥ 31
Payables—U.S. dollars	¥5,185	¥5,186	¥(1)						
Total	¥5,185	¥5,186	¥(1)	¥10	¥10		¥ 1,037	¥1,068	¥ 31
Currency swap agreements:									
U.S. dollar receipt, yen payment							¥12,627	¥ 101	¥101
U.S. dollar receipt, British pound payment							1,052	6	6
Total							¥13,679	¥ 107	¥107
Interest rate swaps—									
Receive floating/ pay fixed	¥ 236	¥ (3)	¥(3)						
Interest rate cap	¥ 400	¥ (0)	¥(8)						

	Thousands of U.S. Dollars		
	2004		
	Contract or Notional Amount	Fair Value	Unrealized Loss
Foreign currency forward contracts—			
Payables—U.S. dollars	\$48,915	\$48,924	\$ (9)
Interest rate swaps—			
Receive floating/payfixed	\$ 2,226	\$ (28)	\$(28)
Interest rate cap	\$ 3,774	\$ (0)	\$(75)

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

16. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2004, 2003 and 2002.

The tax effects of significant temporary differences which result in deferred tax assets and liabilities at March 31, 2004, 2003 and 2002, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Deferred tax assets:				
Enterprise tax	¥ 531	¥ 129	¥ 461	\$ 5,009
Provision for employees' bonuses	1,265	586	584	11,934
Liability for retirement benefits	83	1,048	1,534	783
Deferred tax assets of the foreign consolidated subsidiaries*	1,337	1,497	1,008	12,613
Unrealized gains on fixed assets	321	342	327	3,028
Tax loss carryforwards	799	1,006	977	7,538
Others	739	51	1,017	6,972
Less valuation allowance	(808)	(1,006)	(977)	(7,622)
Total	¥ 4,267	¥ 3,653	¥ 4,931	\$ 40,255
Deferred tax liabilities:				
Unrealized gain on land held by a consolidated subsidiary		¥ 409	¥ 409	
Prepaid pension expenses	¥ 144			\$ 1,358
Others	228	35		2,151
Total	¥ 372	¥ 444	¥ 409	\$ 3,509

* The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities of the foreign consolidated subsidiaries at March 31, 2004, 2003 and 2002, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Deferred tax assets:				
Accrued expenses	¥ 1,526	¥ 1,411	¥ 1,434	\$ 14,396
Net operating losses	478	394	312	4,509
Deferred revenue	138	191	241	1,302
Foreign tax credits	709	869	642	6,689
Others	672	589	462	6,340
Total	3,523	3,454	3,091	33,236
Deferred tax liabilities:				
Publishing rights amortization	568	683	641	5,358
Others	211	52	428	1,991
Total	779	735	1,069	7,349
Net deferred tax assets	2,744	2,719	2,022	25,887
Valuation allowance	(1,407)	(1,222)	(1,014)	(13,274)
Net deferred tax assets	¥ 1,337	¥ 1,497	¥ 1,008	\$ 12,613

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

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2004, 2003 and 2002, and the actual effective tax rates reflected in the accompanying consolidated statements of income were as follows:

	2004	2003	2002
Normal effective statutory tax rate	42.0%	42.0%	42.0%
Goodwill amortization in the foreign consolidated subsidiaries	2.6	8.1	4.1
Permanently non-deductible expenses of social expenses, etc.	2.3	1.0	0.6
Valuation loss on investment in subsidiaries	(2.4)		
Other	(0.3)	1.2	1.6
Actual effective tax rate	44.2%	52.3%	48.3%

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 42.0% to 40.6%, effective for years beginning April 1, 2004. By this change, deferred tax assets were reduced by ¥13 million and income tax—deferred and unrealized gain (loss) on available-for-sale securities were increased by ¥11 million and ¥2 million, respectively

17. STOCK OPTION PLAN

The Company has a stock option plan. The stock option plan which was approved at the 49th general shareholders meeting provides options for purchases of the Company's common stock for the directors, officers of the Company and directors of subsidiaries.

Date of Grant	Number of Options Granted (Thousands of Shares)		Exercise Period	The Exercise Price of Options (Yen per Share)
July 25, 2003	Directors	300	From July 1, 2005 to June 30, 2009	¥2,148
	Officers	480	From July 1, 2005 to June 30, 2009	
	Directors of subsidiaries	40	From July 1, 2005 to June 30, 2009	
	Total	820		

18. NET INCOME PER SHARE

Reconciliation of differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2004, 2003 and 2002, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-average Shares		EPS
Year Ended March 31, 2004				
Basic EPS—Net income available to common shareholders	¥9,266	105,713	¥87.65	\$0.8269
Effect of dilutive securities— Stock options		38		
Diluted EPS—Net income for computation	¥9,266	105,751	¥87.62	\$0.8266
Year Ended March 31, 2003				
Basic EPS—Net income available to common shareholders	¥ 6,812	105,608	¥ 64.51	
Year Ended March 31, 2002				
Basic EPS—Net income available to common shareholders	¥ 244	106,353	¥ 2.30	

Reconciliation of difference between basic and diluted EPS for the years ended March 31, 2003 and 2002 was not disclosed since it did not have an effect on dilution due to stock options.

19. SUBSEQUENT EVENTS**a. Stock Option Plan**

At the general shareholders meeting held on June 25, 2004, the Company's shareholders approved the stock option plan for the Company's directors, officers and subsidiaries' directors to purchase up to 300,000 shares of the Company's common stock in the period from July 1, 2006 to June 30, 2010. The options will be granted at an exercise price of 105% of the higher price, either the average market value of the Company's common stock in the month prior to which the date of option grant occurs, or the fair market value of the Company's common stock at the previous date of option grant.

b. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2004, were approved by the Company's shareholders at a meeting held on June 25, 2004:

	Millions of Yen	Thousands of U.S. Dollars
	2004	2004
Year-end cash dividends, ¥25.5 (\$0.24) per share	¥2,653	\$25,028
Bonuses to directors	66	623

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Benesse Corporation:

We have audited the accompanying consolidated balance sheets of Benesse Corporation and consolidated subsidiaries as of March 31, 2004, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2004, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Benesse Corporation and consolidated subsidiaries as of March 31, 2004, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

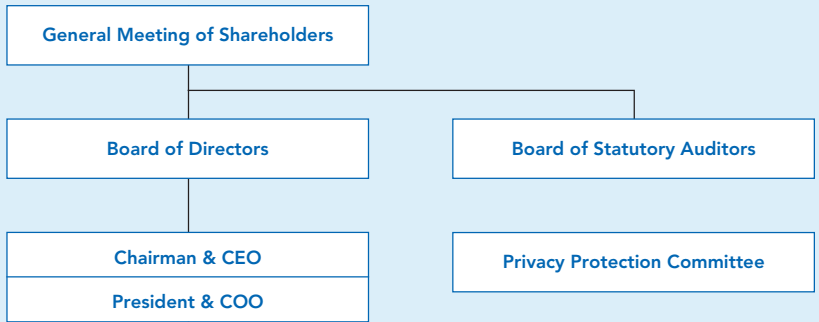
Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

A handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu".

June 25, 2004

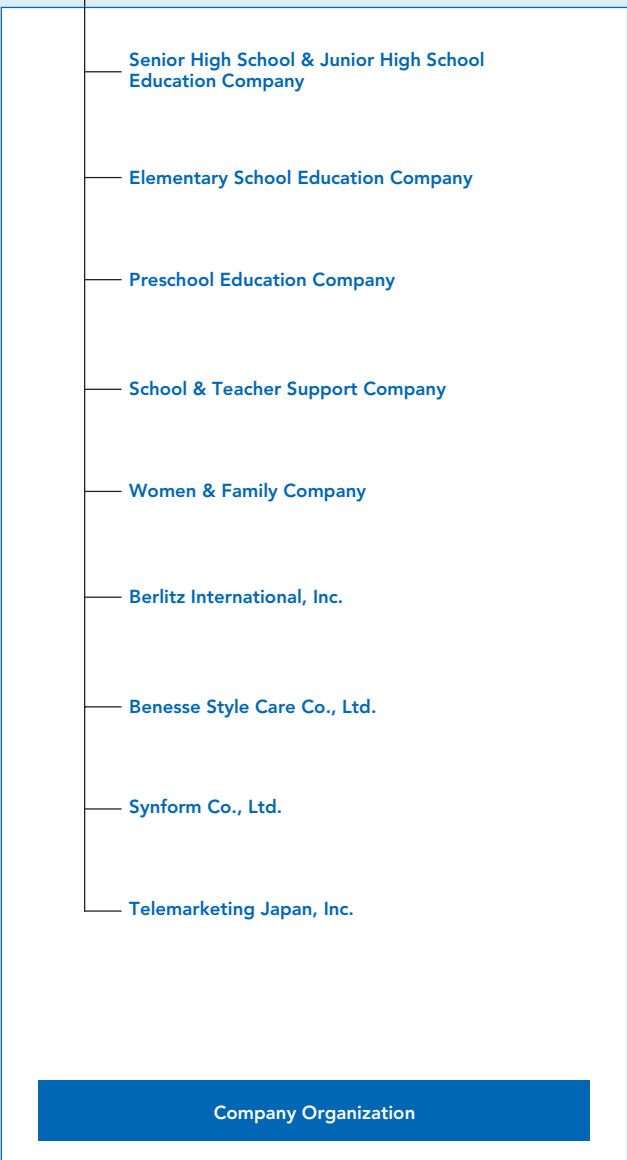
BENESSE CORPORATION ORGANIZATION OF 2004

As of July 31, 2004



Business Offices

- Okayama Headquarters
- Tokyo Head Office
- Hokkaido Office
- Tohoku Office
- Morioka Office
- Kanto Office
- Saitama Office
- Tokyo Office
- Shizuoka Office
- Nagoya Office
- Hokuriku Office
- Osaka Office
- Kyoto Office
- Chugoku-Shikoku Office
- Kyushu Office
- Kumamoto Office
- Taipei Office



CONSOLIDATED SUBSIDIARIES

As of March 31, 2004

Name of company	Common stock	Ratio of shareholding	Description of business
	Millions of Yen	%	
Telemarketing Japan, Inc.	300	100.00	Telemarketing
Benesse Style Care Co., Ltd.	100	100.00	Operation of senior citizen welfare business
Synform Co., Ltd.	95	100.00	Computer information processing and systems development and sales
Shinken-AD Co., Ltd.	65	50.05	Advertising services and creation of university information magazines
Okayama Language Center	50	75.00	Language instruction and translation services
Benesse en-Famille Inc.	50	66.00	Home food-delivery service
Plandit Co., Ltd.	40	100.00	Planning and editing of study materials
Simul International, Inc.	40	100.00	Interpretation, translation and language instruction services
Benesse MCM Corp.	30	*1 100.00	Support for nursing care services
Naoshima Cultural Village Co., Ltd.	20	100.00	Hotel and campsite operation and management
Simul Business Communications, Inc.	20	*2 100.00	Personnel services
Persons Inc.	20	100.00	Personnel services
Benesse Base-Com, Inc.	20	100.00	Production, distribution and sales of study materials and software
Benesse Insurance Services, Inc.	20	*3 92.72	Insurance agency business
Carry Com Co., Ltd.	10	100.00	Truck transport services and warehouse storage
Benesse Music Publishing Co.	10	100.00	Music publication rights management
Learn-S Co., Ltd.	10	100.00	Planning, editing, production and sales of study materials
Simul Technical Communications, Inc.	10	*2 100.00	Rental, sale and repair of simultaneous interpreting equipment
IPU Corporation, Ltd.	10	*4 50.05	Job placement support business
	Thousands of U.S. Dollars	%	
Berlitz International, Inc.	1,005	*5 100.00	Language instruction
	U.S. Dollars	%	
Benesse Holdings International, Inc.	5.48	100.00	Holding company
	Thousands of U.S. Dollars	%	
Shinken Advertising (New York), Inc.	10	*4 50.05	Providing information on U.S. universities and planning support
Value Communication Services (Shanghai), Inc.	2,050	*6 100.00	Call center planning
	Thousands of H.K. Dollars	%	
Benesse Hong Kong Co., Ltd.	3,600	100.00	General trading and quality assurance related to educational equipment, toys and other items

*1 Indirectly held through Benesse Style Care Co., Ltd.

*2 Indirectly held through Simul International, Inc.

*3 Including an indirect holding of 62.72% through subsidiaries and affiliates

*4 Indirectly held through Shinken-AD Co., Ltd.

*5 Indirectly held through Benesse Holdings International, Inc.

*6 Indirectly held through Telemarketing Japan, Inc.

THE HISTORY OF BENESSE CORPORATION

Year	History
1955	Fukutake Publishing Co., Ltd., is established in Minamigata, Okayama prefecture, and begins publishing junior high school educational materials and student pocketbooks.
1962	The Company establishes Kansai School Entrance Research Association and begins offering <i>Kansai Simulated Exams</i> (now <i>Shinken Simulated Exams</i>) for senior high school students.
1969	<i>Correspondence Education Seminar</i> (now <i>Shinkenzeni Senior High School Courses</i>) is launched. Tokyo Office opens and begins offering <i>Shinken Simulated Exams</i> in eastern Japan.
1972	<i>Correspondence Education Seminar Junior</i> (now <i>Shinkenzeni Junior High School Courses</i>) is launched.
1973	<i>Kansai Simulated Exams</i> are renamed <i>Shinken Simulated Exams</i> . <i>Correspondence Education Seminar</i> is renamed <i>Shinkenzeni</i> .
1980	<i>Shinkenzeni Elementary School Courses</i> are introduced.
1988	<i>Shinkenzeni Preschool Courses</i> for age 4 to 5 (now <i>Kodomo Challenge</i>) are introduced.
1990	The Company's new corporate identity "Benesse" is announced. The Company invests in Berlitz Schools of Languages, Inc. (now Berlitz Japan, Inc.).
1993	The Company acquires Berlitz International, Inc. of the United States. The magazines <i>Tamago Club</i> and <i>Hiyoko Club</i> are launched.
1994	<i>Shinkenzeni Preschool Courses</i> for age 2 to 3 (now <i>Kodomo Challenge</i>) are introduced.
1995	The Company's name is changed to Benesse Corporation. Benesse lists on the Second Section of the Osaka Securities Exchange and the Hiroshima Stock Exchange.
1997	Benesse moves up to the First Section of the Osaka Securities Exchange. <i>Benesse Home Clara</i> opens in Okayama.
1998	Simul International, Inc. joins the Benesse Group.
1999	Customer-based in-house company system is introduced.
2000	Benesse lists on the First Section of the Tokyo Stock Exchange. Benesse Care Corporation is established. Benesse acquires controlling stake in Shinkoukai Co., Ltd.
2001	Berlitz International, Inc. becomes the Company's wholly owned subsidiary. Benesse en-Famille Inc. is established through joint capital investment with Taihei Co., Ltd. a home food-delivery company.
2003	Benesse introduces Corporate Executive Officer System and Group Executive Officer System. Shinken-AD Co., Ltd. becomes consolidated subsidiary. Benesse Style Care Co., Ltd. is established. Benesse Hong Kong Co., Ltd. is established.
2004	Benesse Korea Co., Ltd. is established.

INVESTOR INFORMATION

As of March 31, 2004

Number of Shares Outstanding:

106,353,453 shares

Listed Date:

October 26, 1995

Securities Listings (Common Stock):

Tokyo Stock Exchange, First Section
Osaka Securities Exchange, First Section

Ticker Code:

9783

Unit of Trading:

100 shares

Independent Auditors:

Deloitte Touche Tohmatsu

Transfer Agent:

UFJ Trust Bank Limited

Number of Shareholders:

38,565

Stock Splits:

1:1.2 made on May 20, 1997

1:2.0 made on May 19, 2000

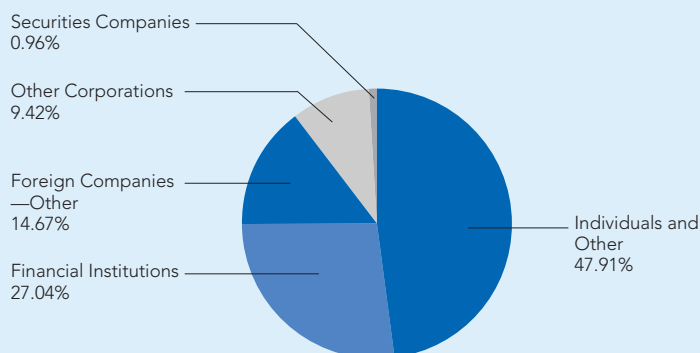
Stock Cancellation:

1,334,000 shares on January 7, 1998

Top 10 Shareholders:

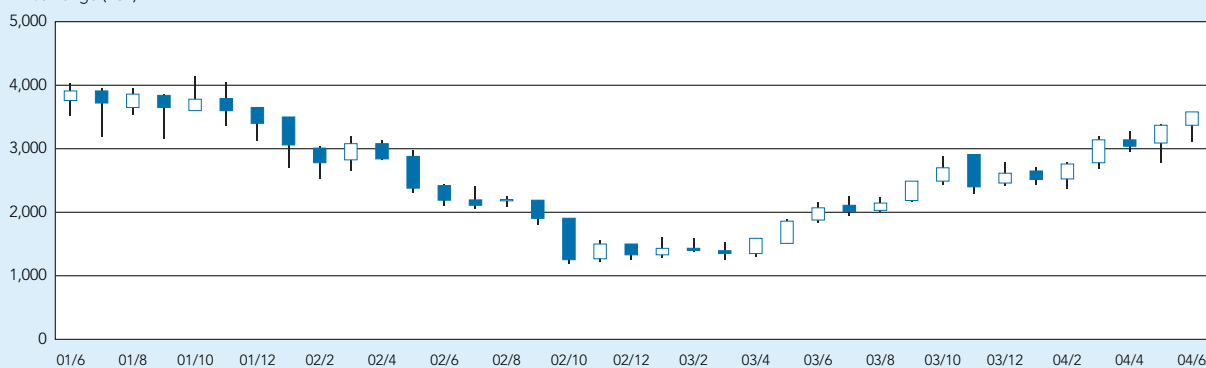
	Shares (Thousands)	Percentage (%)
Soichiro Fukutake	16,044	15.08
The Master Trust Bank of Japan, Ltd.	6,559	6.16
Japan Trustee Services Bank, Ltd.	6,516	6.12
The Chugoku Bank, Ltd.	4,337	4.07
Reiko Fukutake	3,174	2.98
Nobuko Fukutake	2,769	2.60
Mitsuko Fukutake	2,675	2.51
Junko Fukutake	2,675	2.51
Fukutake Education Foundation	2,430	2.28
Fukutake Culture Foundation	2,160	2.03

Shareholdings by Type of Shareholder (%):

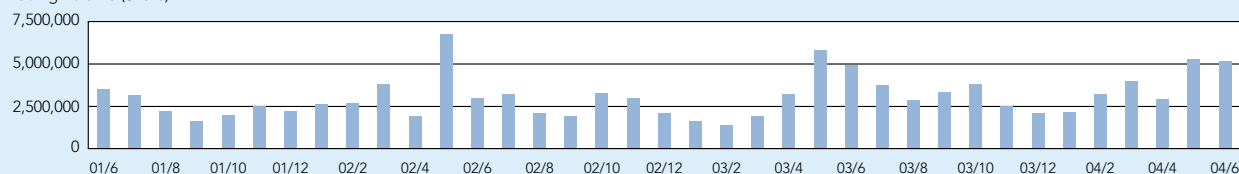


Stock Price Range & Trading Volume (Osaka Securities Exchange):

Stock Price Range (Yen)



Trading Volume (Share)



THE BENESSE CODE OF CORPORATE CONDUCT

**Benesse, the very name of our company means to live well.
We are dedicated to the challenge of living up to our name by making integrity the founding principle
for our growth as a strong and competitive corporation.**

As employees of the Benesse Group,
we will constantly strive to bring the benefits of our goal of "living well" to all our stakeholders,
to place the utmost importance upon integrity, and to make integrity the basis of all our actions
and the key to achieving our success as a corporation.

"The Benesse Code of Corporate Conduct" and "The Benesse Standard of Conduct"
are designed to serve as a guide for ensuring that integrity serves as the basis of our day to day activity.

For our customers:

At Benesse we extend our promise of living well to all our customers: from the smallest infant to the most senior citizen. We take pride in offering our customers services of the highest possible quality: services which we and the members of our own families would be happy to receive. The needs and well being of our customers are therefore of the utmost importance to us all, and the satisfaction of our customers is the measure by which we evaluate all of our achievements.

By dedicating ourselves to the service of our customers in this manner, and by treating our customers as we and our own families would like to be treated, we strive to provide our customers with the goods and services best suited to them, in a timely manner and at the most reasonable prices possible.

Conducting our business in this way requires that we collect information of a personal nature from our customers. We take the collection and management of this information to be a grave responsibility, and are constantly reviewing our business practices in order to ensure that we are worthy of the trust hereby shown to us by our customers.

To our partners in business:

Our success as a business, and our ability to satisfy our customers, is largely due to the co-operation we receive from our business partners. We emphasize the importance of the role of our business partners in the achievement of our corporate mission by formalizing in writing our relationship with them as equal partners. In this way, all those involved in fulfilling the mission of Benesse are made clearly aware of their role, their responsibilities and their contribution in creating prosperity for all.

To our colleagues:

Our achievements are the result of the individual efforts of our employees and of their combined strengths as a dedicated team. Because of this we place great value upon our culture of challenge and voracity, and encourage behavior based upon initiative and originality. As members of Benesse we must treat each other with respect, recognize our different individual strengths and strive to create a workplace where these strengths may be combined for the benefit of all. Each employee of Benesse is expected to act as a mature individual, taking the responsibility for their own actions and the achievement of their given tasks.

Benesse makes every effort to ensure that its employees are evaluated fairly and rewarded accordingly, and that motivated and skilled employees are given the opportunity to further develop their abilities and to advance within the organization. We seek to create a workplace wherein talented individuals inspire each other to greater achievements and levels of expertise.

To our community:

Our business is based upon supporting and assisting individuals and families in their everyday lives; as such our business would not be possible without a strong and positive relationship with the community. At Benesse we hold a clear vision for the future, which we strive to realize by positive action and leadership. Fully aware of our influence upon society, Benesse is mindful of its obligation to contribute to the community as a responsible corporate citizen, and is actively involved in environmental initiatives as part of its obligation as a responsible consumer of natural resources. Living up to our name, we at Benesse believe that it is our duty to aim to adhere to the highest standards in business ethics, to be vigilant in our pursuit of social justice, and to act with integrity towards all individuals and organizations with which we come into contact.

To our shareholders:

Our shareholders have great expectations for their investments in Benesse. In order to meet these expectations we must pursue innovation by means of an ongoing regimen of research and development so as to ensure that our business activities remain profitable. At the same time, we feel obligated to fully disclose the nature and contents of our business activities so that we may be able to discharge the responsibility of conducting our business in a manner which is both fair and safe.

It is our belief that in order for our shareholders to realize a good return on their investment in Benesse, we must first fully comply with the standards set out in our code of corporate conduct and maintain a comprehensive and consistent disclosure of information to all our stakeholders.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements concerning the future plans, strategies, beliefs and performance of Benesse Corporation and its subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.



Benesse Corporation

Corporate Communication &
Investor Relations Department
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