A New World of Learning
A World of Possibilities

The growing reach and depth of our education services offers a whole new world of learning: a world of possibilities and choice where people can study whenever and wherever they want using study programs tailored to their individual needs.

Optimal correspondence courses for home study

Our Shinkenzemi and Kodomo Challenge correspondence courses cover children in all age groups, from toddlers right through to senior high school students. As of April 2005, enrollment totaled 4.01 million members—20% of all children in the target age group.

1. Supplement to school
2. Entrance exam support
3. Homework submitted
4. Corrections and comments
5. Materials and homework sent monthly by mail
6. Course selection

Shinkenzemi correspondence course study flow

Red pen Teacher
Student
Benesse

1. Writing and Creative Expression Course
   - + Advanced Courses + E-Learning
   - + Optional Courses + Classrooms
   - Getting the Ideal Start
   - Exploring Potential
   - Realizing Dreams
   - Benefiting From Education Support

2. Challenge Classrooms
   - For today’s junior high school students, busy with study, extracurricular activities and hanging out with friends, Benesse uses a mix of web and correspondence course products to design unique home learning programs with personalized study goals.

3. e-Support
   - A web-based service where junior high school students can get advice on solving questions and information about entrance exams for schools they are applying for, helping them make the most of their Shinkenzemi studies.

4. Challenge Classrooms
   - Small classes of up to five students using materials from Shinkenzemi Elementary School Courses

5. Courses for Students at Elite Combined Private Junior and Senior High Schools
   - A specially designed six-year curriculum to help students pass entrance exams for Japan’s top universities.

6. Waseda, Keio and Sophia University Courses
   - Curricula designed to help students pass entrance exams for some of Japan’s top universities.

7. Manavision Study Path Website
   - Providing the latest news on universities, entrance exams and study path options.

8. Benesse offers a host of entrance exam study courses for first-choice universities, as well as optional materials tailored to individual strengths and weaknesses; senior high school students can also access a website providing useful information on the best study path.

9. Benesse Credit Cards
   - More than just a financial service, these cards give users access to the latest educational information and services offered by card partners.

10. Benesse Study Loans
    - Helping students fulfill their goals through financial support for university, overseas study and additional qualifications.

As a leading authority in the education field, Benesse is uniquely placed to help parents make the right choices through the provision of trusted educational information, financial support and other services.

Benesse offers a comprehensive source of information for parents with children of all ages and professionals in the education community.

Benesse Education Information Website

Benesse Credit Cards

Benesse Study Loans

Waseda, Keio and Sophia University Courses

Manavision Study Path Website

ANNUAL REPORT 2005
A World of Possibilities

The growing reach and depth of our education services offers a whole new world of learning: a world of possibilities and choice where people can study whenever and wherever they want using study programs tailored to their individual needs.

Optimal correspondence courses for home study

Our Shinkenzemi and Kodomo Challenge correspondence courses cover children in all age groups, from toddlers right through to senior high school students. As of April 2005, enrollment totaled 4.01 million members—20% of all children in the target age group.

1. Supplement to school
2. Entrance exam support
3. Course selection
4. Corrections and comments
5. Materials and homework sent monthly by mail
6. Information on the best study path

Benesse offers a host of entrance exam study courses for first-choice universities, as well as optional materials tailored to individual strengths and weaknesses; senior high school students can also access a website providing useful information on the best study path.

For today’s junior high school students, busy with study, extracurricular activities and hanging out with friends, Benesse uses a mix of web and correspondence course products to design unique home learning programs with personalized study goals.

Helping children acquire basic learning skills and providing the best environment for follow-up school study

Writing and Creative Expression Course
One of the options for children taking Shinkenzemi Elementary School Courses; provides individual support to boost reading and cognitive skills and enhance creative expression

Challenge Classrooms
Small classes of up to five students using materials from Shinkenzemi Elementary School Courses

e-Support
A web-based service where junior high school students can get advice on solving problems and information about entrance exams for schools. They are applying to; helping them make the most of their Shinkenzemi studies

Courses for Students at Elite Combined Private Junior and Senior High Schools
A specially designed six-year curriculum to help students pass entrance exams for Japan’s top universities

Getting the Ideal Start
+ Optional Courses + Classrooms

Exploring Potential
+ Advanced Courses + E-Learning

Realizing Dreams
+ Premium Brands + Useful Information

Benefiting From Education Support
+ Life Support
In mainstay Shinkenzemi correspondence courses, we began introducing new course materials tailored to different academic abilities in fiscal 2003. Using PCs, mobile phones, or classroom formats, we plan to further develop new learning styles in order to build a more powerful brand in the education field.

New Education Products and Services Launched Since Fiscal 2003

Shinkenzemi

On-Demand Materials

Grades 1–2
English 1,400 courses; Math 2,000 courses

Manavision

Classroom-based Study

Waseda, Keio and Sophia University Courses

Premium brands

Shinkenzemi + α

Endowed Courses and Departments at the

R&D

Services

English

Websites

Senior High School Students

Grades 1–3: 3–8 levels
<table>
<thead>
<tr>
<th>Junior High School Students</th>
<th>Elementary School Students</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Courses for Different Levels</strong></td>
<td></td>
</tr>
<tr>
<td>Grades 1~3: 2 levels</td>
<td>Grades 3~6: 2 levels</td>
</tr>
<tr>
<td><strong>FAX-based Correspondence Learning</strong></td>
<td></td>
</tr>
<tr>
<td>Returned within 3 days</td>
<td></td>
</tr>
<tr>
<td><strong>e-Support</strong></td>
<td><strong>Challenge Land</strong></td>
</tr>
<tr>
<td><strong>Benesse Education Information Site</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Optional Course Materials</strong></td>
<td><strong>Classroom-based Study</strong></td>
</tr>
<tr>
<td><strong>Courses for Students at Elite Combined Private Junior and Senior High Schools</strong></td>
<td><strong>e-Juken Study Service</strong></td>
</tr>
<tr>
<td><strong>English Materials / Classrooms</strong></td>
<td><strong>Korasho English Courses, English Classrooms for Children</strong></td>
</tr>
<tr>
<td><strong>Benesse Credit Cards / Benesse Study Loans</strong></td>
<td></td>
</tr>
<tr>
<td><em><em>University of Tokyo / ECF</em>/ Benesse Educational Research and Development Center</em>*</td>
<td></td>
</tr>
</tbody>
</table>

*ECF: English Curriculum Framework
FINANCIAL HIGHLIGHTS

Benesse Corporation and Consolidated Subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Percentage Change</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOR THE YEAR:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>¥291,403</td>
<td>¥260,142</td>
<td>12.0%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>26,178</td>
<td>20,702</td>
<td>26.5%</td>
</tr>
<tr>
<td>Income before Income Taxes and Minority Interests</td>
<td>25,799</td>
<td>17,251</td>
<td>49.6%</td>
</tr>
<tr>
<td>Net Income</td>
<td>14,297</td>
<td>9,394</td>
<td>52.2%</td>
</tr>
</tbody>
</table>

| AT YEAR-END:           |                 |                   |                           |
| Total Assets           | ¥307,668        | ¥292,100          | 5.3%                      | $2,875,402               |
| Shareholders’ Equity   | 174,711         | 170,781           | 2.3%                      | 1,632,813                |

| PER SHARE OF COMMON STOCK: |     |                   |                           |
| Net Income              | ¥ 138.05       | ¥ 88.80           | $ 1.2902                  |
| Shareholders’ Equity    | 1,701.18       | 1,640.55          | 15.8989                   |
| Cash Dividends Applicable to the Year | 60.0          | 40.0              | 0.5607                    |

| RATIOS:                |                  |                   |                           |
| Equity Ratio           | 56.8%            | 58.5%             |                           |
| Return on Equity (ROE) | 8.3              | 5.5               |                           |
| Return on Assets (ROA) | 4.8              | 3.3               |                           |
| Employees              | 9,890           | 8,599             |                           |

Notes:
1. U.S. dollar figures are translated, for convenience only, at the rate of ¥107 to U.S.$1, the effective rate of exchange prevailing on March 31, 2005.
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.

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.
In fiscal 2004, the first year of our three-year Medium-Term Management Plan, we posted a robust set of results thanks to extensive reforms to improve the product and service lineup and strengthen marketing capabilities.

In our core correspondence course business, we achieved a big rise in enrollment that exceeded our expectations, helping your company to its second consecutive period of top- and bottom-line growth. As a result, we’re pleased to report that we reached our fiscal 2006 target for operating income of ¥26 billion two years early.

Benesse’s business environment is undergoing unprecedented change, particularly in the education field. In response to the declining academic abilities of Japanese children, the government is reverting to education policies designed to boost these abilities, in preference to a less-demanding approach to education, while the skills needed to pass entrance exams are also changing. Because of this, needs in the education market are rapidly diversifying and we’re actively responding by offering a range of new products tailored to these individual needs. Welcomed by customers, our new lineup of products directly contributed to our strong performance in fiscal 2004.
Galvanized by this success, we’re determined to build a more powerful education brand in fiscal 2005, further increasing trust and raising expectations in Benesse. While our core business is performing well, it’s vital that we use this time to sow the seeds for new growth. That’s why, in addition to existing initiatives to enhance the product lineup and reinforce marketing capabilities, we’ll focus on two areas in the year ahead: first, we’ll aggressively invest in new businesses and R&D, mainly in education. This investment will target areas that promise strong growth, such as e-learning, mobile learning and advanced products. In the past, our priority has been to boost enrollment in our correspondence course business. Our goal now is to deliver unprecedented growth and expansion in the wider education domain by also focusing on areas outside this core business. Second, we’ll aggressively build our presence in new business fields and markets like childrearing support and East Asia. Naturally, by extending our reach into these new areas, we aim to generate stronger growth going forward.

Because we achieved our goal for operating income two years early in fiscal 2004, we’ve set a new target for fiscal 2006—operating income of ¥30 billion. In the current fiscal year, we also reinforced the company’s management structure by appointing another independent director in June 2005, bringing the total to three. By strengthening our management system in these ways, and building a more powerful operating base, we plan to take your company to the next stage of growth.

We celebrated our 50th anniversary in January 2005. We would like to thank all our stakeholders for supporting us over the last half century. This anniversary, however, is merely a waypoint on our journey as a company, and we remain totally committed to delivering on one of our key promises to you: achieving sustained growth in the years ahead. Your support, as ever, will be integral to this endeavor.

July 2005

Soichiro Fukutake
Chairman and CEO

Masayoshi ‘Mike’ Morimoto
President and COO
A CONVERSATION WITH THE PRESIDENT

Question 1

Fiscal 2004 was the first year of the new Medium-Term Management Plan. What progress did you make?

We achieved our second consecutive year of top- and bottom-line growth in fiscal 2004. This performance underlined our success in steadily implementing key initiatives and reflected excellent progress in the first year of the plan. In our core education business, enrollment in mainstay *Shinkenzemi* correspondence courses was particularly strong, rising 4.7% from the level in April a year earlier. This was a key factor helping us to attain our fiscal 2006 target for operating income of ¥26 billion two years early. Although performance at subsidiary Berlitz International, Inc. did improve, primarily in the U.S. and Europe, efforts to turn around the company’s Japanese operations are taking longer than we thought. Given this situation, we plan to speed up the pace of reform.

The education business performed well this year thanks to initiatives launched in fiscal 2003 to strengthen the product lineup and reinforce marketing abilities. Over the last two years, we’ve revamped our product and service lineup to satisfy diversifying customer needs. We took these steps because we realized that standardized products had reached their limits in the marketplace—in short, one-size-fits-all products had lost their appeal to customers. Specific initiatives included introducing learning materials tailored to the different academic abilities of students taking *Shinkenzemi* courses (for Middle Elementary School Courses through to Senior High School Courses), upgrading web-based learning support services for enrolled students, and launching new products for students at private schools. By leveraging our years of expertise in content creation to develop a product and service lineup oriented to individual student needs, I believe we managed to win the trust of customers.

We’ve also radically reformed our marketing strategies. This included the establishment of a Headquarters Marketing Division and a Regional Sales Strategy Division in April 2004. These organizations are leading our new marketing approach. In the past, we relied solely on direct mail. Now we’re initiating a companywide marketing strategy, building a more powerful brand in education, and rolling out local sales promotion activities.

As I mentioned earlier, we reached our target for operating income two years early in fiscal 2004. Consequently, aiming for further growth, we set a new target for fiscal 2006—operating income of ¥30 billion. To achieve this goal, we expect to generate net sales of ¥360 billion.

We will focus on a number of key areas to reach this target, including the creation of an education business with more strength in depth and a rapid turnaround at Berlitz Japan.

---

**Medium-Term Management Plan (FY2004–2006 Forecasts)***

<table>
<thead>
<tr>
<th></th>
<th>FY2004 (Results)</th>
<th>FY2005 (Forecasts)</th>
<th>FY2006 (Forecasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Sales</td>
<td>Operating Income</td>
<td>Net Sales</td>
</tr>
<tr>
<td><strong>Education Group</strong></td>
<td>183.4</td>
<td>27.2</td>
<td>211.5</td>
</tr>
<tr>
<td><strong>LTV Company</strong></td>
<td>18.2</td>
<td>0.0</td>
<td>19.0</td>
</tr>
<tr>
<td><strong>Senior Company</strong></td>
<td>22.8</td>
<td>2.0</td>
<td>29.0</td>
</tr>
<tr>
<td><strong>Language Company</strong></td>
<td>47.0</td>
<td>(0.8)</td>
<td>48.0</td>
</tr>
<tr>
<td><strong>Others/Corporate (Eliminations)</strong></td>
<td>20.0 (2.3)</td>
<td>22.5 (4.2)</td>
<td>27.0 (3.8)</td>
</tr>
<tr>
<td><strong>Risk Factor</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>291.4</td>
<td>26.1</td>
<td>330.0</td>
</tr>
</tbody>
</table>

* The Women & Family (W&F) Company was renamed the Lifetime Value (LTV) Company in FY2005.
What are your key initiatives for fiscal 2005?

We’ve set out five key initiatives for fiscal 2005: develop more education products and services for individual needs; shift to a more sustainable growth strategy in the senior care business; reform operations at Berlitz Japan and AVIVA Co., Ltd.; develop new business domains; and use cash more effectively.

**Develop more education products and services for individual needs**

We’ll continue to enhance our ability to respond to individual needs in correspondence courses. In parallel with this, we’ll strengthen R&D to develop new products and businesses that can generate growth over the medium and long terms. By bolstering R&D, we aim to grow in areas that are not extensions of existing products and services. To support these efforts, we established the Benesse Educational Research and Development Center (BERD) by merging two existing think-tanks in Okayama and Tokyo. In another move, we have set up a total of three endowed research courses and departments at the University of Tokyo, Japan’s leading educational institution, the first in fiscal 2004 and the remaining two in fiscal 2005. We plan to conduct joint research with this university in fundamental and future educational fields. These activities will lead to the development of new products and services, and also help us to more accurately predict changes in the education environment. Using these forecasts, we aim to become a source of useful information that helps schools and families resolve the educational problems they face today.

**Shift to a more sustainable growth strategy in the senior care business**

In the senior care business our strategy has emphasized expansion of the nursing home network. Going forward, we’ll shift to a strategy of stable growth with an emphasis on the quality and profitability of each home. As of March 31, 2005, there were a total of 92 Benesse nursing homes nationwide, making us the largest private provider of nursing homes in Japan. After establishing profitable operations by increasing the number of homes and building a robust operating base, we’re now poised to take the senior care business to the next stage of growth.

**Reform operations at Berlitz Japan and AVIVA**

Profitability at Berlitz Japan has deteriorated due to changes in the company’s operating environment. Consequently, management reform is now an urgent issue. We also took over the operations of AVIVA in April 2005. We need to implement changes at this business too. In addition to replacing senior management at both Berlitz Japan and AVIVA, we’ll continue to delegate more authority to local managers to energize frontline operations. We’ll also close or integrate underperforming sites to boost operational efficiency and profitability. Based on these steps, we plan to make Berlitz Japan and AVIVA profitable in fiscal 2005 and fiscal 2006, respectively.
Develop new business domains
We plan to develop our business in two new areas: childrearing support and the East Asian market. Japanese society is grappling with issues related to the falling birthrate, the trend toward the nuclear family, and the rise in the number of working mothers and two-income families. In response to these changes, we’ve decided to begin providing support to parents in areas outside the education field. Spearheading our efforts will be the Parenting Company, which we established in April 2005. Meanwhile, we plan to build a stronger presence in East Asia, which we’ve positioned as our most important market after Japan. Building on our existing presence in Taiwan, where our business is firmly on track, we’ll roll out concrete initiatives in South Korea and China.

Use cash more effectively
We currently hold a large amount of cash. A key issue for us is how to effectively use these funds. Our policy is to use this cash in three areas—paying dividends to shareholders, buying back shares and investing in new businesses, including M&As. We’ve stated clearly that we intend to attain a payout ratio of at least 35%. In fiscal 2004, we increased the dividend by ¥20 to ¥60 per share, representing a payout ratio of 46.3%. We plan to increase the dividend to ¥70 per share in fiscal 2005. At the same time, we’re continuing to implement a share buyback program. As of March 31, 2005, we had bought back shares equivalent to 3.4% of all issued Benesse stock. By raising the dividend and buying back shares, we’ll continue to return more profits to shareholders. In investment, we’ll aggressively channel funds into R&D and new business development, with a particular focus on education in fiscal 2005.

Question 3
Why is the correspondence course business performing so well?
As of April 2005, enrollment in our correspondence courses stood at 4.01 million students, an increase of 4.7% from a year earlier. Enrollment as a performance indicator is no longer as important as it used to be, due to growth in peripheral education businesses outside Shinkenzemi. However, this represented our fourth best-ever enrollment figure. In a tough operating environment characterized by the falling birthrate in Japan, this was firm evidence of a recovery in our Shinkenzemi business. The amount spent per customer also increased. After bottoming out in fiscal 2002, spending per customer on Shinkenzemi and peripheral products is now on an upward trend, growing 2.9% year on year in fiscal 2004.

The education business landscape is experiencing massive change. In December 2004, Japan’s ranking dropped in two international surveys on academic ability—the Program for International Student Assessment (PISA) survey and the Trends in International Mathematics and Science Study (TIMSS). Japanese children are also less motivated to study. On top of this, there is an increasing
polarization of academic ability among the student population. In this uncertain environment, we’ve started offering products and services that can be tailored to the individual academic level and needs of each student. And by skillfully combining this lineup with a new marketing strategy, we’ve successfully attracted more customers. This approach has underpinned the recent strength in our correspondence course business.

In terms of products and services, we introduced new course materials in fiscal 2003 tailored to more than three different levels of academic ability in Shinkenzemi Senior High School Courses, and two different levels in both Junior High School and Upper Elementary School courses. In fiscal 2004, we began offering additional course materials designed for Middle Elementary School Courses. We also enhanced our ability to respond to high-level study needs with new courses for students at elite combined private junior and senior high schools and with e-learning services for elementary school students seeking to enter private junior high schools—both new customer segments for Benesse. We’ve also upgraded content for a web-based study support service for enrolled students. These initiatives not only boosted enrollment, they also helped to increase the amount spent per customer.

A revised marketing strategy was another reason for the strong performance in the correspondence course business. Supplementing our existing direct mail approach, we increased the use of TV commercials, newspaper advertisements, the Internet and other channels to increase media exposure. This new marketing strategy focused on Shinkenzemi’s powerful presence in the market and carefully explained the kind of products and services on offer and their respective merits. Supporting this were marketing activities, including locally held events, tailored to regional markets.

Berlitz reported a loss in fiscal 2004. What’s next for this company?

The biggest reason for this loss was a weaker performance at operations in Japan, which account for around 30% of Berlitz’s total sales. This weakness in Japan was due to intensifying competition and the absence of special factors driving demand like reforms to the Training and Education Benefits System in fiscal 2003. Higher advertising expenses and fixed costs such as personnel and rental expenses also impacted on profitability.

We implemented major management reforms at Berlitz International in fiscal 2004. First, we split the existing centralized management structure, focused on head office, into three regional offices covering North and South America, Europe and Asia, and delegated significant management authority to these offices. Second, we reduced the headcount and streamlined functions at head office. And third, we worked to boost operational efficiency by taking bold steps to restructure the business. As a result of these reforms, the number of lessons taken in Europe and Central America recovered and performance improved.
In fiscal 2005, we are focusing more on operations in Japan, where reforms are taking more time. We are implementing a raft of fundamental measures designed to realize a rapid turnaround at Berlitz Japan, including the appointment of a new president. First, to boost sales, we aim to energize frontline operations by devolving substantial management authority to individual language centers. And we plan to reinforce language center marketing divisions by dispatching personnel from head office. Web marketing will also be strengthened. Second, we’ll overhaul the company’s cost structure. This will mean reducing fixed costs by integrating or closing unprofitable language centers and boosting the instructor utilization rate. I believe these initiatives will ultimately lead to improved profitability. Consequently, we expect to see a recovery in performance at Berlitz Japan in fiscal 2005 and a return to overall profitability at Berlitz International in the same period.

Our senior care business provides nursing homes for the elderly under four brands—Aria, Clara, Granny & Granda, and Madoka. In fiscal 2004, we opened 23 new homes, bringing the total number in our nationwide network to 92, as of March 31, 2005. We are Japan’s largest private provider of nursing homes in terms of both sales and the size of its network.

Japan’s nursing care market is expanding steadily, supported by an increasingly older population and growing awareness of the Long-term Care Insurance System. After an initial growth phase, our next step is to take the senior care business forward by putting greater emphasis on the quality and profitability of each home. Network expansion will also continue at a pace of around 20 new homes annually. I believe this approach will support stable and sustained business growth.

In fiscal 2005, we plan to further develop our area-focused strategy and build closer ties with medical institutions. In the past, we only set up certain nursing home brands in specific areas. We now plan to open homes that meet the needs of each community, regardless of brand. In addition, we’ll forge stronger links with medical institutions to provide higher value-added services, giving our homes a more distinctive competitive advantage in the marketplace.

Question 5

What’s your strategy for the senior care business?

Our senior care business provides nursing homes for the elderly under four brands—Aria, Clara, Granny & Granda, and Madoka. In fiscal 2004, we opened 23 new homes, bringing the total number in our nationwide network to 92, as of March 31, 2005. We are Japan’s largest private provider of nursing homes in terms of both sales and the size of its network.

Japan’s nursing care market is expanding steadily, supported by an increasingly older population and growing awareness of the Long-term Care Insurance System. After an initial growth phase, our next step is to take the senior care business forward by putting greater emphasis on the quality and profitability of each home. Network expansion will also continue at a pace of around 20 new homes annually. I believe this approach will support stable and sustained business growth.

In fiscal 2005, we plan to further develop our area-focused strategy and build closer ties with medical institutions. In the past, we only set up certain nursing home brands in specific areas. We now plan to open homes that meet the needs of each community, regardless of brand. In addition, we’ll forge stronger links with medical institutions to provide higher value-added services, giving our homes a more distinctive competitive advantage in the marketplace.
Question 6

What are your plans for new business domains?

We’re specifically targeting two new areas: childrearing support and the East Asian market. In response to a number of converging social trends that mean raising children in Japan is becoming more of a challenge, we’ve decided to offer a range of new products and services stamped with the unique Benesse touch. In April 2005, we established the Parenting Company for this very purpose. Focusing on issues related to pregnancy, childbirth and childrearing, this company will provide support to parents to help them lead fuller lives in this role. Specifically, we’ll develop and offer a lineup of advanced products and services targeting parents who have a strong interest in education, and who are also prepared to actively invest in their children’s future. The new in-house company will also encourage a smooth flow of customers from existing pregnancy, childbirth and childrearing-related magazines to products for older children, such as *Kodomo Challenge* infant preschool courses and *Shinkenzemi* correspondence courses. By putting the Parenting Company’s businesses onto a firm footing, we hope to become a trusted name in childrearing as well as education.

We’ll also continue to aggressively develop our presence in East Asia, positioned as our second most important market after Japan. In Taiwan, we launched correspondence courses for infants and elementary school students. Enrollment now stands in excess of 200,000 and the business is profitable. Looking ahead, we’ll turn our attention to building our business in South Korea and China. In South Korea, we set up a subsidiary in July 2004 that began selling educational materials to high school first-grade students in March 2005. Sales of materials for second-and third-grade students are scheduled to start during fiscal 2005. In China, we’ve joined hands with a local partner to carry out R&D for infant products.

Question 7

What’s your strategy for boosting the Group’s corporate value?

For us, brand value is just as important a measure of corporate value as theoretical calculations based on market capitalization. That’s why we’re working to boost our corporate value with initiatives in both areas.

First, ensuring we deliver stronger financial results is naturally the most important way of boosting our market capitalization. This is supported by a capital structure strategy that includes measures to return profits to shareholders. In fiscal 2004, we announced a clear dividend policy to
achieve a payout ratio of at least 35%, and we've raised the dividend for two consecutive years since fiscal 2003. In fiscal 2004, we initially planned to increase the dividend by ¥10 per share. However, taking into account our strong performance and our commitment to returning more profits to shareholders, we decided to raise the dividend by ¥20 to ¥60 per share. Representing a dividend payout ratio of 46.3%, this is significantly higher than the average dividend payout ratio of 21% at Japanese firms. It also compares very favorably with the average of 33% in the U.S. and approximately 43% in Europe. In fiscal 2005, we plan to raise the dividend by ¥10 to ¥70 per share. An ongoing share buyback program is also part of our strategy to create shareholder value.

In fiscal 2004, in accordance with a resolution passed by the Board of Directors, we repurchased 1,317,000 of our own shares at an aggregate cost of ¥4,350 million. Another planned use of cash is aggressive investment in new businesses to generate growth over the medium and long terms. Investment in the range of ¥20 to ¥30 billion will mainly be used for M&As in fields where we can generate synergies with our existing businesses, and for R&D centered on the education field.

We aim to boost brand value by building a stronger product lineup as well as by enhancing R&D and our ability to provide specialized information to users in the education field. Cultivating the personnel to drive these improvements will also be crucial.

We've already taken a number of steps to build a stronger product lineup by creating products and services more carefully tailored to individual needs. As mentioned earlier, specific steps have included introducing Shinkenzemi course materials for different academic abilities, carrying out a substantial renewal of course materials from fiscal 2003, and offering a wider range of services outside the correspondence course business. Using the newly integrated Benesse Educational Research and Development Center (BERD), we'll actively focus on the development of new products and services.

By enhancing R&D and our ability to provide special information to users in the education field, we'll increase trust and raise expectations in the Benesse name. This will include using the results of research and surveys carried out by BERD and joint research efforts with the University of Tokyo to benefit society.

Building a more powerful brand in the education field has been a key goal for us since fiscal 2004. To realize this aim, we'll have to strengthen R&D activities in order to build a stronger product lineup and reinforce our marketing capabilities. At the same time, we'll actively cultivate personnel through in-house training schemes to maintain and improve our content creation capabilities—one of Benesse's strengths.
Benesse recognizes that greater transparency and strengthened management supervisory functions are vital for achieving its corporate goals. Benesse is therefore taking various steps to reinforce corporate governance.

**Management Structure**
Benesse introduced the Corporate Executive Officer System in April 2003. The current management structure comprises eight Directors, three of whom are Independent Directors; 12 Corporate Executive Officers, one of whom is also a Director; eight Group Executive Officers; and four Corporate Auditors, three of whom are outside Corporate Auditors. The President and COO is the only Corporate Executive Officer on the Board of Directors. This 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 management policy and important management issues. This committee meets twice every month. Benesse also has Company Management Committees (CMCs). Chaired by in-house company presidents (Corporate Executive Officers) and presidents of subsidiaries (Group Executive Officers), these committees are the decision-making bodies for in-house companies and major subsidiaries and meet monthly in each company. Information on discussions and decisions by these committees is disclosed to concerned parties in order to ensure transparency of the decision-making process, with anyone permitted to attend the meetings, subject to approval of the chairman.

The Board of Directors, chaired by the Chairman and CEO, is responsible for making decisions on important management issues and statutory matters, as well as for oversight of decision-making and business execution in the executive body. By maintaining a small board, we are working to improve the quality of discussions and accelerate the decision-making process. Furthermore, the appointment of Independent Directors has brought in outside opinions and improved management transparency. In principle, the Board of Directors meets monthly. In June 2005, Sakie T. Fukushima was appointed to the board as an Independent Director to provide a more international and female perspective. This brings the number of outside appointments on the eight-member Board of Directors to three. In addition to the above, two committees advise the Board of Directors—a Compensation Committee and a Nomination and Personnel Development Committee. Independent Directors sit on both these bodies. A Privacy Protection Committee and an Environmental Committee also advise the President and COO.

**Audit System**
The four Corporate Auditors, including three outside Corporate Auditors, carry out independent internal audits in accordance with audit guidelines set by the Board of Corporate Auditors. Audits include attendance at meetings of the Board of Directors, HMC and other important committees as well as the receipt of reports from Corporate Executive Officers and Group Executive Officers, the review of important documents such as resolutions and investigations of operations.

An Internal Audit Department conducts audits to assess the effectiveness of internal control systems, compliance with laws and regulations, risk management and other matters at each division, including subsidiaries. The internal audits provide the basis for its reports, including recommendations for improvements.

---

**Corporate Governance System**

- General Meeting of Shareholders
- Board of Directors
  - Chairman and CEO
  - 8 Directors (Including 3 outside appointments)
- Audit
- Oversight
  - 4 Corporate Auditors (Including 3 outside appointments)
- Board of Corporate Auditors
- Compensation Committee
- Nomination and Personnel Development Committee
- Privacy Protection Committee
- Environmental Committee
- Internal Audit Department
**Benesse’s Corporate Governance System —The View From the Corporate Auditors**

**Q. What’s the greatest strength of Benesse’s corporate governance system?**

**A.** The unique decision-making process is undoubtedly the system’s greatest strength. At meetings of the Headquarters Management Committee (HMC) and Company Management Committees (CMCs), which respectively decide on important companywide matters and in-house company issues, executives and ordinary employees with an interest in the issues up for discussion are free to take part. However, ultimate decision-making authority rests with the chairperson of the committees, Benesse’s president, or the president of each in-house company. The most notable aspect of these meetings is that, in principle, they can only conclude after a decision has been reached on the issues at hand. Decisions are therefore made quickly and they reflect the full spectrum of opinions in the discussion. In this way, we’ve improved two of the most important aspects of decision-making—speed and transparency.

But simply creating mechanisms and making rules doesn’t guarantee a fully functioning corporate governance system. The attitude of senior management is crucial to making the whole system work. In my view, corporate leaders have to be open, fair and honest, and I believe the Benesse management team is committed to these ideals. This is undoubtedly the biggest reason why our corporate governance system functions so well.

**Q. What changes have you seen since the adoption of the new management framework?**

**A.** I’ve sensed a new level of motivation following the clarification of executive officer authority and responsibility. The fact that frontline employees can take part in discussions that involve them in the HMC and CMCs, allowing better sharing of information, is hugely significant. Prior to the adoption of the new management system, it was difficult for employees to understand who was making decisions and why. This naturally led to some discontent and dissatisfaction. Now, with all the relevant people involved in real-time discussions and decision-making, our employees can clearly see who made what decision and why. More than anything, our annual employee awareness survey, GAMBA, clearly showed the benefits of this change. This survey, which measures the level of employee agreement and satisfaction with management, has seen a dramatic improvement since 2003.

Another benefit of our new management system is enhanced information sharing. Monthly data, reports and any communication regarding this information are shared among relevant personnel via email.

In this way, I can sense a new corporate culture forming at Benesse—one where everybody is working to achieve common goals based on access to the same information.

**Q. As a woman, what perspective do you bring to the role of corporate auditor?**

**A.** Currently, I am one of only three female corporate auditors at companies listed on the First Section of the Tokyo Stock Exchange. Although we’re still small in number, I believe women can bring a valuable perspective to the role of corporate auditor. Corporate auditors have to monitor whether a company is being soundly managed from an independent standpoint. Essentially, we’re a proxy for the company’s shareholders and other stakeholders. That means we’re required to evaluate the company from a whole range of viewpoints, not just as business people, but also as consumers and citizens. Given Benesse’s focus on the education, welfare and consumer business fields, these other perspectives are all the more important. In my opinion, women can add a beneficial point of view to the company from these diverse angles.

I am the only member of Benesse’s Board of Corporate Auditors to have started out with the company. In that sense, I’m conscious of the fact that, as well as conducting audits from an objective viewpoint, I’m required to act as a bridge between senior management and the rest of our employees.

**Q. What do you especially focus on during audits?**

**A.** Auditors are often seen as focusing on issues of legality or post-facto checks. Personally, I believe the auditor’s key role is performing audits that prevent business misconduct and impropriety. With preventative audits, information on key management issues and risks must be shared with top management, thereby ensuring everybody is on the same wavelength when it comes to potential problems faced by the company. While top management emphasizes profitability and efficiency, auditors maintain a constant focus on sound management. Ultimately, however, both groups must work toward the same goal: ensuring the healthy and sustained growth of the company.

At Benesse, in addition to discussions between the president and Board of Corporate Auditors held four times annually, auditors communicate with the president on a daily basis. Our offices are right next to each other, illustrating the immediate access we have to the president. Consequently, there is complete sharing of information on any potential issues and a shared commitment to preventing any business misconduct.
+ Board of Directors, Corporate Auditors, Corporate Executive Officers, and Group Executive Officers

As of June 24, 2005

Board of Directors and Corporate Auditors

Chairman and CEO
Soichiro Fukutake

Vice Chairman
Makoto Sato

President and COO
Masayoshi Morimoto

Director
Kenjiro Kaneshiro
President, Shinken-AD Co., Ltd.

Director
Kenichi Fukuhara
President, Benesse Style Care Co., Ltd.

Director
Tamotsu Adachi
Managing Director, Japan Representative, The Carlyle Group

Director*
Hinoshi Matsumoto
President, AlphaPurchase Co., Ltd.

Director*
Sakie T. Fukushima
Regional Managing Director-Japan & Senior Client Partner, Korn/Ferry International

Corporate Auditor**
Toichiro Miyakawa

Corporate Auditor
Kimie Sakuragi

Corporate Auditor
Kazuo Ichikawa

Corporate Auditor**
Tomoji Wada
Lawyer

Corporate Senior Executive Vice President
Tamotsu Fukushima
President, Senior High School & Junior High School Education Company and Director, Headquarters Marketing Division in charge of Procurement & Logistics Department

Corporate Executive Vice President
Yoshinori Matsumoto
COO and in charge of Human Capital Department and General Affairs Department, and Corporate Communications & Investor Relations Department

Corporate Executive Vice President
Naoto Sugiyama
CFO and in charge of Card Business Development Department, Asian Business Development Department, Education Topic & Learning Activities Development Division

Corporate Executive Vice President
Akira Kataoka
Director, Regional Sales Strategy Division and English Education Strategic Planning Department

Corporate Executive Vice President
Eiji Aketa
President, School & Teacher Support Company

Corporate Senior Vice President
Daisuke Okada
President, Elementary School Education Company

Corporate Senior Vice President
Haruna Okada
President, Preschool Education Company, Parenting Company

Corporate Senior Vice President
Masaaki Ito
President, Lifetime Value Company

Corporate Senior Vice President
Kenichi Arai
Director, Education Research & Development Headquarters

Corporate Senior Vice President
Takashi Koyama
COO and Vice President, Headquarters Marketing Division

Corporate Senior Vice President
Kenji Nakajima
General Manager, Children's English Department

Corporate Senior Vice President
Kenichi Kaneshiro
President, Shinken-AD Co., Ltd.

Corporate Executive Officer
Shinjiro Matsumoto
President, Shinken-AD Co., Ltd.

Corporate Executive Officer
Kenjiro Morimoto
President, Shinken-AD Co., Ltd.

Corporate Executive Officer
Takao Miyazawa
President, Telemarketing Japan, Inc.

Corporate Executive Officer
Takashi Koyama
COO and Vice President, Headquarters Marketing Division

Corporate Executive Officer
Kimiko Kunimasa
Director, Benesse Style Care Co., Ltd.

Corporate Executive Officer
Yoji Shiraiishi
President, ARFA Co., Ltd.

Corporate Executive Officer
Takao Miyazawa
President, Telemarketing Japan, Inc.

Corporate Executive Officer
Takashi Koyama
COO and Vice President, Headquarters Marketing Division

Corporate Executive Officer
Kimiko Kunimasa
Director, Benesse Style Care Co., Ltd.

Corporate Executive Officer
Takaharu Kobayashi
President, Synform Co., Ltd.

Corporate Executive Officer
Mark Harris
COO of Europe & Middle East, Chief Marketing Officer, Berlitz International, Inc.

Corporate Executive Officer
Chung Sang-Kon
President, Benesse Korea Co., Ltd.

Corporate Executive Officer
Mike Kashani
COO of the Americas, Berlitz International, Inc.
CONTRIBUTING TO SOCIETY

Every member of the Benesse Group is striving to help all stakeholders live well. By providing high-quality products and services that generate value for society, and by consistently developing groundbreaking initiatives that have a positive impact on people’s lifestyles, we are helping each one of our customers to lead fuller lives.

At Benesse, Corporate Social Responsibility (CSR) means growing with and for society by consistently offering value unique to Benesse, now and well into the future. We recognize in this context that we have a role to play in helping resolve some of the issues faced by society today. In particular, we are working to tackle educational problems by channeling significant resources and specialist expertise into research in this field.

Furthermore, we believe that corporate governance reforms, compliance and risk management initiatives, human resources development and environmental protection measures are integral elements of our business. Our efforts in these areas will help us to become a company consistently capable of meeting the expectations of not just our customers, consumers, shareholders and employees, but also communities and society as a whole.

Business Ethics and Compliance
In 1998, Benesse established a dedicated department to focus on business ethics and began implementing a range of measures related to this subject. Detailed below are some of the steps taken so far.

Creating a system to promote compliance
Benesse established a specialist Risk Management & Compliance Promotion Section within its Legal & Compliance Department. This office works to promote compliance, including drawing up Business Ethics and Compliance Rules.

Formulating ethical standards
In November 2001, Benesse drafted the “Benesse Code of Corporate Conduct” and “Benesse Standard of Conduct.” In order to respond to changes in society, typified by demands for improved consumer protection, and shifts in the business landscape, both documents were revised in January 2005 and republished as one document, the “Benesse Group Code of Conduct.” This new document extends the application of these standards to Group companies and thereby reinforces the Group’s compliance system.

Ethics Line established
In 1999, Benesse set up an Ethics Line to give employees the means to provide information anonymously to the Company. Aware that the confidence of employees in the system was vital, Benesse drew up strict guidelines for related departments regarding privacy and investigation accountability, investigation authority, and procedures for discontinuation orders or remedial measures based on investigation findings. These guidelines were created to protect the anonymity and privacy of whistleblowers and to shield them from any negative consequences. Benesse has also established a Group Ethics Compliance Line via a third-party organization to provide a contact point for employees at Group companies.

Upgrading internal and external monitoring
Benesse has carried out an annual employee awareness survey called GAMBA since 1992. The aim of GAMBA is to regularly measure the level of awareness of management policies, evaluate the management situation in each in-house company and division, and gauge employee satisfaction.

Benesse’s internal and external monitoring framework is rounded out by internal audits and business partner questionnaires to ensure its business ethics standards are being met.

Promoting Protection of Personal Information
In 1999, Benesse stipulated its own policies regarding the protection of personal information. These policies provided the framework for the
start of comprehensive steps to protect personal information, including the establishment of a dedicated division responsible for personal information protection issues.

We followed up on this commitment to personal information protection by appointing a Chief Privacy Officer (CPO) and establishing a specialist Personal Data Protection Department in 2004. Furthermore, coinciding with the enforcement of a new law to protect personal information in Japan, we revised the Benesse Corporation Privacy Policy and formulated a new Benesse Privacy Statement. Other rigorous measures taken to protect personal information have included the creation of Regulations for the Protection of Personal Information, the appointment of Company CPOs as individuals responsible for protecting personal information at in-house companies and the formulation of related regulations.

**Personnel Systems Designed to Support Diverse and Flexible Employee Work Styles**

We have adopted a range of different personnel systems since 1990. Benesse was the first company in Japan to introduce a Cafeteria Plan System, offering a menu of welfare services from which employees can choose to 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 was awarded the first Family-Friendly Company Prize, a Ministry of Health, Labour 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 caring for elderly relatives, thereby achieving more diverse and flexible lifestyles.

In order to deliver further growth amid changes in the business environment and customer needs, we believe it is necessary to attract more diverse personnel. Based on this thinking, we are currently working on the establishment of a professional personnel system.

**Actively Promoting the Participation of Women in the Workplace**

As of April 2005, around 60% of Benesse’s approximately 2,200 employees were women. Benesse also actively promotes women to director and managerial posts, with more than 30% of these positions now filled by women.

From the latter part of the 1970s, even before laws were passed in Japan to encourage equal opportunity in the workplace, Benesse realized that attracting female university graduates was crucial to securing the best personnel. There are no longer disparities between men and women in terms of employment conditions and promotion at Benesse.

In addition, with its Maternity Leave System, Nursing Care Leave System, Cafeteria Plan System and other systems, Benesse has created a personnel framework that supports a variety of working styles, regardless of gender, helping women to play an active role in the workplace.

**Corporate Citizenship Initiatives**

Centered on its operating fields of education and culture, Benesse carries out a range of corporate citizenship initiatives, some of which are outlined below.

**Conducting wide-ranging surveys and studies on issues related to education trends and children**

In April 2005, Benesse created the Benesse Educational Research and Development Center (BERD) through the integration of two existing R&D divisions—one responsible for carrying out surveys and research activities, and the other for developing new products and services. This was just the latest initiative in more than 20 years of R&D activities that have seen in excess of 400 field studies related to children, teachers, parents and other topics. Going forward, we plan to carry out research into learning methods that utilize new media such as mobile phones as part of ongoing wide-ranging surveys and research. The results of these activities are made available to the public via the BERD website. (http://benesse.jp/berd/) (Japanese only)
Endowments for research courses and departments at the University of Tokyo

At Benesse, we believe we have a key role to play in developing new products and services in response to radical change in the education operating environment. Based on this thinking, we have established a total of three endowed research courses and departments at the University of Tokyo, the first in fiscal 2004 and the remaining two in fiscal 2005, to promote joint research between business and academia. We plan to use results gleaned from this research to benefit society.

Support for organizations studying issues related to children

We provide financial support for the Child Research Net (http://www.childresearch.net/), an organization engaged in research into child-related issues on an interdisciplinary and international scale.

Academic, educational and cultural foundations

Through the Fukutake Science and Culture Foundation, the Fukutake Education Foundation and the Fukutake Culture Foundation, Benesse contributes to academic and cultural development, supports education and research activities, and helps to ensure regional culture is passed on to future generations.

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 60,000 people from Japan and around the world visit this small island each year.

In addition to the above activities, Benesse opens parts of its Okayama Headquarters in Okayama City and the Tokyo Head Office in Tama City to local communities, and participates in a range of community activities as a good corporate citizen.

Measures to Protect the Environment

In December 2003, Benesse formulated the Environmental Policy shown below. From April 2004 we also began building an environmental management system and launched companywide environmental activities toward obtaining ISO 14001 certification, an internationally recognized environmental management standard. These efforts paid off when Benesse obtained ISO 14001 certification in November 2004.

Environmental Policy

1. Work to design products that contain no harmful substances and are easy to recycle; promote green procurement centered on sourcing recyclable materials.
2. In conjunction with implementing energy conservation measures, reduce the volume of waste generated by the company and boost the recycling rate.
3. Actively work to adopt new technologies and other means that reduce the impact of operations on the environment.
4. Taking compliance with environmental laws and regulations as the bare minimum, conduct business activities in accordance with internal environmental regulations, review work processes where needed and adopt methods that have less impact on the environment.
5. Disclose the status of environmental activities internally and externally.

Building on our recent ISO 14001 certification, we plan to reduce the impact of our operations on the environment by further enhancing our environmental activities. We will particularly focus on promoting eco-friendly design, reducing waste and promoting recycling. As a company involved in the education of children, we will also fulfill our social responsibility by educating them on the importance of protecting the environment.
The Education Group boasts a comprehensive range of products and services that meet off-campus education needs and provide support for schools and teachers. In the former, Benesse focuses on correspondence courses for children of all ages with its Shinkenzemi and Kodomo Challenge brands. *Shiken Simulated Exams*, mock university entrance exams for high school students, are Benesse’s core product in the school support field. Recently, Benesse has been working to strengthen its product and service lineup in response to diversifying needs in the education market.

### Overview

1. **Correspondence Course Business**
   Benesse is active in the off-campus education market, where it is Japan’s leading provider of correspondence courses. With *Kodomo Challenge*, we provide courses for children aged from six months to six years, and with *Shinkenzemi* we offer correspondence courses from the first year of elementary school through the final year of high school. Combined, we have a total of 18 high-quality courses covering all age groups.

2. **Support Services for Schools**
   Starting with *Shiken Simulated Exams*, we provide comprehensive support services for schools, including backup for teachers giving career and academic counseling to students. Benesse commands the leading position in the senior high school market, counting 4,403 of Japan’s 5,429 senior high schools among its clients in fiscal 2004. This represented a penetration rate of 81.1%. With the roll out of educational reforms, teachers are being given more discretion in the classroom. We see this as an opportunity to leverage our know-how in school support services to meet the diversifying needs of teachers with new products and services.

### Fiscal 2004 Review

1. **Correspondence Course Business**
   Enrollments exceed 4 million students

   Our mainstay correspondence course business performed strongly during the past year, helping to drive growth in Benesse’s overall results.

   Enrollment in correspondence courses as of April 2005 totaled 4.01 million students, an increase of 4.7% year on year. This increase was mainly supported by growth in Elementary, Junior High School and Senior High School *Shinkenzemi* courses, outweighing a slight decline in enrollment in *Kodomo Challenge*. This growth was attributable to accurate
segmentation of target customers and efforts to strengthen the product lineup and marketing activities. We have implemented a major revision of course materials since fiscal 2003. This has included the introduction of new materials designed for different academic abilities and the provision of a wider choice of optional materials. In marketing, we established a Headquarters Marketing Division and a Regional Sales Strategy Division to develop new sales promotion methods and channels that supplement our existing use of direct mail. In fiscal 2004, the first year of this new marketing framework, we focused on communicating Shinkenzemi’s strength in individualized learning through marketing campaigns tailored to local markets. These campaigns made use of TV commercials, newspaper advertisements, the Internet, promotional events and other methods.

In fiscal 2004, we also launched a number of products and services targeting new customer segments. These included courses for students at elite combined private junior and senior high schools, and e-learning services for elementary school students seeking to enter private junior high schools.

Steady growth in peripheral products
One of our important goals is to achieve a higher re-sign rate and boost the amount spent per customer in correspondence courses. We have been expanding our range of peripheral products to achieve this. These products are mainly pitched at students enrolled in Kodomo Challenge and Shinkenzemi Elementary School Courses.

During the past year, enrollment increased in both BE-GO, a PC-based English language course for higher-grade elementary school students and above, and Oyako Eigo English language courses for infants. We also recorded stronger sales of Kodomo Challenge every by offering a wider choice of products. This range comprises everyday items such as shoes, umbrellas, bicycles and eating utensils carefully designed to match the pace of child growth and development. These and other actions led to higher sales.

2. Support Services for Schools
Healthy growth in the elementary and junior high school markets
Sales of key products targeting high school students were robust. These included Shiken Simulated Exams, Study Support, a learning assessment study aid, and Course Map, which tests aptitude and academic ability to help students choose their ideal route for further study or professional career. Other products such as multi-media course materials for elementary and junior high school students and the Global Test of English Communication (GTEC) for Students also posted higher sales.

Looking ahead, we will continue to respond to the diversifying needs of customers and aggressively invest in R&D to develop new products and services. Our goal is to build a more powerful Benesse brand in the education field.

Specifically, we will implement the following measures in fiscal 2005:

1. Respond to the diversifying needs of customers
Enhance our ability to provide products for different academic levels
Since fiscal 2003, we have introduced Shinkenzemi course materials for different academic abilities in a number of student age groups. We also started offering optional materials that satisfy needs our basic Shinkenzemi courses are not designed to meet. Specifically, in fiscal 2004, we upgraded and expanded the Next Challenge Series of Shinkenzemi optional course materials for first through fourth-year elementary school students, and launched a Writing and Creative Expression Course for fifth- and six-year elementary school students. The latter product was created in response to the growing number of combined junior and senior public high schools that are now testing student aptitude in this area.

In fiscal 2003, we began classroom learning services on an experimental basis, targeting students enrolled in Shinkenzemi Elementary School Courses. We then launched these services as standard under the Challenge classroom brand, which helps students enrolled in Shinkenzemi correspondence...
courses to use their course materials more effectively. After rolling out both these services on a full-scale basis in fiscal 2004, we had built a network of 121 classrooms by March 31, 2005. The thinking behind these services, which are designed to encourage more students to re-sign, is to offer students the option of face-to-face learning in classrooms and other settings—something correspondence learning is obviously not geared to. We plan to continue actively increasing the number of classrooms in our network.

Create premium products
We plan to actively launch premium products by leveraging Benesse’s extensive range of educational information and content. We have already introduced courses for high school students aiming to enter prestigious universities such as Waseda, Keio or Sophia. In March 2004, we also launched courses for junior high school students at elite combined private junior and senior high schools. These courses have already earned a trusted reputation: as of April 2005, more than 10,000 students had enrolled. Shinkenzemi has traditionally targeted public school students. But with these new courses, we have extended the brand’s reach into the domain of elite private education. In premium products for elementary school students, we are offering e-learning services, which involve web-based tutoring for students studying for junior high school entrance exams.

Going forward, we aim to build a more powerful brand position in the higher end of the market by developing education materials for students seeking to enter leading Japanese universities and implementing other initiatives.

2. Reinforce customer relationship management (CRM)
Benesse has already derived benefits from stronger marketing in the correspondence course business using a media-mix strategy. Centered on the Headquarters Marketing Division and the Regional Sales Strategy Division, both established in fiscal 2004, this media-mix strategy has involved complementing the existing direct mail approach with TV commercials, web-based advertising and regional marketing. Looking ahead, we will continue to implement sales activities that carefully target regional needs using local promotional events and other approaches.

Furthermore, to enhance convenience and provide comprehensive and ongoing support to customers in the education field, we launched credit card and study loan businesses in fiscal 2004. Our aim is to boost customer satisfaction and build lasting relationships with users via these services.

3. Develop new products and services through aggressive R&D activities
• Surveys and research
Benesse Educational Research and Development Center (BERD) established
We have realigned our existing R&D framework to establish BERD. This step was taken to build a more powerful R&D base in the education field. Using the latest advances in information and communication technology (ICT), field surveys of the student population—from infants through to university students—and studies of parents and education professionals, this center mainly carries out R&D related to new learning methods. The results of this research are made available to the public via the Internet.

New research courses and departments set up at the University of Tokyo
The education environment is undergoing sweeping change, due to the declining academic abilities and motivation of Japanese children, diversifying education needs, and innovations in IT. At Benesse, we believe we have an important role to play in understanding these changes and developing responses to them. That’s why we decided to establish a number of endowed research courses and departments at the University of Tokyo to drive forward joint research between business and academia into new education theories. Two endowed courses and departments have been established for fiscal 2005, adding to our first endowed course set up in fiscal 2004. We hope to use the results of this research to ultimately benefit Japanese society.

English Curriculum Framework (ECF) created
Acquiring English communication skills is becoming increasingly important in Japan due to globalization. With this in mind, the Benesse Group has created the ECF. This creates an integrated approach to English language study designed to help students of all ages—from infants through to adults—
acquire practical communication skills. Based on common parameters and evaluation methods for measuring ability, this unique Benesse approach comprises learning targets and content specifically tailored to the capabilities of each student.

The Benesse Group provides an array of English study products and services, including language lessons via the Berlitz network. With the development of ECF, we aim to create a closer family of English language products and services based on common targets and designed for the specific abilities and goals of each age group. By linking ECF and the GTEC, the goal is to enhance the effectiveness of learning. Looking further ahead, we hope to develop an extensive lineup of new products designed around ECF.

• Developing New Businesses
  Creating premium products
In fiscal 2005, we will develop new products based on further segmentation of our target customers and by identifying potential needs not addressed by existing products. Results flowing from joint research efforts at the University of Tokyo will also be used in this process. We aim to establish a presence in the higher end of the market as part of efforts to build a more powerful Benesse brand in the education field.

The East Asia market
We plan to carry out full-scale business development in East Asia, which we have positioned as Benesse’s second most important market after Japan. In July 2004, we established a subsidiary in South Korea called Benesse Korea Co., Ltd. This company began selling study materials to high school students in March 2005. Meanwhile, in China, we teamed up with a local partner to begin research into the development of educational materials for infants.

Benesse has already established a business in Taiwan. Since 1989, when we began publishing Kodomo Challenge correspondence course materials for the Taiwanese market, we have steadily expanded the range of products we offer. Currently, we provide a total of eight courses for infants and elementary school students. Enrollment exceeded 200,000 students in March 2005.

e-learning and mobile learning
Two of Benesse’s new services in this area are e-learning—web-based tutoring services for elementary school students revising for junior high school entrance exams—and a mobile phone website for students enrolled in Shinkenzemi Senior High School Courses. We plan to develop other new products and services in the e-learning and mobile learning fields, creating new ways of learning that dovetail with the changing lifestyles of students today.

Benesse takes over the operations of AVIVA
The Benesse Group began operating Japan’s largest network of PC schools after taking over the operations of AVIVA on April 1, 2005. Through a nationwide network of around 320 schools, AVIVA offers a choice of 41 courses to students with varying levels of ability. Programs have also been developed to match different study goals, including courses for individuals interested in computers as a pastime, or for students seeking to gain PC-related qualifications or additional skills for the workplace. In addition to these courses for students and working people, AVIVA also operates a nationwide network of approximately 500 AVIO PC schools targeting first-year elementary school students through to third-year junior high school students.

Benesse plans to use AVIVA to generate synergies with its efforts to expand face-to-face education and develop its business targeting university students and working people, as well as with innovations in IT.

Consolidated Subsidiaries
Shinken-AD Co., Ltd.
Plandit Co., Ltd.
Benesse Music Publishing Co.
Learn-S Co., Ltd.
Benesse Base-Com, Inc.
IPU Corporation, Ltd.
Benesse Hong Kong Co., Ltd.
Benesse Korea Co., Ltd.
AVIVA Co., Ltd.

R&D Investment to Support Medium- and Long-term Growth

<table>
<thead>
<tr>
<th>Surveys and Research</th>
<th>Benesse Educational Research and Development Center (BERD) established</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Endowed courses and departments at the University of Tokyo</td>
</tr>
<tr>
<td></td>
<td>English Curriculum Framework (ECF) developed</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New Business Development</th>
<th>Premium products developed</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia business</td>
<td>East Asia business launched: South Korea and China</td>
</tr>
<tr>
<td></td>
<td>e-learning and mobile learning services created</td>
</tr>
<tr>
<td>Classroom business</td>
<td>Classroom business: AVIVA, Japan’s largest PC school joins the Benesse Group</td>
</tr>
</tbody>
</table>

Benesse is working to build a more powerful brand in education by enhancing its ability to satisfy customer needs.
From the second half of the 1990s, education policy in Japan lacked clear direction, wavering between policies espousing a less demanding approach to education and those designed to raise academic abilities. However, in the last few years, prompted by growing concerns about the declining academic abilities of Japanese children, the Ministry of Education, Culture, Sports, Science and Technology (MEXT) signaled its intention to focus more on boosting academic skills. Fears about falling academic standards and the related change in education policy direction are having a major impact on private education providers today. In this section, we outline the services we plan to provide in order to benefit from these changes based on an overview of the latest trends in public education, the needs of children and thinking among parents.

The Changing Face of Public Education in Japan

Public Education Until the 1990s

In his 1979 book, Japan as Number One: Lessons for America, Ezra F. Vogel highlighted Japan's high-quality education system as one of its competitive advantages. This system, anchored by a standardized nationwide Course of Study decided by the state, was characterized by highly motivated students, most of whom competed to enter so-called elite senior high schools and universities. This maintained high education standards. In response to student and parent needs at the time, private education providers mainly focused on offering services in two areas: supplementary education to help students gain a better understanding of the school curriculum, and courses designed to ensure students passed entrance exams. But it was this very kind of exam-oriented learning that led to concerns in Japan about the country’s education system.

With the emergence of a whole host of issues from the 1980s onwards, such as school violence and bullying, truancy and the rising dropout rate, an education system designed to cram as much information into children’s heads as possible was held up as the primary cause. This led to a chorus of calls for learning to be based more on practical experience so that children could acquire the skills and outlook they needed for the outside world.

Public Education From 2000

In response to these criticisms, MEXT sought to create an education environment that reduced pressure on students. Consequently, with reforms to the Course of Study in 2002, classroom time and course content were both reduced, while periods were set aside for comprehensive study that put emphasis on hands-on learning. Ironically, both prior to and after these reforms, there were real concerns that the academic abilities of Japanese children were declining. The result...
was vacillation by the government as opinions on public education policy veered between taking pressure of students and raising academic abilities.

Since then, public concern about Japan’s falling education standards has mounted. Adding to this were the results of two international surveys on academic ability announced earlier this year that shocked the education community in Japan. Both surveys—the Trends in International Mathematics and Science Study (TIMSS) carried out by the International Association for the Evaluation of Educational Achievement (IEA), and the Program for International Student Assessment (PISA) conducted by the Organization for Economic Cooperation and Development (OECD) (Figure 1)—showed that Japan’s ranking had fallen since earlier studies. This prompted MEXT to declare that future education policy would put more emphasis on raising academic abilities. Specific strategies are now being studied.

**What Parents and Students Need From Private Education**

Reflecting rising public interest in academic standards, parents are becoming more concerned about the education their children receive. Many parents no longer leave everything up to schools and actively use out-of-school education such as cram schools and other study methods to supplement their child’s learning needs. But not all parents take this approach. Private education providers therefore have to understand the growing diversification of education needs in the marketplace. Responding to this market fragmentation is now increasingly important in our industry.

Japan’s children also approach their study in equally diverse ways. Figure 2 shows the change in home-based study time for fourth-year elementary school students to second-year senior high school students. The data reveals considerable variation in learning as students get older: some begin to study harder, while others don’t. In response, we have to provide more expansive content to the first group, who are more likely to study independently, and offer study methods that boost the motivation and match the needs of the second group.

Figure 3 shows that as children move into junior and then senior high school, there is a marked increase in worries about study and a notable drop in motivation. In the past, when the majority of students were studying standardized courses to pass entrance exams, parents and students alike chose private education providers on the basis of whether the materials would help them pass their exams. Things are different now. Because study objectives and the learning issues faced by each child vary from individual to individual, it is vital that we offer services that are tailored to their specific needs.

With this in mind, we have diversified the content and style of services we offer. Initiatives include a broader choice of education material, a system to help parents and students choose the best course, and a new interactive individualized learning guidance system that uses information and communications technology (ICT). We are also expanding our service lineup in areas not covered by schools, such as English language study for infants and elementary school students.

And in an effort to develop future education styles, we are actively conducting R&D to explore the possibilities of learning that leverages innovations in new media. Examples include research into learning that uses mobile phones and the development of groundbreaking hardware and innovative visual content.

**Benesse’s Evolving Business**

Japan is poised to abandon its past approach to public education—a standardized nationwide curriculum taught using the same teaching methods. There is now a growing trend toward ideas like guidance for students based on individual levels of understanding, learning in smaller groups, and the development of separate curricula for specific local governments and even individual schools. Private education providers are now required to offer an unprecedented level of choice in learning content and styles to respond to these diversifying needs.

Furthermore, Japan also faces a falling birthrate. A drop in the number of children not only affects the education field, it also has significant implications for Japan’s culture, economy and society as a whole. At Benesse, we will play an active role in this area too, by helping young couples to prepare for the birth of their children and by supporting parents who both work. Through our business activities, now and in the future, we hope to create an environment that makes it easier for parents to raise children, and ultimately help to slowdown Japan’s declining birthrate.
Women & Family Company

The core operations of the Women & Family (W&F) Company are magazine publishing, mail order services, food delivery services and the operation of websites, all helping women to become involved in society and pursue their chosen lifestyles, often while looking after households and raising children. Through its publications and websites, the W&F Company provides a whole host of information on everyday life, from childbirth, childrearing and household finances, to diet, health and support for dog owners.

The W&F Company was renamed the Lifetime Value Company at the beginning of fiscal 2005, reflecting the segment’s shift in operational focus to enhancing value over the lifetime of all customers, as well as existing core customers—women and families.

Overview

Magazines for mothers and mothers-to-be

Services focus on pregnancy, childbirth and childcare magazines, Tamago Club, Hiyoko Club and Tamahiyoko Kokko Club, primarily for women in their twenties and thirties. As of March 2005, 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, with a dominant share of the market. Both magazines have become popular by promoting reader participation. Businesses associated with magazine publication, including Tamahiyoko SHOP, a mail-order service focusing on infant and other goods, are also growing strongly.

Lifestyle magazines

Circulation numbers for THANK YOU!, an information magazine on housekeeping and lifestyles for housewives, were strong in fiscal 2004, totaling 520,000 as of March 2005. During the year, we held a variety of events for readers under the THANK YOU! title, and published more copies of special issue Linom.

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. Combined subscriptions for these titles remained healthy, totaling 220,000 as of March 2005.

Food delivery services

Benesse en-Famille Inc., a joint venture with 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 prefectures in Japan and membership is growing steadily.
Pet magazines
The W&F Company publishes DOG’S HEART, a direct-sales magazine for dog owners. The magazine covers a range of subjects from training and health to grooming. The magazine also includes supplements providing information on gifts available to readers. In addition, Benesse offers a consultation service on pet issues, sells dog-related products through a mail order service, and operates an Internet portal site. Subscriptions as of March 2005 had risen to 150,000.

From May 2005, Benesse also began publishing a sister publication, CAT’S HEART, a comprehensive source of information for cat owners. Market response has been strong since the magazine’s launch.

Hobby magazines
Benesse publishes direct-sales magazine Hand & Heart in this genre. With an editorial focus on crafts and hobbies, this magazine comes with a hobby kit so that readers can immediately enjoy being creative.

Benesse Women’s Park
Benesse Women’s Park is a free, female members-only Internet portal site operated by Benesse. Membership as of March 2005 stood at 466,000, making it the top portal site for women in Japan in terms of people accessing the site. This site allows members to exchange information and is rich in content, providing information on childcare and family life that links in with other magazines published by Benesse. It also has community information circles, a message board, an e-friend site, and a recycled products exchange service to encourage greater communication among like-minded women.

Fiscal 2004 Review

The W&F Company moved back into the black in the year under review thanks to efforts to restructure unprofitable businesses and rapidly launch new businesses.

The segment posted higher sales, mainly on the back of rising sales of direct-sales magazines such as Hand & Heart, a magazine launched in fiscal 2003 in the craft and hobby genre, DOG’S HEART, for dog-owing families, and bon merci!, magazines featuring food and health issues for families with toddlers. Benesse en-Famille, our food delivery service subsidiary, also recorded stronger sales, while our mainstay pregnancy, childbirth and childcare magazines, Tamago Club and Hiyoko Club, performed well thanks to healthy mail-order sales and other factors.

Strategy

Childrearing support business launched

Japanese society is undergoing major change due to issues associated with the falling birthrate, the trend toward the nuclear family, and the rise in the number of working mothers and two-income families, as more women choose to enter the job market. In April 2005, Benesse set up the Parenting Company* to operate its childrearing support business. This business will provide distinctive Benesse products and services in response to these changes in society. As implied by the “parenting” part of the company’s name, which means both being and acting as a parent, the new company will seek to provide support to parents and help them lead fuller lives in this role.

Specifically, the Parenting Company will seek to build links with existing magazine titles and the correspondence course business, and work to break into new customer segments by developing innovative premium products and services.

Growing as a Lifetime Value Company

From fiscal 2005, the W&F Company has been renamed the Lifetime Value Company. This name change reflects a new operational focus that will see the company work to enhance the lifetime value of a wider group of customers, as well as existing core customers—women and families. Based on the continued use of accurate customer segmentation, the company will develop its business by targeting new customer groups.

Consolidated Subsidiary

Benesse en-Famille Inc.

W&F Company Magazines and Others

<table>
<thead>
<tr>
<th>(Circulation: Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tamago Club</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Hiyoko Club</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Tamahiyo Kokko Club</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>THANK YOU!</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Subscriptions As of March (Subscribers: Thousands)</td>
</tr>
<tr>
<td>bon merci!</td>
</tr>
<tr>
<td>Benesse Women’s Park</td>
</tr>
<tr>
<td>DOG'S HEART</td>
</tr>
</tbody>
</table>

\[Hand & Heart\]
Senior Company

Centered on consolidated subsidiary Benesse Style Care Co., Ltd., the Senior Company operates a network of nursing homes for the elderly. It also provides home help services, training courses for caregivers, and medical and nursing care human resource services.

Overview

Nursing homes
Benesse Style Care operates a network of nursing homes under four brands—Aria, Clara, Granny & Granda, and Madoka. Benesse is Japan’s largest private nursing home operator in terms of both sales and the size of its network.

Home help services
Benesse provides home help services, including home nursing care and day care, through a nationwide network of 19 Benesse Nursing Care Centers and four Benesse Day Care Centers.

Training courses and human resource services
Benesse endeavors to nurture skilled caregivers capable of delivering high-quality services based on its Home-Helper Level-Two Training Course. Courses are offered at 15 locations nationwide.

Consolidated subsidiary Benesse MCM Corp. provides human resources and temporary help services in the medical, healthcare, nursing and nursing care fields.
Forging stronger links with medical institutions

By creating stronger links with medical institutions, we aim to improve the quality of services we offer at our homes, and at the same time, create a more distinctive presence in the marketplace. Our current cooperative framework with healthcare partners, which includes regular house calls for residents, will be extended with services such as on-site clinics that have beds for residents. This enhanced level of cooperation will enable us to offer higher value-added services. In a related move, we are carrying out research into muscle therapy training that will help residents to maintain and improve their physical strength.

Consolidated Subsidiaries

Benesse Style Care Co., Ltd.
Benesse MCM Corp.
The Language Company

The Language Company offers language instruction, translation and interpretation services, mainly through two consolidated subsidiaries, Berlitz International, Inc. and Simul International, Inc. It also provides an online evaluation test, the *Global Test of English Communication (GTEC)*, which measures comprehensive English communication skills.

**Overview**

**Berlitz International, Inc.**

Berlitz is the world’s largest language education company with 535 language centers in 68 countries and regions as of December 2004. In addition to its core language education business, Berlitz also provides intensive language learning support for students thinking of studying abroad through its ELS Language Centers.

**Simul International, Inc.**

Founded in 1965, Simul International provides high-quality interpretation, translation and other services to government agencies, the financial community and corporations. Simul also operates the Simul Academy, which trains professional interpreters and translators. Language instruction to business clients is another service offered by this company.

**Global Test of English Communication (GTEC)**

*GTEC* is a new type of online test designed by Benesse and Berlitz to evaluate all-round English language ability for business situations. The test assesses and measures active speaking and writing skills, as well as passive listening and reading ability. Using item response theory (IRT) to rapidly match test questions with individual student abilities, *GTEC* is capable of accurately measuring English communication skills in a short period of time.
Fiscal 2004 Review

Management reforms implemented at Berlitz International

A new president was appointed to head U.S. subsidiary Berlitz International in July 2003. Under this new leadership, Berlitz International rolled out radical reforms, realigning its operating framework with the dual aims of enhancing Berlitz’s growth potential and boosting profitability. At the heart of these reforms was the shift from a centralized operating structure to one focused on regions. Specifically, this involved a drastic streamlining of functions at the Princeton head office, and the creation of three regional offices responsible for operations in the Americas, Europe and Asia. In parallel, significant management authority was devolved to these offices to create an operating framework capable of responding to the specific nature and needs of each market. These reforms led to a recovery in the number of lessons taken in the year under review, particularly in Europe and the U.S.

Berlitz Japan also began implementing fundamental management reforms to ensure a rapid turnaround.

Steady expansion into new language study fields led by GTEC

In fiscal 2004, sales of GTEC grew steadily. As of March 2005, 379 business clients had adopted this test. We aim to capitalize on the rising popularity of GTEC in other areas of our language education business by building a stronger presence in the business and school segment, and by boosting the number of lessons taken at Berlitz language centers.

Subsidiary Simul International continues to perform well in its core interpreting and translation businesses.

Strategy

Fundamental management reform at Berlitz Japan

Berlitz International achieved an improvement in performance at operations in Europe and the U.S. in fiscal 2004, thanks to a raft of bold management reforms. However, the benefits of these initiatives are taking more time to emerge at Berlitz Japan, which reported a loss for the year under review. This company accounts for around 30% of total Berlitz sales. Consequently, many radical reforms will be implemented at Berlitz Japan to drive a rapid turnaround.

The focus will be on two key areas:

1. Boost sales

By delegating significant management authority to language centers, we will create a system that can energize the frontline of operations, enabling us to focus more on the customer in marketing activities. Redeploying individuals from the head office corporate marketing team to the frontline will help us to strengthen marketing activities targeting business clients at language centers, which have close links to local markets. Other initiatives will include working to secure more corporate clients using GTEC and reinforcing web marketing.

2. Reduce fixed costs

We will work to pare back fixed costs by closing unprofitable language centers and downsizing the head office. And by boosting the instructor utilization rate, we aim to significantly increase profitability.

Consolidated Subsidiaries

Berlitz International, Inc.
Simul International, Inc.
Okayama Language Center
Simul Business Communications, Inc.
Simul Technical Communications, Inc.
6.8%

As of March 31, 2005, Benesse had 13 subsidiaries in this segment, primarily specialists in services essential to the development of the Benesse Group. Many of these companies were formed when Benesse spun off its specialized operations to create independent operating companies. The companies include Telemarketing Japan, Inc., a call center and outsourcing service firm, and Synform Co., Ltd., a computer systems development and operation firm.

Telemarketing Japan

This subsidiary was established in 1992 when Benesse spun off its call center services for Shinkenzemi members. Sales in the fiscal year ended March 2005 rose 19.5% year on year to ¥22,425 million, supported mainly by strong orders from information and communications technology (ICT) companies. External sales accounted for 76% of total sales in fiscal 2004 with key clients including IT companies, insurance firms and credit card companies.

With the emergence of the Internet and mobile communications, there are now numerous ways for businesses to connect with their customers. Telemarketing Japan helps companies make these connections through multi-channel contact centers that use a range of integrated communications tools. Leveraging these centers, the company provides CRM strategies, mobile marketing and other services to clients.

Synform

Synform provides a range of IT services, from building and operating customer databases for Shinkenzemi correspondence courses to running and developing the Benesse Group’s IT systems. Synform is now venturing outside the Group to offer data processing outsourcing services, including computer system development and operation services. These services are anchored by high levels of expertise and advanced technologies.

Consolidated Subsidiaries

(Total of 13 subsidiaries)
Telemarketing Japan, Inc.
Synform Co., Ltd.
Carry Com Co., Ltd.
Persons Inc.
## Financial Section

### Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Six-year Summary of Consolidated Financial Statements</td>
<td>34</td>
</tr>
<tr>
<td>Management’s Discussion and Analysis</td>
<td>36</td>
</tr>
<tr>
<td>Consolidated Balance Sheets</td>
<td>48</td>
</tr>
<tr>
<td>Consolidated Statements of Income</td>
<td>50</td>
</tr>
<tr>
<td>Consolidated Statements of Shareholders’ Equity</td>
<td>51</td>
</tr>
<tr>
<td>Consolidated Statements of Cash Flows</td>
<td>52</td>
</tr>
<tr>
<td>Notes to Consolidated Financial Statements</td>
<td>53</td>
</tr>
<tr>
<td>Independent Auditors’ Report</td>
<td>73</td>
</tr>
</tbody>
</table>
# SIX-YEAR SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

Benesse Corporation and Consolidated Subsidiaries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FOR THE YEAR:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>¥291,403</td>
<td>¥260,142</td>
<td>¥258,289</td>
<td>¥267,250</td>
<td>¥262,948</td>
<td>¥260,964</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>139,672</td>
<td>125,312</td>
<td>133,223</td>
<td>128,382</td>
<td>123,766</td>
<td>120,687</td>
</tr>
<tr>
<td>Selling, General and Administrative Expenses</td>
<td>125,553</td>
<td>114,128</td>
<td>108,749</td>
<td>114,279</td>
<td>108,904</td>
<td>107,323</td>
</tr>
<tr>
<td>Operating Income</td>
<td>26,178</td>
<td>20,702</td>
<td>16,317</td>
<td>24,589</td>
<td>30,278</td>
<td>32,954</td>
</tr>
<tr>
<td>Income before Income Taxes and Minority Interests and Impairment Loss on Goodwill</td>
<td>25,799</td>
<td>17,251</td>
<td>14,446</td>
<td>24,195</td>
<td>29,985</td>
<td>29,746</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>11,439</td>
<td>7,628</td>
<td>7,553</td>
<td>11,693</td>
<td>13,940</td>
<td>13,783</td>
</tr>
<tr>
<td>Impairment Loss on Goodwill</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>13,195</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net Income</td>
<td>14,297</td>
<td>9,394</td>
<td>6,973</td>
<td>327</td>
<td>16,498</td>
<td>16,413</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>¥11,116</td>
<td>¥9,851</td>
<td>¥8,046</td>
<td>¥10,934</td>
<td>¥11,275</td>
<td>¥11,105</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>7,511</td>
<td>7,820</td>
<td>8,572</td>
<td>10,700</td>
<td>9,609</td>
<td>9,199</td>
</tr>
</tbody>
</table>

**PER SHARE OF COMMON STOCK:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>¥138</td>
<td>¥89</td>
<td>¥64</td>
<td>¥2</td>
<td>¥153</td>
<td>¥309</td>
</tr>
<tr>
<td>Retroactively Adjusted</td>
<td>138</td>
<td>89</td>
<td>64</td>
<td>2</td>
<td>153</td>
<td>154</td>
</tr>
<tr>
<td>Cash Dividends Applicable to the Year</td>
<td>60</td>
<td>40</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>58</td>
</tr>
<tr>
<td>Retroactively Adjusted</td>
<td>60</td>
<td>40</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
</tr>
</tbody>
</table>

**AT YEAR-END:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>¥307,668</td>
<td>¥292,100</td>
<td>¥275,516</td>
<td>¥291,393</td>
<td>¥309,261</td>
<td>¥297,828</td>
</tr>
<tr>
<td>Shareholders’ Equity</td>
<td>174,711</td>
<td>170,781</td>
<td>169,428</td>
<td>171,826</td>
<td>170,011</td>
<td>160,302</td>
</tr>
</tbody>
</table>

**Shareholders’ Equity per Share of Common Stock**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>¥1,701</td>
<td>¥1,641</td>
<td>¥1,612</td>
<td>¥1,616</td>
<td>¥1,599</td>
<td>¥3,015</td>
<td></td>
</tr>
<tr>
<td>Retroactively Adjusted</td>
<td>¥1,701</td>
<td>¥1,641</td>
<td>¥1,612</td>
<td>¥1,616</td>
<td>¥1,599</td>
<td>¥1,507</td>
</tr>
</tbody>
</table>

**Number of Shares of Common Stock Issued**

|----------------|------|------|------|------|------|------|

**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, 2005, 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 year ended March 31, 2000 has not been retroactively adjusted.
ANNUAL REPORT 2005

Years ended March 31

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROFITABILITY:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Income Ratio</td>
<td>9.0%</td>
<td>8.0%</td>
<td>6.3%</td>
<td>9.2%</td>
<td>11.5%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Net Income Ratio</td>
<td>4.9</td>
<td>3.6</td>
<td>2.7</td>
<td>0.1</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>8.3</td>
<td>5.5</td>
<td>4.1</td>
<td>0.2</td>
<td>10.0</td>
<td>10.7</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>4.8</td>
<td>3.3</td>
<td>2.5</td>
<td>0.1</td>
<td>5.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Operating Income per Employee ( Thousands of Yen)</td>
<td>¥2,647</td>
<td>¥2,407</td>
<td>¥2,019</td>
<td>¥2,717</td>
<td>¥3,334</td>
<td>¥4,002</td>
</tr>
<tr>
<td>Net Income per Employee ( Thousands of Yen)</td>
<td>¥1,446</td>
<td>¥1,092</td>
<td>¥863</td>
<td>¥36</td>
<td>¥1,817</td>
<td>¥1,993</td>
</tr>
</tbody>
</table>

|                      |      |      |      |      |      |      |
| **GROWTH TRENDS:**   |      |      |      |      |      |      |
| Increase (Decrease) in Net Sales                     | 12.0% | 0.7% | (3.4)% | 1.6% | 0.8% | 0.4% |
| Increase (Decrease) in Operating Income               | 26.5 | 26.9 | (33.6) | (18.8) | (8.1) | 6.4 |
| Increase (Decrease) in Net Income                     | 52.2 | 34.7 | 2,034.6 | (98.0) | 0.5 | 2.4 |

|                      |      |      |      |      |      |      |
| **STABILITY:**       |      |      |      |      |      |      |
| Current Ratio        | 141.3% | 144.6% | 141.5% | 121.7% | 114.0% | 118.4% |
| Fixed Assets Ratio   | 85.6 | 84.5 | 90.7 | 103.5 | 113.6 | 106.8 |
| Equity Ratio         | 56.8 | 58.5 | 61.5 | 59.0 | 55.0 | 53.8 |
| Liquidity (Months)   | 4.1 | 4.2 | 3.5 | 3.2 | 3.6 | 3.4 |
| Debt-to-Equity Ratio | 3.8 | 3.6 | 5.5 | 9.9 | 12.4 | 14.4 |
| Interest Coverage (Times) | 117.0 | 85.0 | 34.6 | 26.4 | 31.9 | 29.4 |

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
1. MARKET ENVIRONMENT

In the education market, the core operating field of the Benesse Group, the falling birthrate in Japan made conditions challenging. However, opportunities for private education providers are growing against a backdrop of educational reforms that have sparked rising customer needs and expectations regarding private education, and a recovery in both personal consumption and the economy as a whole. Meanwhile, the one-size-fits-all products and services of the past are no longer capable of meeting the increasingly diverse and individual needs of customers. Private education providers are therefore being required to offer a more carefully targeted level of support than before. In the language education field, although there were signs of a recovery in demand in the U.S. and Europe, the market in Japan was more challenging due to the absence of special factors driving demand such as the reforms to the Training and Education Benefits System in the previous fiscal year, and intensifying competition. In the nursing care field, the market continued to grow steadily, supported by the increasing numbers of elderly in Japan, growing awareness of the Long-term Care Insurance System, and rising needs for more diverse nursing care services. At the same time, other companies have become more active in the field as awareness grows of the opportunities in this market.

2. OPERATING RESULTS

Second consecutive year of top- and bottom-line growth due to a rapid recovery in mainstay Shinkenzemi courses

In fiscal 2004, the Benesse Group started a new three-year Medium-Term Management Plan. Under the banner of “Building a More Powerful Brand in Education,” and amid radical change in the operating environment, we focused in the first year of the plan on improving our product offering and marketing capabilities, as well as on reinforcing the operating base in support of these efforts to turn change into business opportunities.

In Shinkenzemi correspondence courses, Benesse’s core product in the education field, we upgraded the product menu with services and optional products that use classroom-based teaching and the Internet to more accurately respond to individual customer needs. This supplemented the introduction of new course materials tailored to different academic levels and a wide-ranging review of existing course materials, both of which we initiated in the previous fiscal year. The overhaul of marketing strategy, also launched in fiscal 2003, continued in the year under review, with the active use of TV commercials and the Internet in combination with our existing direct mail approach. The benefits of these steps emerged early in the fiscal year, with enrollment in Shinkenzemi correspondence courses rising by 130,000, or 3.5%, to 3.83 million in April 2004, compared with the same month a year earlier. These figures illustrate how we have halted the decline in enrollment that occurred from 2001 and put Shinkenzemi back on the path to growth.

In other education products, we launched products and services targeting new customer segments, aiming to enhance our reputation in the entrance exam market. This complemented efforts started a year ago to improve our ability to support individual student needs. New additions to the lineup included courses for students at elite combined private junior and senior high schools, and e-learning services for elementary school students studying for entrance exams for private junior high schools. With an eye on future developments in the education field, we also established the Benesse Educational Research and Development Center (BERD) to carry out R&D into new educational products and services.
In terms of marketing, we established the Headquarters Marketing Division and the Regional Sales Strategy Division in April 2004. Respectively, these divisions began formulating companywide marketing strategy and implementing marketing activities tailored to the characteristics of regional markets. And as part of our strategy to build lasting relationships with customers by offering greater convenience and satisfaction through comprehensive support in the education field, we also launched new study loan and credit card businesses during the year under review.

As a result of these and other efforts, cumulative enrollment in Shinkenzemi correspondence courses rose by 1.86 million, or 4.5%, to 43.3 million on the back of strong growth in new enrollments and re-signs from April 2004.

During fiscal 2004, we also worked to develop new markets as new drivers of growth. Benesse launched a number of business initiatives in China, South Korea and other parts of East Asia. Specifically, in July 2004, we established a subsidiary in South Korea, which began operations in March 2005 targeting senior high school students. In China, Benesse teamed up with a local partner to begin joint R&D activities related to products for infants.

In the language education field, fundamental management reforms were implemented at U.S. subsidiary Berlitz International, Inc. These included streamlining head office functions and delegating substantial responsibility and authority to regional offices in North and South America, Europe and Asia. At the same time, Berlitz International continued reviewing the product and service menu to match customer needs in each operating region. And as part of efforts to turn around operations in the core Japanese market, the subsidiary made ongoing improvements to the product and service lineup and sought to make operations more cost-efficient.

In the nursing care field, new competitors continued to appear on the scene during the year. However, tapping into market needs that outstripped this new supply, and leveraging years of expertise in the field, we steadily increased our network of nursing homes during fiscal 2004. As a result of the above, operating income rose 26.5% to ¥26,178 million and net income increased 52.2% to ¥14,297 million on consolidated net sales of ¥291,403 million, up 12.0% year on year. This was our second consecutive year of top- and bottom-line growth, marking a solid start to the first year of the Medium-Term Management Plan.

(1) Net Sales
Consolidated net sales rose by ¥31,261 million, or 12.0%, to ¥291,403 million.

This increase was attributable to a number of factors. In the Education Group, cumulative enrollment in Shinkenzemi correspondence courses grew year on year, centered on Elementary, Junior High School and Senior High School courses. Furthermore, Shinken-AD Co., Ltd., which became a consolidated subsidiary in the second half of fiscal 2003, made its first full-year contribution to sales in the Education Group. The Senior Company saw a steady increase in the number of residents as it expanded its nursing home network.

Net Sales by Segment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>¥291,403</td>
<td>¥260,142</td>
<td>¥258,289</td>
<td>¥267,250</td>
<td>¥262,948</td>
<td>¥260,964</td>
</tr>
<tr>
<td>Education Group</td>
<td>183,443</td>
<td>164,780</td>
<td>162,835</td>
<td>174,729</td>
<td>184,154</td>
<td>188,320</td>
</tr>
<tr>
<td>W&amp;F Company</td>
<td>18,247</td>
<td>16,264</td>
<td>14,757</td>
<td>10,946</td>
<td>9,182</td>
<td>9,218</td>
</tr>
<tr>
<td>Senior Company</td>
<td>22,813</td>
<td>16,761</td>
<td>12,149</td>
<td>7,145</td>
<td>3,861</td>
<td>1,331</td>
</tr>
<tr>
<td>Language Company</td>
<td>46,982</td>
<td>46,096</td>
<td>54,939</td>
<td>62,247</td>
<td>55,258</td>
<td>53,544</td>
</tr>
<tr>
<td>Others</td>
<td>19,918</td>
<td>16,241</td>
<td>13,609</td>
<td>12,183</td>
<td>10,493</td>
<td>8,551</td>
</tr>
</tbody>
</table>

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&T) 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 year ended March 31, 2000, is the unaudited simple sum of figures for the C&S Company and the S&T 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 increased ¥14,360 million, or 11.5%, to ¥139,672 million, while the cost of sales ratio declined from 48.2% to 47.9% due to higher enrollment in Shinkenzemi correspondence courses.

Cost of Sales Ratio and SG&A Ratio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Sales Ratio</td>
<td>47.9%</td>
<td>48.2%</td>
<td>51.6%</td>
<td>48.0%</td>
<td>47.1%</td>
<td>46.3%</td>
</tr>
<tr>
<td>SG&amp;A Ratio</td>
<td>43.1%</td>
<td>43.8%</td>
<td>42.1%</td>
<td>42.8%</td>
<td>41.4%</td>
<td>41.1%</td>
</tr>
</tbody>
</table>

Selling, general and administrative (SG&A) expenses rose by ¥11,425 million, or 10.0%, to ¥125,553 million. This reflected a year-on-year increase of ¥3,754 million in direct mail and advertising expenses, as spending on direct mail and TV advertisements was boosted to attract more customers to correspondence courses. Other factors behind this rise included an increase in wages and salaries of ¥2,457 million, due to higher personnel expenses at Benesse Corporation and Benesse Style Care Co., Ltd., and an increase in transportation and mailing expenses and customer management expenses of ¥1,096 million related to the rise in enrollment in correspondence courses. However, the rise in net sales outpaced the increase in SG&A expenses, leading to a decline in the SG&A ratio from 43.8% to 43.1%.

(3) Operating Income
Operating income jumped ¥5,476 million, or 26.5%, to ¥26,178 million and the operating income ratio rose from 8.0% to 9.0%. The main factors behind this rise were stronger operating income in the Education Group as higher enrollment in Shinkenzemi courses drove sales higher, and in the Senior Company, also on the back of higher sales. Meanwhile, withdrawal from unprofitable businesses and other steps helped the Women & Family Company to return to profitability.
Operating Income (Loss) by Segment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income (Loss)</td>
<td>¥26,178</td>
<td>¥20,702</td>
<td>¥16,317</td>
<td>¥24,589</td>
<td>¥30,278</td>
<td>¥32,954</td>
</tr>
<tr>
<td>Education Group</td>
<td>27,165</td>
<td>20,844</td>
<td>17,649</td>
<td>27,021</td>
<td>32,789</td>
<td>34,016</td>
</tr>
<tr>
<td>W&amp;F Company</td>
<td>85</td>
<td>(1,361)</td>
<td>(2,811)</td>
<td>(2,016)</td>
<td>(1,192)</td>
<td>(637)</td>
</tr>
<tr>
<td>Senior Company</td>
<td>1,997</td>
<td>1,615</td>
<td>463</td>
<td>(1,064)</td>
<td>(2,149)</td>
<td>(1,338)</td>
</tr>
<tr>
<td>Language Company</td>
<td>(796)</td>
<td>392</td>
<td>1,016</td>
<td>584</td>
<td>1,602</td>
<td>1,218</td>
</tr>
<tr>
<td>Others</td>
<td>1,744</td>
<td>1,902</td>
<td>1,851</td>
<td>1,545</td>
<td>763</td>
<td>1,153</td>
</tr>
</tbody>
</table>

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 year ended March 31, 2000, 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 income decreased ¥869 million, or 28.5%, to ¥2,178 million, while other expenses improved ¥3,940 million, or 60.6%, to ¥2,557 million. As a result, other expenses (net) improved ¥3,072 million to ¥379 million. The main reason for the substantial decrease in other expenses was the absence of the valuation loss on property and equipment of ¥2,242 million booked in fiscal 2003, related to the liquidation of consolidated subsidiary B.C. ESTATE Co., Ltd.

(5) Income Before Income Taxes and Minority Interests
Income before income taxes and minority interests rose ¥8,548 million, or 49.6%, to ¥25,799 million.

(6) Income Taxes
Income taxes rose ¥3,811 million, or 50.0%, to ¥11,439 million. The actual effective tax rate was 44.3%, about the same as the 44.2% in the previous fiscal year.

Following the enactment of a law to partially amend local tax regulations on March 31, 2003, the normal effective statutory tax rate was lowered from the fiscal 2003 rate of 42.0% to 40.6% from fiscal 2004.
(7) Net Income
Net income increased ¥4,903 million, or 52.2%, to ¥14,297 million. The net income ratio increased from 3.6% in the previous fiscal year to 4.9%.

Return on equity rose from 5.5% to 8.3%, while return on assets also increased, rising from 3.3% in the previous fiscal year, to 4.8% in the year under review.

ROE and ROA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>8.3%</td>
<td>5.5%</td>
<td>4.1%</td>
<td>0.2%</td>
<td>10.0%</td>
<td>10.7%</td>
</tr>
<tr>
<td>ROA</td>
<td>4.8%</td>
<td>3.3%</td>
<td>2.5%</td>
<td>0.1%</td>
<td>5.4%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

3. SEGMENT INFORMATION

(1) Education Group
Top-and bottom-line growth due to higher Shinkenzemi enrollment and growth in peripheral businesses

Consolidated net sales in the Education Group rose ¥18,663 million, or 11.3%, to ¥183,443 million.

The main reasons for this increase were strong year-on-year enrollment growth in mainstay Shinkenzemi correspondence courses, and the first full year of sales from Shiken-AD, which was consolidated in the second half of fiscal 2003.

Cumulative enrollment in Shinkenzemi correspondence courses increased 4.5% year on year to 43.3 million thanks to growth centered on Elementary, Junior High School and Senior High School courses that outweighed a slight decline in enrollment in Kodomo Challenge courses. This increased enrollment in Shinkenzemi was attributable to efforts in two key areas. First, the product lineup was strengthened by launching new course materials designed for different academic abilities and by carrying out a far-reaching review of existing course materials, both initiatives started in the previous period. Second, the strengths of Shinkenzemi courses in individualized learning were actively promoted through regionally targeted marketing activities using direct mail as in the past, complemented by other channels such as TV commercials, newspaper advertising, the Internet and promotional events. The group also launched products and services targeting new customer segments during the past year. These included courses for students at elite combined private junior and senior high schools, and e-learning services for elementary students studying for entrance exams for private junior high schools.

In peripheral businesses outside Shinkenzemi and Kodomo Challenge correspondence courses, BE-GO, a PC-based English language study course for upper-grade elementary school students and above, and Oyako Eigo English language materials for infants, both recorded increases in enrollment during the year. Kodomo Challenge every, a lineup of everyday items for infants, also achieved higher sales thanks to a wider choice of products.

In businesses targeting schools, the mainstay Shiken Simulated Exams for high school students, Study Support, a learning assessment study aid for high school students, and Course Map, support materials that help students choose their ideal career or tertiary education institution, all posted healthy growth. Multi-media course materials for elementary and junior high school students and the Global Test of English Communication (GTEC) for Students also achieved higher sales.

Operating income rose ¥6,321 million, or 30.3% to ¥27,165 million, mainly as a result of stronger earnings from Shinkenzemi on the back of higher sales.
## Breakdown of Net Sales for the Education Group

<table>
<thead>
<tr>
<th></th>
<th>2005 Millions of Yen</th>
<th>2004 Millions of Yen</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shinkenzen</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior High School Courses</td>
<td>¥21,868</td>
<td>¥20,122</td>
<td>8.6%</td>
</tr>
<tr>
<td>Junior High School Courses</td>
<td>¥37,982</td>
<td>¥32,960</td>
<td>15.2%</td>
</tr>
<tr>
<td>Elementary School Courses</td>
<td>¥53,364</td>
<td>¥48,247</td>
<td>10.6%</td>
</tr>
<tr>
<td>Preschool Courses</td>
<td>¥25,462</td>
<td>¥26,972</td>
<td>(5.6)%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>¥138,676</td>
<td>¥128,301</td>
<td>8.1%</td>
</tr>
<tr>
<td><strong>S&amp;TS Company</strong></td>
<td>¥29,926</td>
<td>¥24,249</td>
<td>23.4%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>¥14,841</td>
<td>¥12,230</td>
<td>21.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥183,443</td>
<td>¥164,780</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

Notes: 1. Net sales by segment do not include internal sales.
2. In the past, Benesse used three sub-classifications along internal administrative lines for its Elementary School Courses: Upper, Middle, and Lower. However, as strategy for the entire Elementary School Course Business becomes more connected, and in order to expedite the start-up of new businesses in the elementary school sector, Benesse has decided to integrate these three sub-classifications into one category, Elementary School Courses. This new classification applies from the period under review. Consequently, net sales for the previous fiscal year have been restated to reflect this new classification.

### (2) Women & Family Company

**Withdrawal from unprofitable businesses and growth in existing businesses leads to first operating profit**

Consolidated net sales in the Women & Family Company increased ¥1,983 million, or 12.2%, to ¥18,247 million.

Driving this increase were higher sales of direct-sales magazines such as *Hand & Heart*, a new title in the crafts and hobby genre published in the previous fiscal year, *DOG’S HEART*, a magazine for dog owners, and *bon merci!*, featuring food and health issues for families with infants. Sales at Benesse en-Famille Inc., a subsidiary operating home food-delivery services, also grew, while mainstay magazine titles *Tamago Club* and *Hiyoko Club*, which provide essential information on pregnancy, childbirth and child care, reported strong mail-order sales.

In fiscal 2004, the Women & Family Company moved into the black for the first time, recording operating income of ¥85 million, compared to an operating loss of ¥1,361 million a year earlier. This mainly reflected stronger earnings from higher sales and the withdrawal from unprofitable businesses.

### (3) Senior Company

**Increase in nursing homes and steady increase in residents drive sales and earnings growth**

The Senior Company posted an increase of ¥6,052 million, or 36.1%, in consolidated net sales to ¥22,813 million.

This rise was mainly attributable to the core nursing home business, where consolidated subsidiary Benesse Style Care expanded its network of nursing homes and steadily increased the number of new residents. In addition to building more homes, Benesse Style Care is now pushing forward with stable and sustained business expansion by putting emphasis on service quality and profitability at each home.

In fiscal 2004, the Senior Company opened 23 new homes and integrated four, for a net increase of 19 homes. As of March 31, 2005, there were a total of 92 homes in the network. By brand, this figure comprised 32 *Clara*, 37 *Granny & Granda*, 17 *Madoka*, and six *Aria* homes.

The Senior Company recorded an increase in operating income of ¥382 million, or 23.7%, to ¥1,997 million on the back of stronger sales.

### (4) Language Company

**Lackluster results in Japan resulted in an operating loss**

The Language Company increased consolidated net sales by ¥886 million, or 1.9%, to ¥46,982 million.

U.S. subsidiary Berlitz International posted higher sales in dollar terms as a recovery in the number of lessons taken in Europe and Central America compensated for a decline in Japan. However, after the negative impact of foreign currency translation, Berlitz International reported only a marginal increase in sales year on year in yen terms. Subsidiary Simul International, Inc. recorded stronger sales in its core interpreting and translation business.

*GTEC*, an assessment test launched in fiscal 2003 that is designed to measure all-round English communication ability, achieved a steady increase in sales.
The Language Company reported an operating loss of ¥796 million, compared to operating income of ¥392 million in fiscal 2003. This was mainly due to weaker earnings at the Japanese operations of Berlitz International as a result of lower sales and persistently high fixed costs, as well as up-front investment in new businesses.

### Breakdown of Net Sales for Berlitz International, Inc.

<table>
<thead>
<tr>
<th></th>
<th>Years ended December 31</th>
<th>Thousands of U.S. Dollars</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Language Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td></td>
<td>$354,367</td>
<td>$328,000</td>
</tr>
<tr>
<td>ELS</td>
<td></td>
<td>40,732</td>
<td>36,158</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>–</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Subtotal</strong></td>
<td><strong>395,099</strong></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>161</td>
<td>229</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$395,260</strong></td>
</tr>
</tbody>
</table>

(5) Others Operating income declines due to costs related to up-front investments by Benesse Corporation, despite a strong performance at subsidiaries

This segment posted consolidated net sales of ¥19,918 million, an increase of ¥3,677 million, or 22.6%, year on year.

This rise was chiefly the result of higher sales to customers outside the Benesse Group by consolidated subsidiary Telemarketing Japan, Inc., which secured strong orders from the communications, broadcasting and IT industries.

Despite a strong performance by subsidiaries in this segment, operating income fell ¥158 million, or 8.3%, to ¥1,744 million. This was mainly due to expenses for new business start-ups at Benesse.

### 4. FINANCIAL POSITION AND LIQUIDITY

#### (1) Assets, Liabilities and Shareholders’ Equity

**Total assets rise due to strong results**

Total assets as of March 31, 2005 were ¥307,668 million, ¥15,568 million higher than at the end of the previous fiscal year. The rise in total assets mainly reflected the acquisition of marketable securities for short-term investment using an increase in advances received, which rose in line with higher enrollment in correspondence courses. Earnings growth underpinned by a robust performance in fiscal 2004 also contributed to the rise.

Total current assets rose ¥10,446 million to ¥158,151 million. This was mainly due to the purchase of marketable securities such as eurobonds and commercial paper for short-term investment with the increase in advances received, which rose due to higher enrollment in **Shinkenzemi** courses.

Property and equipment increased ¥406 million to ¥69,800 million due to increases in land and buildings and leasehold improvements for nursing homes.

Investments and other assets increased ¥4,716 million to ¥79,717 million. This was attributable mainly to the acquisition of euroyen bonds and other investment securities for medium-term investment with the increase in advances received, which rose due to higher enrollment in **Shinkenzemi** courses.

Total liabilities rose ¥11,957 million to ¥132,731 million. The main reasons were an increase in advances received in step with higher enrollment in **Shinkenzemi** courses, a rise in income taxes payable related to higher earnings, and increases in trade payables and income taxes payable associated with higher selling expenses.

As of March 31, 2005, total shareholders’ equity was ¥174,711 million, an increase of ¥3,930 million from the previous fiscal year-end. This was mainly due to higher retained earnings from strong results in fiscal 2004, which outweighed the payment of dividends and the acquisition of treasury stock.
### Financial Position

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>¥307,668</td>
<td>¥292,100</td>
<td>¥275,516</td>
<td>¥291,393</td>
<td>¥309,261</td>
<td>¥297,828</td>
</tr>
<tr>
<td>Current Assets</td>
<td>158,151</td>
<td>147,705</td>
<td>121,926</td>
<td>113,552</td>
<td>116,136</td>
<td>116,960</td>
</tr>
<tr>
<td>Property and Equipment</td>
<td>69,800</td>
<td>69,394</td>
<td>71,429</td>
<td>78,696</td>
<td>78,840</td>
<td>76,292</td>
</tr>
<tr>
<td>Investments and Other Assets</td>
<td>79,717</td>
<td>75,001</td>
<td>82,161</td>
<td>99,145</td>
<td>114,285</td>
<td>104,576</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>111,941</td>
<td>102,158</td>
<td>86,192</td>
<td>93,313</td>
<td>101,882</td>
<td>98,779</td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td>20,790</td>
<td>18,616</td>
<td>19,323</td>
<td>25,324</td>
<td>30,705</td>
<td>31,685</td>
</tr>
<tr>
<td>Shareholders’ Equity</td>
<td>174,711</td>
<td>170,781</td>
<td>169,428</td>
<td>171,826</td>
<td>170,011</td>
<td>160,302</td>
</tr>
<tr>
<td>Equity Ratio (%)</td>
<td>56.8</td>
<td>58.5</td>
<td>61.5</td>
<td>59.0</td>
<td>55.0</td>
<td>53.8</td>
</tr>
<tr>
<td>Shareholders’ Equity per Share of Common Stock (Yen)</td>
<td>1,701</td>
<td>1,641</td>
<td>1,612</td>
<td>1,616</td>
<td>1,599</td>
<td>1,507</td>
</tr>
</tbody>
</table>

Notes: 1. The computation of Shareholders’ Equity 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 during each year and 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 provided by operating activities rose, but cash and cash equivalents at year-end fell due to investments, share buybacks and higher dividends

Cash and cash equivalents at the end of the fiscal year stood at ¥89,477 million, ¥4,670 million lower than a year earlier. This was mainly due to a net cash outflow after the purchase and sale of marketable securities, investment securities and property and equipment, an increase in dividends paid as Benesse raised its dividend, and an increase in cash used for the purchase of treasury stock.

Net cash provided by operating activities was ¥28,427 million, ¥492 million higher than in the previous fiscal year. This mainly comprised income before income taxes and minority interests of ¥25,799 million.

Net cash used in investing activities was ¥22,523 million, ¥12,862 million higher than the previous fiscal year. This was mainly attributable to net cash used of ¥9,059 million due to the purchase and sale of marketable securities and investment securities, net cash used of ¥5,538 million for the purchase and sale of property and equipment, and cash used of ¥3,299 million for the purchase of software. The higher cash outflow compared to a year earlier also reflected the increase in cash and time deposits to acquire marketable securities such as eurobonds and commercial paper for short-term investment, and euroyen bonds and other investment securities for medium-term investment.

Net cash used in financing activities was ¥10,733 million, an increase of ¥4,689 million from a year earlier. This mainly reflected ¥5,253 million in dividends paid, and ¥4,367 million for the purchases of treasury stock. The higher cash outflow compared to fiscal 2003 was chiefly due to an increase in the dividend and increased outflows for purchasing treasury stock.

#### Cash Flows

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash Provided by Operating Activities</td>
<td>¥28,427</td>
<td>¥27,935</td>
<td>¥17,505</td>
<td>¥8,286</td>
<td>¥21,853</td>
<td>¥32,525</td>
</tr>
<tr>
<td>Net Cash (Used in) Provided by Investing Activities</td>
<td>(22,523)</td>
<td>(9,661)</td>
<td>16,778</td>
<td>(11,701)</td>
<td>(7,830)</td>
<td>(18,910)</td>
</tr>
<tr>
<td>Net Cash Used in Financing Activities</td>
<td>(10,733)</td>
<td>(6,044)</td>
<td>(13,530)</td>
<td>(11,209)</td>
<td>(4,339)</td>
<td>(5,169)</td>
</tr>
<tr>
<td>Foreign Currency Translation Adjustments on Cash and Cash Equivalents</td>
<td>159</td>
<td>(617)</td>
<td>(470)</td>
<td>727</td>
<td>502</td>
<td>(983)</td>
</tr>
<tr>
<td>Net (Decrease) Increase in Cash and Cash Equivalents</td>
<td>(4,670)</td>
<td>11,613</td>
<td>20,283</td>
<td>(13,897)</td>
<td>10,231</td>
<td>7,463</td>
</tr>
</tbody>
</table>
(3) Share Buyback Program
Continued implementation of share buyback program in fiscal 2004
Benesse has an ongoing share buyback program aimed at improving capital efficiency and shareholder value. In fiscal 2004, we repurchased 1,317,000 shares of Benesse common stock for ¥4,350 million, representing an average price per share of ¥3,302. For fiscal 2003, these figures were: 963,300 shares, ¥2,059 million, and ¥2,137. In fiscal 2002: 1,360,000 shares, ¥2,586 million, and ¥1,901. Treasury stock at March 31, 2005 totaled 3,653,578 shares, representing 3.4% of all issued Benesse shares. Benesse plans to continue flexibly implementing its share buyback program, taking into account factors such as stock price trends and capital efficiency.

(4) Capital Expenditures, Depreciation and Amortization
Capital expenditures increased due to investment in software development and other factors
Capital expenditures for fiscal 2004 totaled ¥11,116 million, an increase of ¥1,265 million, or 12.8%, compared to a year earlier. The main reasons for this increase were investment in software development to improve the product and service lineup in each division in the Education Group, the development of software in response to a new law on the protection of personal information, and the installation of equipment to enhance security for buildings.

Depreciation and amortization totaled ¥7,511 million, a decrease of ¥309 million, or 4.0%, year on year.

5. ISSUES AND POLICIES
(1) Issues Facing the Company
Build a more powerful brand in the education field
In the education field, it is becoming increasingly important to respond to proliferating customer needs and change, precipitated by educational reforms, the diversification of education, technological innovation and other forces, by offering new types of products and services. In December 2004, two international studies (PISA and TIMSS) on academic ability were announced. Both showed that Japan’s relative position had dropped since previous studies. In particular, the OECD PISA survey, which measures how effective children are at using knowledge, showed a marked decline in the abilities of Japanese children in 2003 compared to the previous survey in 2000. In reading ability, Japan fell from 8th to 14th position, and in numerical literacy, the drop was from 1st place to 6th. As well as declining academic ability, less motivation to study in children, and the polarization of academic skills are also becoming more apparent. In this increasingly confused educational landscape, Benesse has resolved to build an even more trusted brand.

In mainstay Shinkenzemi correspondence courses, Benesse began introducing new course materials tailored to different academic abilities in fiscal 2003, as it worked to respond to individual customer needs based on highly accurate customer segmentation. Using PCs, mobile phones, classroom formats and a wide range of other means, we plan to further develop learning styles specifically tailored to individual students. Benesse is also aggressively investing in R&D in education. During fiscal 2004, we set up the Benesse Education Information Website. By providing a wealth of educational news and content through this site and other means, we are enhancing our presence as a trusted source of information. In addition, joint research into education technologies and programs was launched through courses and departments set up at the University of Tokyo with endowments from Benesse.

Cultivating the seeds of new growth is also an important issue for Benesse. In this regard, we are steadily implementing a number of initiatives. First, in the year under review, we launched new credit card and study loan businesses to offer more convenience to customers and provide them with comprehensive and continuous support in the area of education. Through these services, we aim to raise customer satisfaction and build lasting relationships with users of Benesse products and services. Second, on April 1, 2005, we took over the business of AVIVA Co., Ltd., Japan’s largest operator of personal computer schools. With this business, we plan to maximize synergies with our own efforts to expand the “face-to-face” education business, use IT more extensively in education provision, and develop businesses targeting university students and working people. Third, we have begun operations in Asia. Our policy here is to aggressively develop Benesse’s presence in China, South Korea and other areas of East Asia, which we have positioned as our most important market after Japan. During fiscal 2004, we established a subsidiary in South Korea, which began operations targeting senior high school students in March 2005. And in China, we teamed up with a local partner to begin joint R&D activities related to products for infants.

In fiscal 2004, the Women & Family (W&F) Company achieved profitability thanks to efforts to restructure unprofitable businesses and the benefits of rapid new business launches. The W&F Company was also relaunched with a new operating structure from April 2005. Focused predominantly until now on female customers and families, the W&F Company has been renamed the Lifetime Value Company, reflecting its new remit of enhancing value over the lifetime of all customers.
With Japan facing the serious problem of a declining birthrate, Benesse is determined to take an active role in addressing this issue as a leading education company. Based on this thinking, we established the Parenting Company on April 1, 2005 to run a new childrearing support business.

In the nursing care field, although the market continues to expand, competition is intensifying as a succession of private companies enters the market. In this environment, we plan to maintain our competitive edge and continue stable business growth by expanding nursing home brands tailored to the specific characteristics and needs of each area. Creating a unique Benesse style of elderly care will also be key to reaching this goal.

In the language education field, turning round the operations of Berlitz Japan is an urgent issue. At Berlitz International, head office functions were streamlined and significant responsibility and authority were transferred to regional offices during fiscal 2004, leading to improved results in the Americas and Europe. However, Berlitz Japan’s performance deteriorated in the year under review due to tougher market conditions and other factors. In response, fundamental management reforms were initiated in April 2005 that are designed to drive a turnaround in results by enhancing service quality, boosting sales capabilities and curbing costs under a new operating structure.

A capital structure policy designed to boost corporate value
Capital structure policy, including the return of profits to shareholders, is a vital issue for the Benesse Group. In order to boost corporate value, we are working to enhance related measures, including clearly stating our goal of achieving a dividend payout ratio of at least 35% from fiscal 2004. At the same time, we have raised the dividend for two consecutive periods. Further, in order to improve capital efficiency and increase shareholder value, we are buying back shares on an ongoing basis. During the year under review, 1,317,000 shares were repurchased for ¥4,350 million. Meanwhile, we plan to actively use cash reserves to invest for medium- and long-term business growth, including R&D centered on the education field. Protection against hostile takeovers is currently a topic of interest in Japan’s business community. At Benesse, we believe that increasing corporate value is the best defense against this kind of takeover.

(2) Outlook for the Fiscal Year Ending March 31, 2006
Benesse expects a third consecutive year of top-and bottom-line growth; aggressive investment in new businesses planned
Benesse is projecting an increase of 13.2% in consolidated net sales, to ¥330,000 million. This forecast is premised in part on expectations for continued growth in enrollment in Education Group products, particularly Shinkenzemi Elementary, Junior High School and Senior High School courses, and expansion in the nursing home business operated by the Senior Company.

Benesse is forecasting a rise of 3.4% in ordinary income, to ¥28,400 million, with earnings growth expected to fall short of net sales growth. Although we expect earnings to be partly supported by higher sales, earnings growth will be curbed by costs related to the revision of course materials in the Shinkenzemi business, and expenses associated with investment in new businesses such as expansion in East Asia, research into e-learning and mobile study services, and the development of new premium products.

Net income forecast is to increase 10.5%, to ¥15,800 million, due partly to the expected absence of business restructuring costs at Berlitz International recorded in the previous fiscal year.

(3) Dividend Policy
Benesse plans to raise the dividend for the third year in succession
Benesse’s basic policy is to share profits with shareholders, with due consideration to business performance, investment plans, the payout ratio target of at least 35% and other factors. In fiscal 2004, Benesse achieved a second consecutive year of earnings growth as the benefits of a raft of management reforms emerged. Accordingly, in line with the above policy, Benesse paid a full-year dividend of ¥60.0 per common share for the fiscal year under review, consisting of an interim dividend of ¥25.0 and a year-end dividend of ¥35.0 per common share. This represents an increase of ¥20.0 per share over the previous fiscal year.

We plan to pay a full-year dividend of ¥70.0 per common share for fiscal 2005, consisting of an interim dividend of ¥35.0 and a year-end dividend of ¥35.0 per common share, representing an increase in the dividend for the third year in succession.

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 2005, the number of members totaled 4.01 million, representing a 4.7% 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 marketing activities by employing and combining mass media channels, promotional events and Internet marketing methods in addition to existing direct mail approaches. Nevertheless, the Benesse Group’s results and financial position could be affected by a contraction in the overall size of the education market in step with Japan’s declining birthrate.

(2) Regulations

(i) Education System

In the education field, the launch of new curricula for elementary and junior high schools from fiscal 2002 led to rising concerns among parents about the academic abilities of their children. In response, regulations that had been designed to reduce course content by 30% were reviewed in December 2003. The result of this review was the decision to restore parts of the reduced curriculum to textbooks as “developmental coursework” in elementary schools from fiscal 2005, and in junior high schools from fiscal 2006. At the same time, the emphasis of the curricula was shifted from a less-demanding approach to education to distinctive styles of instruction in individual regions and schools to raise academic abilities, while steps to create a more flexible education system are being examined as part of moves to reform Japan’s entrance examination system. Amid these significant changes, the education needs of children and their parents are rapidly becoming more individual and diverse. As a result, Benesse must develop and provide new products and services that are carefully tailored to these fragmenting needs. Nevertheless, the Benesse Group’s results and financial position may be affected by a decline in the appeal of its core products and services and decline in sales, given the high share of total sales accounted for by the Shinkenzemi business, if its response is insufficient to respond to the rapid pace of change in the education environment and in customer needs.

(ii) Nursing Care

The Long-term Care Insurance Law contains a provision that requires that local governments review their insurance business plans and revise their nursing care benefits systems 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. An additional provision also stipulates a revision of the Long-term Care Insurance Law five years after its enforcement, to ensure the smooth operation of the system as a whole.

In line with this policy, a revised Long-term Care Insurance Law was submitted to the ordinary session of the Diet in 2005. Consequently, revisions to the law and the nursing care benefits system are scheduled to be implemented simultaneously in April 2006, following the passage and enactment of the revised law and subsequent examination of details related to its implementation and changes to the nursing care benefits system.

Although Benesse has built a nursing care business model with a low degree of dependence on income from nursing care insurance, the 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 regulations related to the provision of nursing care services, 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 correspondence courses such as Shinkenzemi and Kodomo Challenge. Customers are required to register personal information, such as their name, gender, birthdate, address, telephone number, and name of guardian. This personal information is processed and stored in the Benesse Group’s database.

Following the enforcement in April 2005 of the Act for Protection of Computer Processed Personal Data held by Administrative Organs, guidelines on handling personal information determined by laws, regulations and government ministries continue to be implemented. This and the growing debate regarding the basic resident register access system have stimulated growing societal interest in privacy protection. In this climate, laws and regulations may become still stricter 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 leak of personal information due to unpredictable events such as unauthorized external access and other criminal acts.
(4) Basic Resident Register Access System

The basic resident register is a record of residents used by local government bodies, in accordance with the Basic Resident Register Law, to manage details of citizens living within their boundaries for the purposes of executing administrative duties. Because the basic resident register is the only official means of authenticating an address, citizens have the right, enshrined in law, to view four items of information contained in transcripts of the register—name, address, gender and date of birth—provided there is no danger that this information will be used for unauthorized purposes.

However, since the enforcement of the Act for Protection of Computer Processed Personal Data held by Administrative Organs (Personal Information Protection Law) in April 2005, awareness among the public regarding personal privacy has risen and views regarding personal information are undergoing significant change. Against this backdrop, there is growing momentum for revisions to the basic resident register access system. In response, Japan’s Ministry of Internal Affairs and Communications has established a working panel of experts to review the system, and discussions have begun on introducing a revised law that will prevent, in principle, access to information on the basic resident register. Although there is no concrete timetable for legislative amendments, any significant restrictions on access to the basic resident register could have an impact on the sales activities of the Benesse Group.

Currently, the Benesse Group uses information from the basic resident register access system in direct mailing and other sales promotion activities. Seeing moves toward a policy of restricting access in principle as entirely natural, Benesse has begun examining not using the basic resident register access system in the future as it seeks to diversify marketing methods based on obtaining personal information with the consent of individuals.

The Benesse Group has been aware of growing difficulties in accessing the basic resident register for a few years now, and in response Benesse formulated specific measures two years ago. Benesse views this trend as an opportunity to promote marketing reforms. Although Benesse employs a CRM strategy that relies on direct marketing, the conventional approach of using information from the basic resident register for direct mailing is not necessarily the most efficient method of communicating with customers from the perspective of response rates, cost and other factors. Benesse recognizes that creating relationships by directly approaching customers who already have an interest in the Group’s products and services, and gathering information from them after receiving their permission, will become more important going forward. In addition, to enhance its brand, Benesse must engender greater trust in the Benesse name in the education field, mainly by actively releasing the results of educational research and surveys to the public.

Based on this thinking, Benesse has implemented radical structural reforms that included the establishment of a Headquarters Marketing Division to implement groupwide marketing strategy, and a Regional Sales Strategy Division to carry out highly focused regional marketing activities. Under this new organization, we are strengthening direct methods of acquiring information from customers (developing opt-in customer lists) by holding seminars on local school and university entrance exams and running promotional events. Benesse now also uses a more effective media-mix marketing method that combines TV commercials, web-advertising, promotional events and other channels with the existing direct mail approach.

(5) Accounting for Asset Impairment

Effective from the fiscal year ending March 2006, large companies as defined by Japan’s Commercial Code and listed Japanese companies will be compelled to apply new accounting standards for asset impairment. In advance of this date, the Company and its domestic consolidated subsidiaries adopted the new Accounting Standards for Impairment of Fixed Assets (Opinions on Accounting Standards for Impairment of Fixed Assets, Business Accounting Council, August 9, 2002) and Guidance for the Application of Accounting Standards for Impairment of Fixed Assets (Accounting Standards Board of Japan, Business Accounting Standards Application Policy No. 6, October 31, 2003) in the fiscal year under review. In line with the adoption of these new standards, the Company booked an impairment loss on idle assets of ¥334 million for the year ended March 31, 2005.

In addition, the Benesse Group’s results and financial position could be affected by the necessity to record 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 term 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, 2005, 2004 and 2003  

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and time deposits (Notes 3 and 10)</td>
<td>¥ 46,613</td>
<td>¥ 55,391</td>
<td>¥ 39,995</td>
<td>$ 435,636</td>
</tr>
<tr>
<td>Marketable securities (Note 4)</td>
<td>54,368</td>
<td>44,701</td>
<td>43,157</td>
<td>508,112</td>
</tr>
<tr>
<td>Trade receivables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts</td>
<td>21,633</td>
<td>18,959</td>
<td>15,647</td>
<td>202,178</td>
</tr>
<tr>
<td>Due from affiliates</td>
<td>4</td>
<td>4</td>
<td>220</td>
<td>37</td>
</tr>
<tr>
<td>Inventories (Note 5)</td>
<td>13,053</td>
<td>12,146</td>
<td>12,955</td>
<td>121,991</td>
</tr>
<tr>
<td>Other current assets (Note 18)</td>
<td>24,045</td>
<td>18,206</td>
<td>11,918</td>
<td>224,719</td>
</tr>
<tr>
<td>Allowance for doubtful receivables</td>
<td>(1,565)</td>
<td>(1,702)</td>
<td>(1,966)</td>
<td>(14,626)</td>
</tr>
<tr>
<td>Total current assets</td>
<td>158,151</td>
<td>147,705</td>
<td>121,926</td>
<td>1,478,047</td>
</tr>
<tr>
<td><strong>PROPERTY AND EQUIPMENT:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land (Notes 6, 10 and 14)</td>
<td>33,674</td>
<td>31,666</td>
<td>34,210</td>
<td>314,710</td>
</tr>
<tr>
<td>Buildings and leasehold improvements (Notes 6 and 10)</td>
<td>61,803</td>
<td>59,673</td>
<td>60,222</td>
<td>577,598</td>
</tr>
<tr>
<td>Equipment, fixtures and other (Note 14)</td>
<td>16,814</td>
<td>18,859</td>
<td>16,366</td>
<td>157,140</td>
</tr>
<tr>
<td>Total</td>
<td>112,291</td>
<td>110,198</td>
<td>110,798</td>
<td>1,049,448</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(42,491)</td>
<td>(40,804)</td>
<td>(39,369)</td>
<td>(397,112)</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>69,800</td>
<td>69,394</td>
<td>71,429</td>
<td>652,336</td>
</tr>
<tr>
<td><strong>INVESTMENTS AND OTHER ASSETS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities (Note 4)</td>
<td>18,165</td>
<td>13,806</td>
<td>13,924</td>
<td>169,766</td>
</tr>
<tr>
<td>Investments in unconsolidated subsidiaries and affiliates</td>
<td>405</td>
<td>369</td>
<td>1,734</td>
<td>3,785</td>
</tr>
<tr>
<td>Goodwill and other intangible assets (Notes 6 and 8)</td>
<td>42,850</td>
<td>43,851</td>
<td>49,075</td>
<td>400,467</td>
</tr>
<tr>
<td>Other assets (Notes 9, 11 and 18)</td>
<td>18,297</td>
<td>16,975</td>
<td>17,428</td>
<td>171,001</td>
</tr>
<tr>
<td>Total investments and other assets</td>
<td>79,717</td>
<td>75,001</td>
<td>82,161</td>
<td>745,019</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>¥307,668</td>
<td>¥292,100</td>
<td>¥275,516</td>
<td>$2,875,402</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
### LIABILITIES AND SHAREHOLDERS’ EQUITY

#### CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term bank loans (Note 10)</td>
<td>¥ 1,100</td>
<td>¥ 1,056</td>
<td>¥ 310</td>
<td>$ 10,280</td>
</tr>
<tr>
<td>Current portion of long-term debt (Note 10)</td>
<td>1,242</td>
<td>1,410</td>
<td>751</td>
<td>11,608</td>
</tr>
<tr>
<td>Trade payables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts</td>
<td>30,015</td>
<td>27,964</td>
<td>22,747</td>
<td>280,514</td>
</tr>
<tr>
<td>Due to affiliates</td>
<td>559</td>
<td>380</td>
<td>298</td>
<td>5,224</td>
</tr>
<tr>
<td>Advances received</td>
<td>59,040</td>
<td>56,590</td>
<td>53,027</td>
<td>551,776</td>
</tr>
<tr>
<td>Income taxes payable (Note 18)</td>
<td>8,438</td>
<td>5,625</td>
<td>960</td>
<td>78,860</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>11,547</td>
<td>9,133</td>
<td>8,099</td>
<td>107,916</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>111,941</td>
<td>102,158</td>
<td>86,192</td>
<td>1,046,178</td>
</tr>
</tbody>
</table>

#### LONG-TERM LIABILITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt, less current portion (Note 10)</td>
<td>3,593</td>
<td>4,584</td>
<td>4,281</td>
<td>33,579</td>
</tr>
<tr>
<td>Liability for retirement benefits (Note 11)</td>
<td>3,593</td>
<td>3,387</td>
<td>3,193</td>
<td>33,579</td>
</tr>
<tr>
<td>Other long-term liabilities (Notes 9 and 18)</td>
<td>13,604</td>
<td>10,645</td>
<td>11,849</td>
<td>127,141</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>20,790</td>
<td>18,616</td>
<td>19,323</td>
<td>194,299</td>
</tr>
</tbody>
</table>

#### MINORITY INTERESTS

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>226</td>
<td>545</td>
<td>573</td>
<td>2,112</td>
</tr>
</tbody>
</table>

#### SHAREHOLDERS’ EQUITY (Notes 12, 17, 19 and 21):

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock—authorized, 405,282,040 shares in 2005, 2004 and 2003</td>
<td>13,600</td>
<td>13,600</td>
<td>13,600</td>
<td>127,103</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>145,535</td>
<td>136,608</td>
<td>130,448</td>
<td>1,360,140</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>618</td>
<td>490</td>
<td>(91)</td>
<td>5,776</td>
</tr>
<tr>
<td>Unrealized gain (loss) on available-for-sale securities</td>
<td>(5,375)</td>
<td>(4,615)</td>
<td>(1,290)</td>
<td>(50,234)</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>183,737</td>
<td>175,441</td>
<td>172,025</td>
<td>1,717,168</td>
</tr>
<tr>
<td>Treasury stock—at cost—3,653,578 shares in 2005, 2,331,807 shares in 2004</td>
<td>(9,026)</td>
<td>(4,660)</td>
<td>(2,597)</td>
<td>(84,355)</td>
</tr>
<tr>
<td>and 1,366,380 shares in 2003</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>174,711</td>
<td>170,781</td>
<td>169,428</td>
<td>1,632,813</td>
</tr>
</tbody>
</table>

#### TOTAL

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>¥307,668</td>
<td>¥292,100</td>
<td>¥275,516</td>
<td>$2,875,402</td>
</tr>
</tbody>
</table>
## CONSOLIDATED STATEMENTS OF INCOME

Benesse Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2005, 2004 and 2003

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET SALES</strong></td>
<td>¥291,403</td>
<td>$2,723,393</td>
</tr>
<tr>
<td><strong>COST OF SALES</strong></td>
<td>139,672</td>
<td>1,305,346</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>151,731</td>
<td>1,418,047</td>
</tr>
<tr>
<td><strong>SELLING, GENERAL AND</strong></td>
<td>125,553</td>
<td>1,173,393</td>
</tr>
<tr>
<td><strong>ADMINISTRATIVE EXPENSES</strong></td>
<td>26,178</td>
<td>244,654</td>
</tr>
<tr>
<td><strong>OTHER INCOME (EXPENSES):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend income</td>
<td>43</td>
<td>402</td>
</tr>
<tr>
<td>Interest income (expense)—net</td>
<td>41</td>
<td>383</td>
</tr>
<tr>
<td>Gain (loss) on investments—net</td>
<td>870</td>
<td>8,131</td>
</tr>
<tr>
<td>Equity in net earnings (losses)</td>
<td>42</td>
<td>392</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>(6)</td>
<td>(56)</td>
</tr>
<tr>
<td>Loss on impairment of long-lived</td>
<td>(334)</td>
<td>(3,121)</td>
</tr>
<tr>
<td>Valuation loss on property and</td>
<td>(2,242)</td>
<td></td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on exemption from future pension obligation of the governmental program</td>
<td></td>
<td>3,150</td>
</tr>
<tr>
<td>Loss on disposal of a part of translation segment</td>
<td></td>
<td>(2,110)</td>
</tr>
<tr>
<td>Other—net</td>
<td>(1,035)</td>
<td>(9,673)</td>
</tr>
<tr>
<td><strong>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</strong></td>
<td>25,799</td>
<td>241,112</td>
</tr>
<tr>
<td><strong>INCOME TAXES</strong> (Note 18):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>12,335</td>
<td>115,280</td>
</tr>
<tr>
<td>Deferred</td>
<td>(896)</td>
<td>(8,374)</td>
</tr>
<tr>
<td><strong>Total income taxes</strong></td>
<td>11,439</td>
<td>106,906</td>
</tr>
<tr>
<td><strong>MINORITY INTERESTS IN NET INCOME (LOSS)</strong></td>
<td>63</td>
<td>589</td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td>¥14,297</td>
<td>$133,617</td>
</tr>
</tbody>
</table>

### PER SHARE OF COMMON STOCK (Notes 2.r, 20 and 21):

<table>
<thead>
<tr>
<th></th>
<th>Yen</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td>¥138.05</td>
<td>$1.2902</td>
</tr>
<tr>
<td><strong>Diluted net income</strong></td>
<td>137.66</td>
<td>1.2865</td>
</tr>
<tr>
<td><strong>Cash dividends applicable to the year</strong></td>
<td>60.00</td>
<td>0.56</td>
</tr>
</tbody>
</table>

*See notes to consolidated financial statements.*
## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Benesse Corporation and Consolidated Subsidiaries
Years Ended March 31, 2005, 2004 and 2003

<table>
<thead>
<tr>
<th>Thousands</th>
<th>Millions of Yen</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outstanding Number of Shares of Common Stock</strong></td>
<td><strong>Common Stock</strong></td>
</tr>
<tr>
<td><strong>BALANCE, APRIL 1, 2002</strong></td>
<td>106,353</td>
</tr>
<tr>
<td>Net income</td>
<td>6,973</td>
</tr>
<tr>
<td>Cash dividends, ¥29 per share</td>
<td>(3,072)</td>
</tr>
<tr>
<td>Bonuses to directors and corporate auditors</td>
<td>(82)</td>
</tr>
<tr>
<td>Unrealized pension liabilities of foreign consolidated subsidiaries</td>
<td>(165)</td>
</tr>
<tr>
<td>Decrease due to equity change of foreign consolidated subsidiaries</td>
<td>(725)</td>
</tr>
<tr>
<td>Unrealized gain on available-for-sale securities</td>
<td>265</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(2,997)</td>
</tr>
<tr>
<td>Treasury stock acquired</td>
<td>(1,366)</td>
</tr>
<tr>
<td><strong>BALANCE, MARCH 31, 2003</strong></td>
<td>104,987</td>
</tr>
<tr>
<td>Net income</td>
<td>9,394</td>
</tr>
<tr>
<td>Cash dividends, ¥29 per share</td>
<td>(3,031)</td>
</tr>
<tr>
<td>Bonuses to directors and corporate auditors</td>
<td>(160)</td>
</tr>
<tr>
<td>Unrealized pension liabilities of foreign consolidated subsidiaries</td>
<td>(7)</td>
</tr>
<tr>
<td>Decrease due to removal of an equity method affiliated company</td>
<td>(36)</td>
</tr>
<tr>
<td>Unrealized gain on available-for-sale securities</td>
<td>581</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(3,325)</td>
</tr>
<tr>
<td>Treasury stock acquired</td>
<td>(965)</td>
</tr>
<tr>
<td><strong>BALANCE, MARCH 31, 2004</strong></td>
<td>104,022</td>
</tr>
<tr>
<td>Net income</td>
<td>14,297</td>
</tr>
<tr>
<td>Cash dividends, $0.47 per share</td>
<td>(5,253)</td>
</tr>
<tr>
<td>Bonuses to directors and corporate auditors</td>
<td>(124)</td>
</tr>
<tr>
<td>Unrealized pension liabilities of foreign consolidated subsidiaries</td>
<td>7</td>
</tr>
<tr>
<td>Unrealized gain on available-for-sale securities</td>
<td>128</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(760)</td>
</tr>
<tr>
<td>Treasury stock acquired</td>
<td>(1,323)</td>
</tr>
<tr>
<td>Gain on sales of treasury stock</td>
<td>1</td>
</tr>
<tr>
<td><strong>BALANCE, MARCH 31, 2005</strong></td>
<td>102,700</td>
</tr>
<tr>
<td><strong>BALANCE, March 31, 2004</strong></td>
<td>$127,103</td>
</tr>
<tr>
<td>Net income</td>
<td>$133,617</td>
</tr>
<tr>
<td>Cash dividends, $0.47 per share</td>
<td>(49,093)</td>
</tr>
<tr>
<td>Bonuses to directors and corporate auditors</td>
<td>(1,159)</td>
</tr>
<tr>
<td>Unrealized pension liabilities of foreign consolidated subsidiaries</td>
<td>65</td>
</tr>
<tr>
<td>Unrealized gain on available-for-sale securities</td>
<td>1,196</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(7,103)</td>
</tr>
<tr>
<td>Treasury stock acquired</td>
<td>(40,813)</td>
</tr>
<tr>
<td>Gain on sales of treasury stock</td>
<td>9</td>
</tr>
<tr>
<td><strong>BALANCE, March 31, 2005</strong></td>
<td>$127,103</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Benesse Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2005, 2004 and 2003

<table>
<thead>
<tr>
<th>Months of Yen</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>OPERATING ACTIVITIES:</td>
<td></td>
</tr>
<tr>
<td>Income before income taxes and minority interests</td>
<td>¥ 25,799</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
</tr>
<tr>
<td>Income taxes—paid</td>
<td>(9,740)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>7,511</td>
</tr>
<tr>
<td>Loss on impairment of long-lived assets</td>
<td>334</td>
</tr>
<tr>
<td>Valuation loss on property and equipment</td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in allowance for doubtful receivables, liability for retirement benefits and other reserves</td>
<td>999</td>
</tr>
<tr>
<td>Loss on disposal of a part of translation segment</td>
<td></td>
</tr>
<tr>
<td>Other non-cash expenses—net</td>
<td>100</td>
</tr>
<tr>
<td>Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:</td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in trade accounts receivable</td>
<td>(2,624)</td>
</tr>
<tr>
<td>(Increase) decrease in inventories</td>
<td>(868)</td>
</tr>
<tr>
<td>Increase in trade accounts payable</td>
<td>2,358</td>
</tr>
<tr>
<td>Increase (decrease) in advances received</td>
<td>2,287</td>
</tr>
<tr>
<td>Other—net</td>
<td>2,271</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>2,628</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>28,427</td>
</tr>
</tbody>
</table>

INVESTING ACTIVITIES:

| (Increase) decrease in time deposits—net | (594) | (85) | 127 | (5,551) |
| Purchases of marketable securities | (23,457) | (15,844) | (1,908) | (219,224) |
| Proceeds from sales of marketable securities | 19,624 | 13,988 | 7,075 | 183,402 |
| Purchases of property and equipment | (6,687) | (6,796) | (3,584) | (62,495) |
| Proceeds from sales of property and equipment | 1,149 | 1,569 | 5,578 | 10,738 |
| Purchases of software | (3,299) | (2,486) | (3,255) | (30,832) |
| Purchases of investment securities | (10,783) | (8,362) | (964) | (100,776) |
| Proceeds from sales of investment securities | 5,557 | 7,816 | 9,549 | 51,935 |
| Cash increased due to acquisition of controlling interest in a company | | | | 1,798 |
| Acquisition of shares of a consolidated subsidiary | (515) | | | (4,813) |
| Proceeds from sale of investments in an affiliate | 976 | | | |
| Proceeds from disposal of a part of translation segment | | | | 6,221 |
| Other—net | (3,518) | (2,325) | (956) | (32,879) |
| Net cash (used in) provided by investing activities | (22,523) | (9,661) | 16,778 | (210,495) |

FINANCING ACTIVITIES:

| Increase (decrease) in short-term bank loans—net | 44 | (16) | (860) | 411 |
| Repayment of long-term debt | (1,514) | (1,072) | (1,363) | (14,150) |
| Redemption of convertible debentures | | | (5,643) | |
| Dividends paid | (5,253) | (3,031) | (3,072) | (49,093) |
| Purchases of treasury stock | (4,367) | (2,063) | (2,595) | (40,813) |
| Other—net | 357 | 138 | 3 | 3,337 |
| Net cash used in financing activities | (10,733) | (6,044) | (13,530) | (100,308) |

FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | 159 | (617) | 470 | 1,486 |

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (4,670) | 11,613 | 20,283 | (43,644) |

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 94,147 | 82,534 | 62,251 | 879,876 |

CASH AND CASH EQUIVALENTS, END OF YEAR | ¥ 89,477 | ¥ 94,147 | ¥ 82,534 | $ 836,234 |

ADDITIONAL CASH FLOW INFORMATION:

| Acquisition of controlling interest in a company: | | |
| Current assets | ¥ 4,206 | | | |
| Long-term assets | 692 | | | |
| Goodwill | 147 | | | |
| Current liabilities | (3,724) | | | |
| Long-term liabilities | (1,205) | | | |
| Minority interests | 10 | | | |
| Increased value on equity method | 1 | | | |
| Acquisition cost | 127 | | | |
| Cash and cash equivalents of newly consolidated subsidiary | 1,925 | | | |
| Cash increased due to acquisition of controlling interest in a company | | | ¥ (1,798) | |

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

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 2004 and 2003 financial statements to conform to the classifications used in 2005.

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 ¥107 to U.S.$1, the approximate rate of exchange at March 31, 2005. 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 (29 in 2004 and 27 in 2003) significant subsidiaries (collectively, the “Companies”). Consolidation of the remaining unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements in 2005, 2004 and 2003.

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 (2 affiliates and 2 unconsolidated subsidiaries in 2004 and 4 affiliates and 2 unconsolidated subsidiaries in 2003) 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.

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 domestic consolidated 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 domestic consolidated subsidiaries, and all property and equipment of foreign consolidated subsidiaries. The ranges of useful lives in the Company and its domestic consolidated subsidiaries are principally from 8 to 50 years for buildings.

The Company and its domestic consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. Long-lived assets of the Company and its domestic consolidated subsidiaries are reviewed for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss 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 effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2005 by ¥334 million ($3,121 thousand).

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. 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, 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 8 which discusses new accounting pronouncements regarding goodwill and other intangible assets. Intangible assets that are determined not to have an indefinite life primarily consist of publishing rights. Publishing rights are amortized on a straight-line basis over 25 years.

h. 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.

i. 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.

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

The Company and its domestic consolidated subsidiaries 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 officers of the Company and its 7 domestic consolidated subsidiaries in 2005 (4 in 2004 and 3 in 2003) are calculated to state the liability for directors, corporate auditors and company officers at the amount that would be required if all directors, corporate auditors and company officers retired at each balance sheet date.

Foreign consolidated subsidiaries have defined contribution plans.
k. Research and Development Costs—Research and development costs are charged to income as incurred.

l. 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.

m. Foreign Currency Financial Statements—The balance sheet accounts of the foreign consolidated 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 foreign consolidated subsidiaries are translated into yen at the average exchange rate.

n. 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.

o. Bonuses to Directors—Prior to the fiscal year ended March 31, 2005, bonuses to directors were accounted for as a reduction of retained earnings after approval of appropriation of retained earnings at the general shareholders meeting in the following year. ASB has issued ASB Practical Issues Task Force (PITF) No. 13, “Accounting treatment for bonuses to Directors and Corporate Auditors,” which encourages companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, and still permits the direct reduction of such bonuses from retained earnings after approval of appropriation of retained earnings.

The Company accrued bonuses to directors as of March 31, 2005, which is subject to shareholders’ approval, and charged them to income for the year then ended.

p. 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.

q. 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.

r. 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.
3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2005, 2004 and 2003, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Cash and time deposits</td>
<td>¥46,613</td>
<td>¥55,391</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>54,368</td>
<td>44,701</td>
</tr>
<tr>
<td>Time deposits and short-term investments which mature or become due over three months after the date of acquisition</td>
<td>(11,489)</td>
<td>(5,894)</td>
</tr>
<tr>
<td>Trading marketable securities</td>
<td>(6)</td>
<td></td>
</tr>
<tr>
<td>Investment fund and other</td>
<td>(15)</td>
<td>(45)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥89,477</td>
<td>¥94,147</td>
</tr>
</tbody>
</table>

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2005, 2004 and 2003, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Current:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading marketable securities</td>
<td>¥6</td>
<td></td>
</tr>
<tr>
<td>Government and corporate bonds</td>
<td>¥5,602</td>
<td>5,430</td>
</tr>
<tr>
<td>Trust fund investments and other</td>
<td>48,766</td>
<td>39,265</td>
</tr>
<tr>
<td>Total</td>
<td>¥54,368</td>
<td>¥44,701</td>
</tr>
<tr>
<td>Non-current:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>¥4,027</td>
<td>¥4,019</td>
</tr>
<tr>
<td>Government and corporate bonds</td>
<td>13,796</td>
<td>8,618</td>
</tr>
<tr>
<td>Trust fund investments and other</td>
<td>342</td>
<td>1,169</td>
</tr>
<tr>
<td>Total</td>
<td>¥18,165</td>
<td>¥13,806</td>
</tr>
</tbody>
</table>
The carrying amounts and aggregate fair value of marketable and investment securities at March 31, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>March 31, 2005</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities classified as:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥ 1,728</td>
<td>¥1,008</td>
<td>¥ 29</td>
<td>¥ 2,707</td>
</tr>
<tr>
<td>Government and corporate bonds</td>
<td>15,358</td>
<td>41</td>
<td>1</td>
<td>15,398</td>
</tr>
<tr>
<td>Trust fund investments and other</td>
<td>62</td>
<td>3</td>
<td></td>
<td>59</td>
</tr>
<tr>
<td>Held-to-maturity</td>
<td>4,000</td>
<td>38</td>
<td>1</td>
<td>4,037</td>
</tr>
<tr>
<td><strong>March 31, 2004</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities classified as:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>2,001</td>
<td>826</td>
<td>19</td>
<td>2,808</td>
</tr>
<tr>
<td>Government and corporate bonds</td>
<td>7,006</td>
<td>21</td>
<td>9</td>
<td>7,018</td>
</tr>
<tr>
<td>Trust fund investments and other</td>
<td>1,014</td>
<td>9</td>
<td></td>
<td>1,005</td>
</tr>
<tr>
<td>Held-to-maturity</td>
<td>5,000</td>
<td>17</td>
<td>34</td>
<td>4,983</td>
</tr>
<tr>
<td><strong>March 31, 2003</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities classified as:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>1,945</td>
<td>23</td>
<td>280</td>
<td>1,688</td>
</tr>
<tr>
<td>Government and corporate bonds</td>
<td>3,248</td>
<td>11</td>
<td></td>
<td>3,237</td>
</tr>
<tr>
<td>Trust fund investments and other</td>
<td>3,810</td>
<td>1</td>
<td>65</td>
<td>3,746</td>
</tr>
<tr>
<td>Held-to-maturity</td>
<td>4,301</td>
<td>43</td>
<td>93</td>
<td>4,251</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>March 31, 2005</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities classified as:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>$ 16,149</td>
<td>$9,421</td>
<td>$271</td>
<td>$ 25,299</td>
</tr>
<tr>
<td>Government and corporate bonds</td>
<td>143,533</td>
<td>383</td>
<td>9</td>
<td>143,907</td>
</tr>
<tr>
<td>Trust fund investments and other</td>
<td>579</td>
<td>28</td>
<td></td>
<td>551</td>
</tr>
<tr>
<td>Held-to-maturity</td>
<td>37,383</td>
<td>355</td>
<td>9</td>
<td>37,729</td>
</tr>
</tbody>
</table>
Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th>Carrying Amount</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Available-for-sale:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥1,320</td>
<td>¥1,211</td>
</tr>
<tr>
<td>Government and corporate bonds</td>
<td>2,030</td>
<td>300</td>
</tr>
<tr>
<td>Trust fund investments and other</td>
<td>49,049</td>
<td>39,265</td>
</tr>
<tr>
<td>Total</td>
<td>¥50,369</td>
<td>¥42,506</td>
</tr>
</tbody>
</table>

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, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th>Proceeds from sales</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>¥1,678</td>
<td>¥3,004</td>
</tr>
<tr>
<td>Gross realized gains</td>
<td>¥260</td>
<td>¥230</td>
</tr>
<tr>
<td>Gross realized losses</td>
<td>(30)</td>
<td>(37)</td>
</tr>
<tr>
<td>Net realized gain (loss)</td>
<td>¥230</td>
<td>¥193</td>
</tr>
</tbody>
</table>

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2005, were as follows:

<table>
<thead>
<tr>
<th>Due in one year or less</th>
<th>Available for Sale</th>
<th>Held to Maturity</th>
<th>Available for Sale</th>
<th>Held to Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>¥41,898</td>
<td>$391,570</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>6,177</td>
<td>¥1,000</td>
<td>57,729</td>
<td>$9,346</td>
</tr>
<tr>
<td>Due after five years through ten years</td>
<td>2,353</td>
<td>3,000</td>
<td>21,991</td>
<td>28,037</td>
</tr>
<tr>
<td>Total</td>
<td>¥50,428</td>
<td>¥4,000</td>
<td>$471,290</td>
<td>$37,383</td>
</tr>
</tbody>
</table>
5. INVENTORIES

Inventories at March 31, 2005, 2004 and 2003, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished products</td>
<td>¥9,266</td>
<td>¥8,557</td>
<td>¥8,628</td>
<td>$86,598</td>
</tr>
<tr>
<td>Work in process</td>
<td>2,900</td>
<td>2,841</td>
<td>3,593</td>
<td>$27,103</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>887</td>
<td>748</td>
<td>734</td>
<td>$8,290</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥13,053</td>
<td>¥12,146</td>
<td>¥12,955</td>
<td>$121,991</td>
</tr>
</tbody>
</table>

6. LONG-LIVED ASSETS

The Company and its domestic consolidated subsidiaries reviewed their long-lived assets for impairment as of the year ended March 31, 2005 and, as a result, recognized an impairment loss of ¥334 million ($3,121 thousand) as other expense for the sales process management system of the mail-order business which will not be used from now on and the writing down of unused land and other assets to the recoverable amount. The recoverable amount of the system was measured at ¥0. The recoverable amount of the land and other assets was measured based on their assessed value of fixed assets.

7. LEASES

(1) Lessee

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the Company and its domestic subsidiaries were ¥1,808 million ($16,897 thousand), ¥2,153 million and ¥2,305 million for the years ended March 31, 2005, 2004 and 2003, 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, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment and Fixtures and Other Assets</td>
<td>8,169</td>
<td>¥9,142</td>
<td>¥11,652</td>
<td>$76,346</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>4,212</td>
<td>5,605</td>
<td>6,763</td>
<td>$39,365</td>
</tr>
<tr>
<td><strong>Net leased property</strong></td>
<td>¥3,957</td>
<td>¥3,537</td>
<td>¥ 4,889</td>
<td>$36,981</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due within one year</td>
<td>¥1,516</td>
<td>¥1,527</td>
<td>¥2,083</td>
<td>$14,168</td>
</tr>
<tr>
<td>Due after one year</td>
<td>2,441</td>
<td>2,010</td>
<td>2,806</td>
<td>$22,813</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥3,957</td>
<td>¥3,537</td>
<td>¥4,889</td>
<td>$36,981</td>
</tr>
</tbody>
</table>

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, 2005, 2004 and 2003.

A foreign consolidated subsidiary leases certain equipment, office space and other assets, under noncancelable operating leases. The Company and a domestic consolidated subsidiary have lease contracts of certain land, building and other asset, under noncancelable operating leases.
The minimum rental commitments under noncancellable operating leases at March 31, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Due within one year</td>
<td>¥ 4,715</td>
<td>¥ 4,007</td>
</tr>
<tr>
<td>Due after one year</td>
<td>28,472</td>
<td>22,436</td>
</tr>
<tr>
<td>Total</td>
<td>¥33,187</td>
<td>¥26,443</td>
</tr>
</tbody>
</table>

(2) Sublease

Pro forma lease receivables under sublease arrangements that do not transfer ownership of the leased property to the lessee at March 31, 2005, 2004 and 2003, which included imputed interest, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Due within one year</td>
<td>¥ 6</td>
<td>¥ 7</td>
</tr>
<tr>
<td>Due after one year</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>¥10</td>
<td>¥14</td>
</tr>
</tbody>
</table>

Pro forma obligations under sublease agreements that do not transfer ownership of the leased property to the lessee at March 31, 2005, 2004 and 2003, which included imputed interest, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Due within one year</td>
<td>¥ 7</td>
<td>¥ 8</td>
</tr>
<tr>
<td>Due after one year</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>¥12</td>
<td>¥16</td>
</tr>
</tbody>
</table>

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets at March 31, 2005, 2004 and 2003, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Consolidation goodwill</td>
<td>¥ 2,948</td>
<td>¥ 3,145</td>
</tr>
<tr>
<td>Goodwill associated with consolidated subsidiaries</td>
<td>7,867</td>
<td>7,803</td>
</tr>
<tr>
<td>Intangible assets that are determined to have an indefinite life with a foreign consolidated subsidiary</td>
<td>2,958</td>
<td>3,289</td>
</tr>
<tr>
<td>Intangible assets that are determined not to have an indefinite life with a foreign consolidated subsidiary</td>
<td>21,515</td>
<td>22,166</td>
</tr>
<tr>
<td>Software with the Company and its certain domestic consolidated subsidiaries</td>
<td>7,150</td>
<td>7,031</td>
</tr>
<tr>
<td>Other</td>
<td>412</td>
<td>417</td>
</tr>
<tr>
<td>Total</td>
<td>¥42,850</td>
<td>¥43,851</td>
</tr>
</tbody>
</table>
9. INTERESTS IN PARTNERSHIPS

The Company has investments in limited partnerships. The original capital contributions to the partnerships amounted to ¥712 million ($6,654 thousand), ¥922 million and ¥1,054 million as of March 31, 2005, 2004 and 2003, respectively, and the change in carrying value for the three years in the period ended March 31, 2005, were as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of period</td>
<td>¥(1,555)</td>
<td>¥(1,908)</td>
<td>¥(2,148)</td>
<td>($14,533)</td>
</tr>
<tr>
<td>Profits</td>
<td>439</td>
<td>353</td>
<td>240</td>
<td>4,103</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>¥(1,116)</td>
<td>¥(1,555)</td>
<td>¥(1,908)</td>
<td>($10,430)</td>
</tr>
</tbody>
</table>

The negative balances were included in other long-term liabilities.

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

Short-term bank loans at March 31, 2005, 2004 and 2003, consisted of notes to banks. The annual interest rates applicable to the short-term bank loans ranged from 0.55% to 1.875% at March 31, 2005, ranged from 1.15% to 4.54% at March 31, 2004 and ranged from 1.28% to 1.375% at March 31, 2003.

Long-term debt at March 31, 2005, 2004 and 2003, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt, collateralized:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks and others, in yen, maturing serially through 2010—with interest rates of 2.88% in 2005, ranging from 1.49% to 3.13% in 2004 and ranging from 1.57% to 3.1% in 2003</td>
<td>¥ 58</td>
<td>¥ 96</td>
<td>¥ 99</td>
<td>$ 542</td>
</tr>
<tr>
<td>Government-owned bank, in yen, maturing serially through 2013—with interest rates ranging from 3.5% to 5.45% in 2005, 2004 and 2003</td>
<td>3,624</td>
<td>4,212</td>
<td>4,799</td>
<td>33,869</td>
</tr>
<tr>
<td>Total long-term debt, collateralized</td>
<td>3,682</td>
<td>4,308</td>
<td>4,898</td>
<td>34,411</td>
</tr>
</tbody>
</table>

Long-term debt, unsecured:

- Banks, in yen, maturing serially through 2007—with interest rates ranging from 0.84% to 2.89% in 2005, 2004 and 2003: 930, 1,368, 21, 8,692
- Banks and others, in U.S. dollars—with interest at the average rate of 7.45% in 2005, 8.02% in 2004 and 6.45% in 2003: 13, 48, 113, 121
- Bonds due 2008—with interest rates ranging from 0.31% to 0.51% in 2005 and 2004: 210, 270, 1,963

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total long-term debt, unsecured</td>
<td>1,153</td>
<td>1,686</td>
<td>134</td>
<td>10,776</td>
</tr>
<tr>
<td>Total long-term debt</td>
<td>4,835</td>
<td>5,994</td>
<td>5,032</td>
<td>45,187</td>
</tr>
<tr>
<td>Less current portion</td>
<td>(1,242)</td>
<td>(1,410)</td>
<td>(751)</td>
<td>(11,608)</td>
</tr>
<tr>
<td>Long-term debt, less current portion</td>
<td>¥ 3,593</td>
<td>¥ 4,584</td>
<td>¥ 4,281</td>
<td>$ 33,579</td>
</tr>
</tbody>
</table>
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 ($34,111 thousand) 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 changed from the current benefits pension plan to a cash-balance plan to reduce the Company’s future risk due to unexpected low returns from the pension fund.
The liability for employees’ retirement benefits at March 31, 2005, 2004 and 2003, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected benefit obligation</td>
<td>¥ 8,913</td>
<td>$83,299</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>(10,242)</td>
<td>(95,720)</td>
</tr>
<tr>
<td>Unrecognized actuarial loss</td>
<td>(813)</td>
<td>(7,598)</td>
</tr>
<tr>
<td>Unrecognized transitional obligation</td>
<td>710</td>
<td>6,636</td>
</tr>
<tr>
<td>Prepaid pension expenses</td>
<td>3,543</td>
<td>33,112</td>
</tr>
<tr>
<td><strong>Net liability</strong></td>
<td>¥ 2,111</td>
<td>$19,729</td>
</tr>
</tbody>
</table>

Prepaid pension expenses were included in other assets.

The components of net periodic benefit costs for the years ended March 31, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>¥ 944</td>
<td>$8,822</td>
</tr>
<tr>
<td>Interest cost</td>
<td>159</td>
<td>1,486</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(213)</td>
<td>(1,991)</td>
</tr>
<tr>
<td>Recognized actuarial loss</td>
<td>65</td>
<td>608</td>
</tr>
<tr>
<td>Amortization of transitional obligation</td>
<td>(102)</td>
<td>(953)</td>
</tr>
<tr>
<td><strong>Net periodic benefit costs</strong></td>
<td>¥ 853</td>
<td>$7,972</td>
</tr>
</tbody>
</table>

Assumptions used for the years ended March 31, 2005, 2004 and 2003, were set forth as follows:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Expected rate of return on plan assets</td>
<td>2.1%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Recognition period of actuarial loss</td>
<td>8 years</td>
<td>8 years</td>
<td>8 years</td>
</tr>
<tr>
<td>Amortization period of transitional obligation</td>
<td>8 years</td>
<td>8 years</td>
<td>8 years</td>
</tr>
</tbody>
</table>

Retirement benefits for directors, corporate auditors and company officers
The liability for retirement benefits at March 31, 2005, 2004 and 2003 for directors, corporate auditors and company officers was ¥1,482 million ($13,850 thousand), ¥1,346 million and ¥1,216 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, 2005, 2004 and 2003, was set forth as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected benefit obligation</td>
<td>¥1,732</td>
<td>$16,187</td>
</tr>
<tr>
<td>Accrued benefit liability</td>
<td>1,681</td>
<td>15,710</td>
</tr>
<tr>
<td><strong>Net periodic benefit costs</strong></td>
<td>225</td>
<td>2,103</td>
</tr>
</tbody>
</table>
12. SHAREHOLDERS’ EQUITY

Japanese companies are subject to the Japanese Commercial Code (the “Code”).

The Code requires that all shares of common stock are 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 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 Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. 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.

The Company repurchased 1,317 thousand shares of common stock from the market during the fiscal year ended March 31, 2005, at an aggregate cost of ¥4,350 million ($40,654 thousand) approved by the Board of Directors.

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. The amount of retained earnings available for dividends under the Code was ¥131,699 million ($1,230,832 thousand) as of March 31, 2005, based on the amount recorded in the parent company’s general books of account.

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.
Information about industry segments, geographic segments and sales to foreign customers of the Companies for the years ended March 31, 2005, 2004 and 2003, was as follows:

### a. Industry Segments

#### (1) Sales and Operating Income

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of Yen</td>
<td>Millions of Yen</td>
<td>Millions of Yen</td>
</tr>
<tr>
<td></td>
<td>Education Group</td>
<td>Women &amp; Family Company</td>
<td>Senior Company</td>
</tr>
<tr>
<td>Sales to customers</td>
<td>¥183,443</td>
<td>¥18,247</td>
<td>¥22,813</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>11</td>
<td>1</td>
<td>40</td>
</tr>
<tr>
<td>Total sales</td>
<td>183,454</td>
<td>18,248</td>
<td>22,813</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>¥156,289</td>
<td>¥18,163</td>
<td>¥20,816</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>¥ 27,165</td>
<td>¥       85</td>
<td>¥  1,997</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of Yen</td>
<td>Millions of Yen</td>
</tr>
<tr>
<td></td>
<td>Education Group</td>
<td>Women &amp; Family Company</td>
</tr>
<tr>
<td>Sales to customers</td>
<td>¥164,780</td>
<td>¥16,264</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>21</td>
<td>49</td>
</tr>
<tr>
<td>Total sales</td>
<td>164,801</td>
<td>16,264</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>143,957</td>
<td>17,625</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>¥ 20,844</td>
<td>(1,361)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of Yen</td>
</tr>
<tr>
<td></td>
<td>Education Group</td>
</tr>
<tr>
<td>Sales to customers</td>
<td>¥162,835</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>25</td>
</tr>
<tr>
<td>Total sales</td>
<td>162,860</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>145,211</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>¥ 17,649</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Education Group</td>
</tr>
<tr>
<td>Sales to customers</td>
<td>$1,714,420</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>103</td>
</tr>
<tr>
<td>Total sales</td>
<td>1,714,523</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1,460,645</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>$ 253,878</td>
</tr>
</tbody>
</table>
### (2) Assets, Depreciation and Amortization, and Capital Expenditures

#### Millions of Yen

<table>
<thead>
<tr>
<th></th>
<th>Education Group</th>
<th>Women &amp; Family Company</th>
<th>Senior Company</th>
<th>Language Company</th>
<th>Others</th>
<th>Eliminations/Corporate</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>¥79,991</td>
<td>¥8,526</td>
<td>¥25,552</td>
<td>¥53,781</td>
<td>¥17,731</td>
<td>¥122,087</td>
<td>¥307,668</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>4,689</td>
<td>263</td>
<td>646</td>
<td>1,461</td>
<td>618</td>
<td>(166)</td>
<td>7,511</td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>4,310</td>
<td>159</td>
<td>4,339</td>
<td>1,926</td>
<td>619</td>
<td>(237)</td>
<td>11,116</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Education Group</th>
<th>Women &amp; Family Company</th>
<th>Senior Company</th>
<th>Language Company</th>
<th>Others</th>
<th>Eliminations/Corporate</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>¥75,160</td>
<td>¥8,782</td>
<td>¥23,687</td>
<td>¥55,365</td>
<td>¥15,210</td>
<td>¥113,896</td>
<td>¥292,100</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>4,706</td>
<td>360</td>
<td>601</td>
<td>1,628</td>
<td>681</td>
<td>(156)</td>
<td>7,820</td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>2,989</td>
<td>176</td>
<td>4,942</td>
<td>1,333</td>
<td>504</td>
<td>(93)</td>
<td>9,851</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Education Group</th>
<th>Women &amp; Family Company</th>
<th>Senior Company</th>
<th>Language Company</th>
<th>Others</th>
<th>Eliminations/Corporate</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>¥71,893</td>
<td>¥8,689</td>
<td>¥17,175</td>
<td>¥59,009</td>
<td>¥19,423</td>
<td>¥99,327</td>
<td>¥275,516</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>5,256</td>
<td>310</td>
<td>507</td>
<td>1,971</td>
<td>709</td>
<td>(181)</td>
<td>8,572</td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>3,880</td>
<td>610</td>
<td>1,614</td>
<td>1,281</td>
<td>865</td>
<td>(204)</td>
<td>8,046</td>
</tr>
</tbody>
</table>

#### Thousands of U.S. Dollars

<table>
<thead>
<tr>
<th></th>
<th>Education Group</th>
<th>Women &amp; Family Company</th>
<th>Senior Company</th>
<th>Language Company</th>
<th>Others</th>
<th>Eliminations/Corporate</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>$747,580</td>
<td>$79,682</td>
<td>$238,804</td>
<td>$502,626</td>
<td>$165,710</td>
<td>$1,141,000</td>
<td>$2,875,402</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>43,822</td>
<td>2,458</td>
<td>6,037</td>
<td>13,654</td>
<td>5,776</td>
<td>(1,551)</td>
<td>70,196</td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>40,280</td>
<td>1,486</td>
<td>40,552</td>
<td>18,000</td>
<td>5,785</td>
<td>(2,215)</td>
<td>103,888</td>
</tr>
</tbody>
</table>
b. Geographical Segments

The foreign operations of the Companies for the years ended March 31, 2005, 2004 and 2003, were summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
<td>2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>North America</td>
<td>Others</td>
<td>Eliminations/</td>
<td>Consolidated</td>
</tr>
<tr>
<td>Sales:</td>
<td></td>
<td></td>
<td></td>
<td>Corporate</td>
<td></td>
</tr>
<tr>
<td>To customers</td>
<td>¥256,723</td>
<td>¥10,370</td>
<td>¥24,310</td>
<td></td>
<td>¥291,403</td>
</tr>
<tr>
<td>Inter-area</td>
<td>26</td>
<td>36</td>
<td>1,093</td>
<td>¥ (1,155)</td>
<td></td>
</tr>
<tr>
<td>Total sales</td>
<td>256,749</td>
<td>10,406</td>
<td>25,403</td>
<td>(1,155)</td>
<td>291,403</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>230,741</td>
<td>8,704</td>
<td>26,935</td>
<td>(1,155)</td>
<td>265,225</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>¥ 26,008</td>
<td>¥ 1,702</td>
<td>¥ (1,532)</td>
<td></td>
<td>¥ 26,178</td>
</tr>
<tr>
<td>Assets</td>
<td>¥127,279</td>
<td>¥45,609</td>
<td>¥8,701</td>
<td></td>
<td>¥126,079</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th></th>
<th>Thousands of U.S. Dollars</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>North America</td>
<td>Others</td>
<td>Eliminations/</td>
<td>Consolidated</td>
</tr>
<tr>
<td>Sales:</td>
<td>$2,399,280</td>
<td>$ 96,917</td>
<td>$227,196</td>
<td></td>
<td>$2,723,393</td>
</tr>
<tr>
<td>Inter-area</td>
<td>243</td>
<td>336</td>
<td>10,215</td>
<td></td>
<td>$ (10,794)</td>
</tr>
<tr>
<td>Total sales</td>
<td>2,399,523</td>
<td>97,253</td>
<td>237,411</td>
<td>(10,794)</td>
<td>2,723,393</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>2,156,458</td>
<td>81,346</td>
<td>251,729</td>
<td>(10,794)</td>
<td>2,478,739</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>$ 243,065</td>
<td>$ 15,907</td>
<td>$ (1,669)</td>
<td></td>
<td>$ 244,654</td>
</tr>
<tr>
<td>Assets</td>
<td>$1,189,523</td>
<td>$426,252</td>
<td>$81,318</td>
<td></td>
<td>$1,178,309</td>
</tr>
</tbody>
</table>

Benesse Corporation
### c. Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2005</td>
</tr>
<tr>
<td>Sales to foreign customers (A)</td>
<td>¥10,370</td>
<td>$96,916</td>
</tr>
<tr>
<td>North America</td>
<td>¥24,313</td>
<td>$227,224</td>
</tr>
<tr>
<td>Others</td>
<td>¥34,683</td>
<td>$324,140</td>
</tr>
<tr>
<td>Total</td>
<td>¥291,403</td>
<td>$2,723,393</td>
</tr>
<tr>
<td>Ratio of foreign sales to consolidated sales (A)/(B)</td>
<td>3.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>North America</td>
<td>8.3%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Others</td>
<td>11.9%</td>
<td>11.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales to foreign customers (A)</td>
<td>¥10,199</td>
<td>$505</td>
</tr>
<tr>
<td>North America</td>
<td>¥22,967</td>
<td>$477</td>
</tr>
<tr>
<td>Others</td>
<td>¥33,166</td>
<td>$1,224</td>
</tr>
<tr>
<td>Total</td>
<td>¥260,142</td>
<td>$9,236</td>
</tr>
<tr>
<td>Ratio of foreign sales to consolidated sales (A)/(B)</td>
<td>3.9%</td>
<td>3.9%</td>
</tr>
<tr>
<td>North America</td>
<td>8.8%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Others</td>
<td>12.7%</td>
<td>12.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales to foreign customers (A)</td>
<td>¥15,705</td>
<td>$437</td>
</tr>
<tr>
<td>North America</td>
<td>¥28,059</td>
<td>$1,037</td>
</tr>
<tr>
<td>Others</td>
<td>¥43,764</td>
<td>$14,687</td>
</tr>
<tr>
<td>Total</td>
<td>¥258,289</td>
<td>$8,124</td>
</tr>
<tr>
<td>Ratio of foreign sales to consolidated sales (A)/(B)</td>
<td>6.1%</td>
<td>6.1%</td>
</tr>
<tr>
<td>North America</td>
<td>10.8%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Others</td>
<td>16.9%</td>
<td>16.9%</td>
</tr>
</tbody>
</table>

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

### 14. RELATED PARTY TRANSACTION

Major transactions of the Company with a director for the years ended March 31, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Sales of property and equipment</td>
<td>¥54</td>
<td>$547</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$505</td>
<td></td>
</tr>
</tbody>
</table>

Gain on sales of property and equipment was included in other—net in the amount of ¥5 million ($47 thousand).

### 15. ADVERTISING COSTS

Advertising costs charged to income were ¥37,081 million ($346,551 thousand), ¥33,274 million and ¥29,902 million for the years ended March 31, 2005, 2004 and 2003, respectively.
16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,533 million ($23,673 thousand), ¥1,905 million and ¥1,730 million for the years ended March 31, 2005, 2004 and 2003, respectively.

17. 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 officer 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, 2005, 2004 and 2003, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contract or Notional Amount</td>
<td>Fair Value</td>
<td>Unrealized Loss</td>
</tr>
<tr>
<td>Foreign currency forward contracts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables—U.S. dollars</td>
<td>¥2,470</td>
<td>¥2,470</td>
<td></td>
</tr>
<tr>
<td>Payables—U.S. dollars</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥2,470</td>
<td>¥2,470</td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps—</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receive floating/ pay fixed . .</td>
<td>¥ 236</td>
<td>¥ (3)</td>
<td>¥(3)</td>
</tr>
<tr>
<td>Interest rate cap . . . . . . . . . . .</td>
<td>¥ 400</td>
<td>¥ (0)</td>
<td>¥(8)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency forward contracts— Payables—U.S. dollars . .</td>
<td>$23,084</td>
<td>$23,084</td>
<td></td>
</tr>
</tbody>
</table>

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.
18. 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 40.6% for the year ended March 31, 2005, and 42% for the years ended March 31, 2004 and 2003, respectively.

The tax effects of significant temporary differences which result in deferred tax assets and liabilities at March 31, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprise tax</td>
<td>¥ 676</td>
<td>¥ 531</td>
<td>¥ 129</td>
<td>$ 6,318</td>
</tr>
<tr>
<td>Provision for employees’ bonuses</td>
<td>1,548</td>
<td>1,265</td>
<td>586</td>
<td>14,467</td>
</tr>
<tr>
<td>Liability for retirement benefits</td>
<td>260</td>
<td>83</td>
<td>1,048</td>
<td>2,430</td>
</tr>
<tr>
<td>Deferred tax assets of the foreign consolidated subsidiaries*</td>
<td>1,616</td>
<td>1,337</td>
<td>1,497</td>
<td>15,103</td>
</tr>
<tr>
<td>Unrealized gains on fixed assets</td>
<td>216</td>
<td>321</td>
<td>342</td>
<td>2,019</td>
</tr>
<tr>
<td>Tax loss carryforwards</td>
<td>327</td>
<td>799</td>
<td>1,006</td>
<td>3,056</td>
</tr>
<tr>
<td>Others</td>
<td>649</td>
<td>739</td>
<td>51</td>
<td>6,065</td>
</tr>
<tr>
<td>Less valuation allowance</td>
<td>(336)</td>
<td>(808)</td>
<td>(1,006)</td>
<td>(3,140)</td>
</tr>
<tr>
<td>Total</td>
<td>¥ 4,956</td>
<td>¥ 4,267</td>
<td>¥ 3,653</td>
<td>$46,318</td>
</tr>
</tbody>
</table>

Deferred tax liabilities:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized gain on land held by a consolidated subsidiary</td>
<td>¥ 175</td>
<td>¥ 144</td>
<td>$ 1,636</td>
<td></td>
</tr>
<tr>
<td>Prepaid pension expenses</td>
<td>¥ 143</td>
<td>228</td>
<td>35</td>
<td>1,336</td>
</tr>
<tr>
<td>Total</td>
<td>¥ 318</td>
<td>¥ 372</td>
<td>¥ 444</td>
<td>$ 2,972</td>
</tr>
</tbody>
</table>

* The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities of the foreign consolidated subsidiaries at March 31, 2005, 2004 and 2003, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>¥ 1,496</td>
<td>¥ 1,526</td>
<td>¥ 1,411</td>
<td>$13,981</td>
</tr>
<tr>
<td>Net operating losses</td>
<td>1,683</td>
<td>478</td>
<td>394</td>
<td>15,729</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>254</td>
<td>138</td>
<td>191</td>
<td>2,374</td>
</tr>
<tr>
<td>Foreign tax credits</td>
<td>758</td>
<td>709</td>
<td>869</td>
<td>7,084</td>
</tr>
<tr>
<td>Others</td>
<td>768</td>
<td>672</td>
<td>589</td>
<td>7,178</td>
</tr>
<tr>
<td>Total</td>
<td>4,959</td>
<td>3,523</td>
<td>3,454</td>
<td>46,346</td>
</tr>
</tbody>
</table>

Deferred tax liabilities:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publishing rights amortization</td>
<td>512</td>
<td>568</td>
<td>683</td>
<td>4,785</td>
</tr>
<tr>
<td>Others</td>
<td>366</td>
<td>211</td>
<td>52</td>
<td>3,421</td>
</tr>
<tr>
<td>Total</td>
<td>878</td>
<td>779</td>
<td>735</td>
<td>8,206</td>
</tr>
</tbody>
</table>

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, 2005, 2004 and 2003, and the actual effective tax rates reflected in the accompanying consolidated statements of income were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Normal effective statutory tax rate</th>
<th>Differences of income taxes with foreign consolidated subsidiaries</th>
<th>Permanently non-deductible expenses of social expenses, etc.</th>
<th>Valuation loss on investment in subsidiaries</th>
<th>Other</th>
<th>Actual effective tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>40.6%</td>
<td>3.7</td>
<td>0.8</td>
<td>(2.4)</td>
<td>(0.8)</td>
<td>44.3%</td>
</tr>
<tr>
<td>2004</td>
<td>42.0%</td>
<td>2.6</td>
<td>2.3</td>
<td>(0.3)</td>
<td></td>
<td>44.2%</td>
</tr>
<tr>
<td>2003</td>
<td>42.0%</td>
<td>8.1</td>
<td>1.0</td>
<td>1.2</td>
<td></td>
<td>52.3%</td>
</tr>
</tbody>
</table>

19. STOCK OPTION PLAN

The Company has a stock option plan. The stock option plan which was approved at the 49th and 50th general shareholders meeting provides options for purchases of the Company’s common stock for the directors and company officers of the Company and directors of subsidiaries.

<table>
<thead>
<tr>
<th>Date of Grant</th>
<th>Number of Options Granted (Thousands of Shares)</th>
<th>Exercise Period</th>
<th>The Exercise Price of Options (Yen per Share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 25, 2003</td>
<td>Directors: 300, Company officers: 480, Directors of subsidiaries: 40</td>
<td>From July 1, 2005 to June 30, 2009</td>
<td>¥2,148</td>
</tr>
<tr>
<td>June 23 and July 26, 2004</td>
<td>Directors: 106, Company officers: 126, Directors of subsidiaries: 8</td>
<td>From July 1, 2006 to June 30, 2010</td>
<td>3,549</td>
</tr>
<tr>
<td>Total</td>
<td>1,060</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

20. NET INCOME PER SHARE

Reconciliation of differences between basic and diluted net income per share (“EPS”) for the years ended March 31, 2005, 2004 and 2003, was as follows:

<table>
<thead>
<tr>
<th>Year Ended March 31, 2005</th>
<th>Millions of Yen</th>
<th>Thousands of Shares</th>
<th>Yen</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic EPS—Net income available to common shareholders</td>
<td>¥14,297</td>
<td>103,568</td>
<td>¥138.05</td>
<td>$1.2902</td>
</tr>
<tr>
<td>Effect of dilutive securities—Stock options</td>
<td>290</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diluted EPS—Net income for computation</td>
<td>¥14,297</td>
<td>103,858</td>
<td>¥137.66</td>
<td>$1.2865</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Ended March 31, 2004</th>
<th>Millions of Yen</th>
<th>Thousands of Shares</th>
<th>Yen</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic EPS—Net income available to common shareholders</td>
<td>¥9,266</td>
<td>104,347</td>
<td>¥88.80</td>
<td></td>
</tr>
<tr>
<td>Effect of dilutive securities—Stock options</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diluted EPS—Net income for computation</td>
<td>¥9,266</td>
<td>104,382</td>
<td>¥88.77</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Ended March 31, 2003</th>
<th>Millions of Yen</th>
<th>Thousands of Shares</th>
<th>Yen</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic EPS—Net income available to common shareholders</td>
<td>¥6,812</td>
<td>105,608</td>
<td>¥64.51</td>
<td></td>
</tr>
</tbody>
</table>

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

a. Taking over the Business
On April 1, 2005, a domestic subsidiary, AVIVA Co., Ltd., which was renamed from Benesse Cross World, Inc. on March 4, 2005, was transferred parts of the business of AVIVA Japan Corporation including the personal computer education business, network provider business and satellite broadcasting business. Consequently, AVIVA Co., Ltd. was transferred current assets of ¥864 million ($8,075 thousand), long-term assets of ¥2,623 million ($24,514 thousand), current liabilities of ¥11,678 million ($109,140 thousand) and long-term liabilities of ¥416 million ($3,888 thousand) for ¥1.

Consequently, AVIVA Co., Ltd. accounted for goodwill of ¥8,607 million ($80,439 thousand) and goodwill is amortized on straight-line basis over five years.

b. Stock Option Plan
At the general shareholders meeting held on June 24, 2005, the Company's shareholders approved a stock option plan for the directors and company officers of the Company and directors of subsidiaries to purchase up to 600,000 shares of the Company’s common stock in the period from July 1, 2007 to June 30, 2011. The options will be granted at an exercise price of 105% of the higher of either the average market value of the Company’s common stock in the month prior to the date the option grant occurs, or the fair market value of the Company’s common stock at the previous date of option grant.

c. Appropriations of Retained Earnings
The following appropriations of retained earnings at March 31, 2005, were approved by the Company’s shareholders at the general shareholders meeting held on June 24, 2005.

<table>
<thead>
<tr>
<th></th>
<th>Thousands of</th>
<th>Months of</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2005</td>
<td></td>
</tr>
<tr>
<td>Year-end cash dividends, ¥35 ($0.33) per share</td>
<td>¥3,594</td>
<td>$33,589</td>
<td></td>
</tr>
</tbody>
</table>
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, 2005, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, 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, 2005, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 21.a to the consolidated financial statements, on April 1, 2005, a domestic subsidiary, Aviva Co., Ltd., was transferred parts of the business of Aviva Japan Corporation.

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.

June 24, 2005

[Signature]

Member of
Deloitte Touche Tohmatsu
As of June 30, 2005

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
Nara Office
Matsue Office
Chugoku-Shikoku Office
Kyushu Office
Kumamoto Office
Naha Office
Taipei Office
### CONSOLIDATED SUBSIDIARIES

As of March 31, 2005

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Common stock</th>
<th>Ratio of shareholding</th>
<th>Description of business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Telemarketing Japan, Inc.</strong></td>
<td>300</td>
<td>100.00</td>
<td>Telemarketing</td>
</tr>
<tr>
<td>AVIVA Co., Ltd.</td>
<td>250</td>
<td>100.00</td>
<td>Operation of PC schools</td>
</tr>
<tr>
<td>Benesse Style Care Co., Ltd.</td>
<td>100</td>
<td>100.00</td>
<td>Operation of senior citizen welfare business</td>
</tr>
<tr>
<td>Synform Co., Ltd.</td>
<td>95</td>
<td>100.00</td>
<td>Computer information processing and systems development and sales</td>
</tr>
<tr>
<td>Shinken-AD Co., Ltd.</td>
<td>65</td>
<td>50.05</td>
<td>Advertising services and creation of university information magazines</td>
</tr>
<tr>
<td>Okayama Language Center</td>
<td>50</td>
<td>75.00</td>
<td>Language instruction and translation services</td>
</tr>
<tr>
<td>Benesse en-Famille Inc.</td>
<td>50</td>
<td>66.00</td>
<td>Home food-delivery service</td>
</tr>
<tr>
<td>Plandit Co., Ltd.</td>
<td>40</td>
<td>100.00</td>
<td>Planning and editing of study materials</td>
</tr>
<tr>
<td>Simul International, Inc.</td>
<td>40</td>
<td>100.00</td>
<td>Interpretation, translation and language instruction services</td>
</tr>
<tr>
<td>Benesse MCM Corp.</td>
<td>30 *1</td>
<td>100.00</td>
<td>Support for nursing care services</td>
</tr>
<tr>
<td>Naoshima Cultural Village Co., Ltd.</td>
<td>20</td>
<td>100.00</td>
<td>Hotel and campsite operation and management</td>
</tr>
<tr>
<td>Simul Business Communications, Inc.</td>
<td>20 *2</td>
<td>100.00</td>
<td>Personnel services</td>
</tr>
<tr>
<td>Persons Inc.</td>
<td>20</td>
<td>100.00</td>
<td>Personnel services</td>
</tr>
<tr>
<td>Benesse Base-Com, Inc.</td>
<td>20</td>
<td>100.00</td>
<td>Production, distribution and sales of study materials and software</td>
</tr>
<tr>
<td>Benesse Insurance Service, Inc.</td>
<td>20 *13</td>
<td>92.72</td>
<td>Insurance agency business</td>
</tr>
<tr>
<td>Carry Com Co., Ltd.</td>
<td>10</td>
<td>100.00</td>
<td>Truck transport services and warehouse storage</td>
</tr>
<tr>
<td>Benesse Music Publishing Co.</td>
<td>10</td>
<td>100.00</td>
<td>Music publication rights management</td>
</tr>
<tr>
<td>Learn-S Co., Ltd.</td>
<td>10</td>
<td>100.00</td>
<td>Planning, editing, production and sales of study materials</td>
</tr>
<tr>
<td>Simul Technical Communications, Inc.</td>
<td>10 *2</td>
<td>100.00</td>
<td>Rental, sale and repair of simultaneous interpreting equipment</td>
</tr>
<tr>
<td>IPU Corporation, Ltd.</td>
<td>10 *4</td>
<td>50.05</td>
<td>Job placement support business</td>
</tr>
<tr>
<td>Berlitz International, Inc.</td>
<td>1,005</td>
<td>100.00</td>
<td>Language instruction</td>
</tr>
<tr>
<td>Benesse Holdings International, Inc.</td>
<td>5.48</td>
<td>100.00</td>
<td>Holding company</td>
</tr>
<tr>
<td>Value Communication Services</td>
<td>2,600</td>
<td>100.00</td>
<td>Call center planning</td>
</tr>
<tr>
<td>(Shanghai), Inc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benesse Hong Kong Co., Ltd.</td>
<td>3,600</td>
<td>100.00</td>
<td>General trading and quality assurance related to educational equipment, toys and other items</td>
</tr>
<tr>
<td>Benesse Korea Co., Ltd.</td>
<td>2,000</td>
<td>100.00</td>
<td>Correspondence-based education, simulated exams and other services</td>
</tr>
</tbody>
</table>

*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.
*7 Indirectly held through Benesse Style Care Co., Ltd.
*8 Indirectly held through Benesse Holding International, Inc.
*9 Indirectly held through Telemarketing Japan, Inc.
THE HISTORY OF BENESSE CORPORATION

<table>
<thead>
<tr>
<th>Year</th>
<th>History</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>Fukutake Publishing Co., Ltd., is established in Minamigata, Okayama prefecture, and begins publishing junior high school educational materials and student pocketbooks.</td>
</tr>
<tr>
<td>1962</td>
<td>The Company establishes Kansai School Entrance Research Association and begins offering <em>Kansai Simulated Exams</em> (now <em>Shinken Simulated Exams</em>) for senior high school students.</td>
</tr>
<tr>
<td>1969</td>
<td><em>Correspondence Education Seminar</em> (now <em>Shinkenzen</em> Senior High School Courses) is launched. Tokyo Office opens and begins offering <em>Shinken Simulated Exams</em> in eastern Japan.</td>
</tr>
<tr>
<td>1972</td>
<td>Correspondence Education Seminar Junior (now <em>Shinkenzen</em> Junior High School Courses) is launched.</td>
</tr>
<tr>
<td>1973</td>
<td><em>Kansai Simulated Exams</em> are renamed <em>Shinken Simulated Exams</em>. <em>Correspondence Education Seminar</em> is renamed <em>Shinkenzen</em>.</td>
</tr>
<tr>
<td>1980</td>
<td><em>Shinkenzen</em> Elementary School Courses are introduced.</td>
</tr>
<tr>
<td>1988</td>
<td><em>Shinkenzen</em> Preschool Courses for age 4 to 5 (now <em>Kodomo Challenge</em>) are introduced.</td>
</tr>
<tr>
<td>1990</td>
<td>The Company’s new corporate identity “Benesse” is announced. The Company invests in Berlitz Schools of Languages, Inc. (now Berlitz Japan, Inc.).</td>
</tr>
<tr>
<td>1993</td>
<td>The Company acquires Berlitz International, Inc. of the United States. The magazines <em>Tamago Club</em> and <em>Hiyoko Club</em> are launched.</td>
</tr>
<tr>
<td>1994</td>
<td><em>Shinkenzen</em> Preschool Courses for age 2 to 3 (now <em>Kodomo Challenge</em>) are introduced.</td>
</tr>
<tr>
<td>1999</td>
<td>Customer-based in-house company system is introduced.</td>
</tr>
<tr>
<td>2001</td>
<td>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.</td>
</tr>
<tr>
<td>2003</td>
<td>Benesse introduces Corporate Executive Officer System and Group Executive Officer System. Shiken-AD Co., Ltd. becomes consolidated subsidiary. Benesse Style Care Co., Ltd. is established. Benesse Hong Kong Co., Ltd. is established.</td>
</tr>
<tr>
<td>2004</td>
<td>Benesse Korea Co., Ltd. is established. “Benesse Department of Educational Advanced Technology (BEAT)” set up at the interfaculty Initiative in Information Studies, University of Tokyo.</td>
</tr>
<tr>
<td>2005</td>
<td>Benesse Educational Research and Development Center is established. Benesse subsidiary AVIVA Co., Ltd. takes over part of the business operations of AVIVA Japan Corporation. “Benesse Study Loans” and “Benesse Credit Cards” are launched.</td>
</tr>
</tbody>
</table>
INVESTOR INFORMATION

As of March 31, 2005

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:
35,472

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:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Shares (Thousands)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soichiro Fukutake</td>
<td>16,044</td>
<td>15.08</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd.</td>
<td>7,752</td>
<td>7.28</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd.</td>
<td>6,248</td>
<td>5.87</td>
</tr>
<tr>
<td>The Chugoku Bank, Ltd.</td>
<td>4,337</td>
<td>4.07</td>
</tr>
<tr>
<td>Bank of New York For GCM Client Accounts (E) ISG</td>
<td>3,572</td>
<td>3.35</td>
</tr>
<tr>
<td>Reiko Fukutake</td>
<td>3,174</td>
<td>2.98</td>
</tr>
<tr>
<td>Nobuko Fukutake</td>
<td>2,769</td>
<td>2.60</td>
</tr>
<tr>
<td>Mitsuko Fukutake</td>
<td>2,675</td>
<td>2.51</td>
</tr>
<tr>
<td>Junko Fukutake</td>
<td>2,675</td>
<td>2.51</td>
</tr>
<tr>
<td>Fukutake Education Foundation</td>
<td>2,430</td>
<td>2.28</td>
</tr>
</tbody>
</table>

Shareholdings by Type of Shareholder (%):

- Securities Companies: 0.76%
- Financial Institutions: 28.37%
- Other Corporations: 9.26%
- Foreign Companies: 14.03%
- Individuals and Other: 47.56%

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

Stock Price Range (Yen)

Trading Volume (Shares)
To support “Benesse = well-being” for each individual
To sustain the provision of value to society

As members of the Benesse Group, we will provide sustained support to the realization of “Benesse = well-being” for all stakeholders.

By offering high-quality products and services, we will provide value to society and continue unremittingly in advanced and innovative efforts to influence lifestyles and support the well-being of each individual.

By sustaining the provision of inimitable and distinctive value, we are committed to becoming an essential presence for society today and tomorrow. The corporate social responsibility we aim to fulfill is to grow as a company together with society. Being fully aware of the importance of contributing to the solution of social issues, we will broadly invest management resources and specialized knowledge, particularly for research activity in the educational field, to contribute to the solution of issues.

In the organization of business management, we will promote efforts in reforming corporate governance as well as in compliance, risk management, human resources development, and the environment to become a company worthy of the trust of customers, consumers, shareholders, employees, local communities, and society.

As a member of the Benesse Group, each one of us without exception must conduct ourselves appropriately and fairly in order to sustain the provision of value to society and to be worthy of society’s trust. To achieve these objectives, the “Benesse Group Code of Conduct” specifies in practical terms the nature of conduct, standards, and regulations to be observed.

*Please visit  http://www.benesse.co.jp/english/brand for details.*
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.