Consolidated Statements of Cash Flows

Wacoal Holdings Corp. and Subsidiaries
Years Ended March 31, 2021, 2020 and 2019

Years Ended March 31, 2021, 2020 and 2019	Millions of Yen			Thousands of U.S. Dollars (Note 2)
	2021	2020	2019	2021
OPERATING ACTIVITIES:				
Net income	¥ 6,804	¥ 2,968	¥ 395	$ 61,513
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	6,128	6,029	5,647	55,402
Share-based compensation (Note 14)	63	71	62	570
Allowance for returns and doubtful receivables – net	(199)	299	(2,263)	(1,799)
Deferred income taxes	2,278	(5,673)	(2,817)	20,595
(Gain) loss on sales or disposal of property, plant and equipment – net	(365)	103	48	(3,300)
Impairment charges on property, plant and equipment (Note 21)	1,136	769	167	10,270
Impairment charges on goodwill (Notes 8 and 21)	2,673	217	4,325	24,166
Impairment charges on other intangible assets (Notes 8 and 21)	12	256	1,509	108
(Gain) loss on sale, exchange and valuation of marketable securities and investments – net (Note 3)	(10,390)	3,760	5,430	(93,934)
Equity in net loss (income) of affiliated companies, less dividends received	469	480	(211)	4,240
Changes in assets and liabilities:				
Decrease in notes and accounts receivable	2,767	4,685	822	25,016
Decrease (increase) in inventories	972	(1,350)	(76)	8,788
Decrease (increase) in return assets	268	312	(1,180)	2,423
Increase in other current assets	(2,632)	(29)	(653)	(23,795)
(Decrease) increase in notes and accounts payable	(859)	(373)	(1,640)	(7,766)
(Decrease) increase in refund liabilities	(379)	(837)	3,482	(3,426)
Increase (decrease) in liability for termination and retirement benefits	226	776	(620)	2,043
(Decrease) increase in accrued expenses, income taxes payable and other current liabilities	(4,485)	665	1,075	(40,548)
Other	(227)	197	118	(2,052)
Net cash provided by operating activities	4,260	13,325	13,620	38,514
INVESTING ACTIVITIES:				
Increase in time deposits	(941)	(438)	(4,783)	(8,507)
Decrease in time deposits	291	3,576	5,226	2,631
Proceeds from sales and redemption of equity securities	2,340	15,252	2,497	21,156
Payments to acquire equity securities	(7)	(339)	(323)	(63)
Proceeds from redemption of debt securities	742	544	1,008	6,708
Payments to acquire debt securities			(900)	0
Compensation income	889	104	276	8,037
Proceeds from sales of property, plant and equipment	(2,764)	(3,442)	(2,603)	(24,989)
Payments to acquire property, plant and equipment	(2,840)	(3,539)	(3,180)	(25,676)
Payments to acquire intangible assets (Note 8)		(9,181)		
Acquisition of a subsidiary (net of cash acquired) (Note 7)			270	
Proceeds from sales of shares of affiliated companies	(315)			(2,848)
Other	43	32	38	389
Net cash provided by (used in) investing activities	(2,562)	2,569	(2,474)	(23,162)
FINANCING ACTIVITIES:				
Increase (decrease) in short-term bank loans with original maturities of three months or less – net	17,208	(4,645)	1,061	155,573
Procurement of short-term loan (over 3 months)	20,424			184,649
Repayment of short-term loan (over 3 months)	(424)			(3,833)
Procurement of long-term debt	1,447			13,082
Repayments of long-term debt	(50)	(53)	(50)	(452)
Purchase of treasury stock	(1)	(7,745)	(6,919)	(9)
Disposal of treasury stock		0	0	
Dividends paid on common stock	(2,496)	(4,907)	(4,811)	(22,567)
Dividends paid to noncontrolling interests	(81)	(237)	(191)	(732)
Proceeds from share issuance of noncontrolling interests		116	38	
Payments to acquire interests in subsidiaries from noncontrolling interests	(1,361)			(12,304)
Payments of contingent consideration (Note 7)	(1,061)			(9,592)
Net cash provided by (used in) financing activities	33,605	(17,471)	(10,872)	303,815
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	349	(651)	372	3,155
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,652	(2,228)	646	322,322
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,905	30,133	29,487	252,283
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 63,557	¥ 27,905	¥ 30,133	$574,605
ADDITIONAL CASH FLOW INFORMATION:				
Cash paid for:				
Interest	¥ 72	¥20	¥ 1	$651
Income taxes	8,643	4,758	5,068	78,139
NONCASH INVESTING ACTIVITIES:				
Acquisition of a subsidiary (contingent consideration) (Note 7)		¥ 4,172		
Acquisition of property, plant and equipment by assuming payment obligation	¥ 704	751	¥ 954	$ 6,365

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Wacoal Holdings Corp. and Subsidiaries

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements—Wacoal Holdings Corp. (the "Company") and subsidiaries are predominantly engaged in one industry, the manufacturing and sale of apparel, including foundation garments, lingerie, nightwear, and outerwear in Japan, the United States of America, Europe, and certain other countries in Asia.

The accompanying consolidated financial statements, stated in Japanese yen, have been prepared on the basis of accounting principles generally accepted in the United States of America ("U.S. GAAP").

Consolidation—The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries (collectively, the "Companies"). All intercompany transactions and balances have been eliminated.

Some foreign subsidiaries of the Company have a fiscal year ending December 31. The accounts of those subsidiaries are included in the Company's consolidated financial statements based on the subsidiaries' fiscal year-end. Necessary adjustments have been made for significant events related to subsidiaries that occurred during the period between their fiscal year-ends and March 31.

Investments in affiliated companies where the Companies' ownership is 20% to 50% are accounted for using the equity method.

Significant influence is generally deemed to exist if the Companies have an ownership interest in the voting stock of the investee from 20% to 50%, although other factors are considered in determining whether the equity method of accounting is appropriate.

Use of Estimates—The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Companies reflected the impact of the COVID-19 outbreak in such estimates. The official views of when the outbreak will be contained have not been announced by public institutions. The Companies are anticipating that COVID-19 will continue to have an impact on our business results until September 2021, and that our results in October 2021 will recover to the level before the outbreak. The Companies developed future business plans and used them for the estimates of impairment charges on property, plant and equipment, goodwill and other intangible assets based on this assumption. Significant account estimate is ¥9,398 million valuation of goodwill arising from the acquisition of WACOAL EUROPE LTD.

To test for goodwill impairment, the carrying amount of each reporting unit is compared with its fair value. If the carrying amount of a reporting unit exceeds its fair value, an impairment charge is recognized in an amount equal to that excess.

Such assumptions include recovery from the recession in business activities caused by COVID-19, tax rates and risk-adjusted discount rates. There is a possibility that impairment charges would be recognized if the forecast of business results deteriorates or the tax rates or risk-adjusted discount rates increase.

See Note 21 for further information about measurement of fair value.

Cash and Cash Equivalents—Cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Foreign Currency Translation—Assets and liabilities of foreign subsidiaries have been translated to Japanese yen at period-end exchange rates and income and expenses have been translated using average exchange rates for the period. Translation adjustments resulting from the process of translating consolidated financial statements, net of tax, are included in accumulated other comprehensive income (loss), which is a separate component of equity. Exchange gains and losses resulting from foreign currency transactions and the conversion of monetary assets and liabilities denominated in foreign currencies are included in other income (expenses) in the consolidated statements of income.

Foreign currency translation gains (losses) for the years ended March 31, 2021, 2020 and 2019 were ¥168 million, ¥36 million and ¥76 million, respectively. They have been included in other – net of other income (expenses).

Marketable Securities and Investments—The Companies classify their marketable securities and investments in debt securities into one of two categories: available-for-sale or held-to-maturity. Available-for-sale securities are recorded at fair value with a corresponding recognition of unrealized holding gain or loss (net of tax) in accumulated other comprehensive (loss) income, which is a separate component of equity, until realized. Held-to-maturity securities are measured at amortized cost. The Companies classify debt securities as held-to-maturity only if the Companies have the positive intent and ability to hold those securities to maturity. Gains and losses on sales of debt securities are computed based on cost determined using the average cost method. The Company periodically determines whether any decline in the value of debt securities is temporary, based on the period and extent of the decline, the issuer's financial position and prospects, and the intention to hold it for a sufficient period of expected recovery of fair value. If it is determined that the decline is not temporary, the difference between the carrying amount and its fair value is recognized as a valuation loss.

Equity securities are measured at fair value and unrealized holding gain or loss is recorded in net profit or loss.

Allowance for Doubtful Receivables—An allowance for doubtful notes and receivables is estimated based on historical collection experience and additional information including current economic conditions and the creditworthiness of each applicable customer.

Inventories—Inventories are stated at the lower of cost or net realizable value, cost being determined by the first-in, first-out method for raw materials and the average cost method for work in process and finished products. Cost includes net prices paid for materials purchased, production labor cost, factory overhead and charges for customs duties.

Property, Plant and Equipment—Property, plant and equipment is stated at cost less impairment charges. Property, plant and equipment are amortized over their estimated useful lives mainly using the straight-line method. The estimated useful lives are as follows:

Buildings and structures
2 to 50 years (mainly 38 years)
Machinery and equipment (except for the part of the paintings)
2 to 20 years (mainly 5 years)

Depreciation expenses for the years ended March 31, 2021, 2020 and 2019 were ¥3,139 million, ¥3,545 million and ¥3,538 million, respectively.

Impairment of Property, Plant and Equipment—The carrying amount of long-lived assets held and used by the Companies is evaluated for impairment whenever there is an event or change in circumstances that indicates that such assets have been impaired or that the carrying amounts of such assets might not be recoverable. The carrying amount of property, plant and equipment is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. That assessment is based on the carrying amount of the asset at the date it is tested for recoverability, whether in use or under development. The impairment charge is measured as the amount by which the carrying amount of property, plant and equipment exceeds its fair value.

Goodwill and Other Intangible Assets—Goodwill represents the excess of the purchase price of an acquired entity over the fair value of assets acquired and liabilities assumed.

Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually, or more frequently if conditions indicate an earlier review is necessary. The goodwill is allocated to the reporting unit in which the business that the goodwill resides. To test for goodwill

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impairment, the carrying amount of each reporting unit is compared with its fair value. If the carrying amount of a reporting unit exceeds its fair value, an impairment charge is recognized in an amount equal to that excess. To test for impairment of other intangible assets with indefinite useful lives, the carrying value of an intangible asset is compared with its fair value. If the carrying amount of an intangible asset with indefinite useful life exceeds its fair value, an impairment charge is recognized in an amount equal to that excess.

Other intangible assets with finite useful lives consist primarily of brands, customer relationships and software are amortized over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Brands	10, 20 and 25 years (mainly 25 years)
Customer relationships	5 years
Software	5 years

Asset Retirement Obligations—The Companies have obligations arising from contractual commitments to remove leasehold improvements from leased facilities and return the property to a specified condition when the lease terminates. The Companies recognize asset retirement obligations at the inception of a lease. The asset retirement obligations are measured with an expected present value technique based on historical experience and recorded in other long-term liabilities in the consolidated balance sheets and subsequently adjusted for changes in estimated disposal costs. The difference between the gross expected future cash flow and its present value is accreted over the life of the related lease, which is determined using best estimates because the Companies' lease contracts generally have automatic renewal provisions. The estimated asset retirement costs are capitalized as part of the carrying amount of the associated long-lived asset and depreciated over its useful life. For some lease contracts that are automatically renewed at the end of the contract, asset retirement obligations are calculated based on a reasonable estimate of the end of the contract.

Termination and Retirement Plans—Termination and retirement benefits are accounted for in accordance with the guidance for retirement benefits. The Companies amortize net actuarial gains and losses and prior service cost over the average employees' remaining service period by the declining-balance method and by the straight-line method, respectively.

Leases—As for lessor accounting, the Companies recognized revenue mainly from contracts consisting of leasing mannequins, display furniture and real estate owned by the Companies to our customers. These lease arrangements are classified as operating leases and related revenue is recognized ratably over the lease term. Options to extend or terminate the leases are included in some of the contracts. The Companies take such options into account to determine the lease term when it is probable that these options will be exercised. Moreover, almost all of the contracts do not contain variable consideration and purchase options for their customers. Some of the contracts contain lease and non-lease components and the consideration in the contracts are allocated based upon estimated standalone selling prices of the lease and non-lease components.

As for lessee accounting, the Companies have leases for assets such as retail stores, warehouses, offices, corporate housing, vehicles, machinery, and equipment, which are classified as an operating lease. The Companies determine whether a contract is, or contains a lease at the inception of the contract. Options to extend or terminate the lease contracts are included in some of the contracts. The Companies take such options into account in order to determine the lease term when it is probable that these options will be exercised. Some of the contracts contain variable lease payments. Most of the variable lease payments are for our retail stores, which depend on their sales. Material residual value guarantees and restriction or covenants imposed by leases do not exist in the contracts.

Some of the contracts contain lease and non-lease components. Considerations in the contracts for which underlying assets are land and buildings and structures are allocated based upon the estimated standalone selling prices of the lease and non-lease components, which are accounted for separately. On the other hand, the Companies elect the practical expedient and did not separate lease components from non-lease components for leases for which underlying assets are machinery and equipment. The Companies use the incremental borrowing rate based on the information available at commencement date to determine the present values of lease payments, unless the implicit rate is readily determinable. The Companies also elect the practical expedient which allows entities to expense leases with a term of 12 months or less at the commencement date as incurred. Operating lease cost is recognized on a straight-line basis over the lease term.

The Financial Accounting Standards Board ("FASB") guidance issued in April 2020 allows a lessee of a lease subject to a rent concession occurring as a direct consequence of the COVID-19 pandemic to elect to apply a simplified accounting treatment. Under this guidance, the lessee may elect to apply the practical expedient and not assess whether a COVID-19-related rent concession that meets certain prescribed conditions is a "lease modification," as stipulated in Accounting Standard Codification 842, "Leases" ("ASC 842"). The Companies have elected to apply this practical expedient for rent concessions that meet those certain prescribed conditions referred to above and the rent concessions are accounted for as variable lease payments rather than being treated as lease modifications.

Treasury Stock—The Companies account for treasury stock under the cost method and include treasury stock as a component of equity.

Acquisitions—The Companies account for acquisitions using the acquisition method in accordance with the guidance for business combinations. The Companies allocate the purchase price to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition, including intangible assets that can be identified and named. The purchase price in excess of the fair value of the net assets is recorded as goodwill. In the case where the purchase price is below the fair value of the net assets, the Companies recognize the excess of fair value of the net assets over the purchase price in earnings as a gain on bargain purchase in the consolidated statements of income. The Companies measure contingent consideration classified as liabilities at the fair value as of the date of acquisition and remeasure them to fair values at each reporting date until the contingencies are resolved. Fluctuations of the fair values due to the remeasurement are recognized in income or expenses as incurred.

Revenue Recognition—The Companies recognize revenue when control of promised products is transferred to customers and performance obligations are satisfied. The Companies' revenue is recognized for transactions, net of any trade discounts or rebates given. In addition, provision for expected returns is deducted from revenue based on historical return.

Shipping and Handling Costs—Shipping and handling costs are expensed as incurred.

Advertising Expenses—Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2021, 2020 and 2019 were ¥11,239 million, ¥13,169 million and ¥12,329 million, respectively, and have been included in selling, general and administrative expenses.

Research and Development Costs—Research and development costs are expensed as incurred. Research and development costs for the years ended March 31, 2021, 2020 and 2019 were ¥463 million, ¥508 million and ¥739 million, respectively, and have been included in selling, general and administrative expenses.

Consumption Taxes—Consumption taxes are excluded from sales, costs, and expenses in the consolidated statements of income.

Income Taxes—The provision for income taxes is determined under the asset and liability method in accordance with the guidance for income taxes. Under this method, deferred tax assets and liabilities are determined for temporary differences between the carrying amounts of assets and liabilities in the financial statements and tax bases of assets and liabilities and tax loss carryforwards at presently enacted tax rates. A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future.

The Companies assess their income tax positions and record tax benefits for all years subject to examination based upon their evaluation of the facts, circumstances, and information available as of the end of the fiscal year. For those tax positions only where there is greater than a 50% likelihood that the tax position will be sustained, the Companies record the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Interest and penalties related to income taxes are included in the consolidated statements of income.

Share-Based Compensation—Share-based compensation is accounted for in accordance with ASC 718, "Compensation – Stock Compensation". The Company measures share-based compensation cost at the grant date, based on the fair value of the award and recognizes the cost over the requisite service period, which is the vesting period. The fair value of the award is estimated using the Black-Scholes option-pricing model.

Derivatives—Derivative instruments, including certain derivative instruments embedded in other contracts, are accounted for in accordance with the guidance for derivatives and hedging. Because such derivative instruments are not designated as hedges, changes in the fair value of the derivatives are recorded in earnings or losses.

Government Grant—Government grants are recognized when there is reasonable assurance that the Companies will comply with the conditions attached to the grant and that the grant will be received. Government grants are recognized as reductions from operating costs and expenses. The amounts of reductions from cost of sales and selling, general and administrative expenses for the year ended March 31, 2021 were ¥1,049 million and ¥2,922 million, respectively.

Subsequent Events—In accordance with the guidance for subsequent events, the Company has evaluated subsequent events through June 29, 2021.

Reclassifications—Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current year's presentation.

Recent Accounting Pronouncements:

Recently Adopted Accounting Guidance

Internal-Use Software—In August 2018, the FASB issued guidance related to internal-use software. This guidance clarifies the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within that annual period. The Companies have adopted the guidance from the quarter beginning April 1, 2020. The adoption of this guidance did not have a material impact on the Company's balance sheets and statements of income.

Disclosure on Fair Value Measurement—In August 2018, the FASB issued guidance related to the fair value measurement disclosure. This guidance removes, modifies, and adds some of the disclosure requirements on fair value. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within that annual period. The Companies have adopted the guidance from the quarter beginning April 1, 2020. The adoption of this guidance did not have a material impact on the Company's balance sheets and statements of income.

Disclosure on Defined Benefit Plans—In August 2018, the FASB issued guidance related to disclosure on defined benefit plans. This guidance removes, modifies, and adds the disclosure requirements on defined benefit pension. This guidance is effective for fiscal years ending after December 15, 2020 and interim periods within that annual period. The Companies have adopted the guidance from the quarter beginning April 1, 2020. The adoption of this guidance did not have a material impact on the Company's balance sheets and statements of income.

Recent Accounting Guidance Not Yet Adopted

Measurement of Credit Losses on Financial Instruments—In June 2016, the FASB issued a new accounting guidance related to measurement of credit losses on financial instruments. This guidance introduces a new impairment model based on expected losses rather than incurred losses. Using this model will result in more timely recognition of losses than under the current incurred approach. In November 2019, the FASB issued additional guidance related to the change in the effective date of the above guidance. As a result, the guidance is effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years. The Company is currently evaluating the impact of adoption on the Company's consolidated financial position, results of operations or cash flows.

2. TRANSLATION INTO U.S. DOLLAR STATEMENTS

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside of Japan and has been made at the rate of ¥110.61 to $1, the noon buying rate for yen in New York City as of March 31, 2021. Such translation should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

3. MARKETABLE SECURITIES AND INVESTMENTS

Debt Securities—The fair value of debt securities is based on quoted market prices as of March 31, 2021 and 2020. The cost, gross unrealized gain and loss, and the fair value by major security type were as follows:

Millions of Yen

2021	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Held-to-maturity securities:				
Current:				
Corporate debt securities	**¥222**	**¥2**		**¥224**

Millions of Yen

2020	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Held-to-maturity securities:				
Current:				
Corporate debt securities	¥656	¥2	¥1	¥657
Noncurrent:				
Corporate debt securities	¥329	¥4		¥333

Gross unrealized losses and fair values of debt securities, for those that have been in a continuous unrealized loss position for more than 12 months as of March 31, 2021 and 2020, were as follows:

Millions of Yen

	2021		2020	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Held-to-maturity securities:				
Marketable securities:				
Corporate debt securities			¥109	¥1

Gross unrealized losses and fair values of debt securities, for those that have been in a continuous unrealized loss position for less than 12 months as of March 31, 2021 and 2020, were as follows:

Millions of Yen

	2021		2020	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Held-to-maturity securities:				
Marketable securities:				
Corporate debt securities			¥220	¥0

The Companies periodically determine whether a decline in the fair value of debt securities is deemed to be other than temporary based on criteria that include the duration of the market decline, the extent to which cost exceeds fair value, the financial position and business outlook of the issuer, and the intent and ability of the Companies to retain the impaired held-to-maturity securities for a sufficient period of time for anticipated recovery in fair value. No debt securities were identified that meet the Companies' criteria for recognition of an impairment charge on debt securities in an unrealized loss position presented above. Therefore, the Companies do not believe the unrealized losses represent an other-than-temporary impairment as of March 31, 2021 and 2020.

Future maturities of debt securities classified as held-to-maturity securities as of March 31, 2021, were as follows:

Millions of Yen

	Cost	Fair Value
Due within one year	**¥222**	**¥224**
Total	**¥222**	**¥224**

As a result of the conversion of convertible bonds into equity securities, the Company recorded gains on exchange of marketable securities of ¥140 million for the year ended March 31, 2019. There were no exchange of marketable securities and investments during the years ended March 31, 2021 and 2020.

Equity Securities—Realized and unrealized gains and losses on equity securities during the years ended March 31, 2021 and 2020, were as follows:

Millions of Yen

	2021	2020	2019
Realized gains (losses) recognized during the period on equity securities sold during the period	**¥ 91**	¥ 1,620	¥ (77)
Unrealized gains (losses) recognized during the period on equity securities still held at March 31	**10,299**	(5,380)	(5,493)
Net gains (losses) recognized during the period on equity securities	**¥10,390**	¥(3,760)	¥(5,570)

4. ALLOWANCES FOR DOUBTFUL RECEIVABLES

Information related to the Companies' allowance for doubtful receivables as of March 31, 2021, 2020 and 2019 was as follows:

Millions of Yen

	2021	2020	2019
Balance at the beginning of the year	**¥ 489**	¥229	¥207
Charged to expenses	**33**	270	36
Balances written off/reversed	**(176)**	(10)	(14)
Balance at the end of the year	**¥ 346**	¥489	¥229

5. INVENTORIES

The components of inventories as of March 31, 2021 and 2020 were as follows:

Millions of Yen

	2021	2020
Finished products	**¥37,217**	¥37,224
Work in process	**3,748**	3,938
Raw materials	**2,285**	2,265
Total	**¥43,250**	¥43,427

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6. INVESTMENTS IN AFFILIATED COMPANIES

Certain investments are accounted for using the equity method if the Companies have the ability to exercise significant influence over an investee. Significant influence is generally deemed to exist if the Companies have an ownership interest in the voting stock of the investee between 20% and 50%, although other factors are considered in determining whether the equity method of accounting is appropriate. The Companies record investments in equity method investees meeting these characteristics as "Investments in affiliated companies." Under the equity method, the Companies record their proportionate share of an affiliated company's income or loss based on the most recently available financial statements.

The primary affiliated companies and percentage of ownership as of March 31, 2021 and 2020 were as follows:

Percentage of Ownership (%)

Name of Investee	2021	2020
Shinyoung Wacoal Inc.	25	25
Taiwan Wacoal Co., Ltd.	50	50
Thai Wacoal Public Co., Ltd.	34	34
PT. Indonesia Wacoal	42	42
House of Rose Co., Ltd.	21	21

Aggregate carrying amounts and fair values of investments in affiliated companies which have a quoted market price as of March 31, 2021 and 2020 were as follows:

Millions of Yen

	2021	2020
Carrying amount	¥13,652	¥14,431
Aggregate value of quoted market price	10,034	9,421

The following tables represent the affiliated companies' summarized balance sheets and statements of income as of and for the years ended March 31, 2020 and 2019. Such information as of and for the year ended March 31, 2021 were not disclosed as they were immaterial.

Millions of Yen

	2020	2019
Current assets	¥43,974	¥41,929
Noncurrent assets	42,161	44,635
Total	¥86,135	¥86,564
Current liabilities	¥ 9,048	¥ 8,569
Long-term liabilities	7,583	7,145
Equity	69,504	70,850
Total	¥86,135	¥86,564

Millions of Yen

	2020	2019
Net sales	¥62,676	¥63,066
Gross profit	32,455	32,105
Income before income taxes	1,654	3,458
Net income	860	2,714

The balance of receivables and payables to affiliated companies as of March 31, 2021 and 2020 were as follows:

Millions of Yen

	2021	2020
Accounts receivable	¥372	¥618
Accounts payable	501	509
Other receivable	173	329
Long-term loan	315	

The amounts for transactions with affiliated companies for the years ended March 31, 2021, 2020 and 2019 were as follows:

Millions of Yen

	2021	2020	2019
Sales	¥1,636	¥2,838	¥3,257
Cost of sales corresponding to sales of material and products	1,751	2,826	3,175
Purchases	3,681	5,302	5,612
Royalties	203	330	299
Interest income	3		

Dividends received from affiliated companies were ¥602 million, ¥542 million and ¥514 million for the years ended March 31, 2021, 2020 and 2019, respectively.

7. ACQUISITIONS

The Company decided to enter into a share purchase agreement pursuant to which the Companies acquired through our U.S. subsidiary Wacoal International Corp. ("Wacoal International") all of the issued and outstanding shares of Intimates Online, Inc. ("Intimates Online"), a women's innerwear design and sales company in the U.S. at the meeting of our board of directors held on July 30, 2019. Wacoal International entered into the share purchase agreement on the same day (U.S. time) and acquired all of the issued and outstanding shares of Intimates Online on July 31, 2019 (U.S. time).

Intimates Online designs and sells women's innerwear products under its "LIVELY" brand in the U.S. through its e-commerce website and directly managed retail stores. The Companies expect discontinuous growth in the U.S. by acquiring its customer base mainly for millennials and its unique marketing method to spread its reputation and online reviews by organizing its customers as its ambassador.

Consideration for the acquisition was ¥13,520 million and is consisted of ¥9,348 million (USD 86 million) of cash and ¥4,172 million (USD 38 million) of contingent consideration.

The contingent consideration was agreed with previous shareholders upon the share purchase agreement and will be paid to them over a period of four fiscal years. Payment is contingent on Intimate Online's performance achieving certain goals such as sales targets. The total contingent payment amount will be within the range of USD 20 million and USD 55 million.

The fair value of the contingent consideration was ¥2,901 million (USD 26 million) and ¥3,874 million (USD 36 million) as of March 31, 2021 and 2020, respectively. The changes in fair value were recognized in selling, general and administrative expenses. The contingent consideration of ¥1,262 million (USD 11 million) and ¥1,088 million (USD 10 million), for which the consideration has been fixed, was recognized in Notes and accounts payable as of March 31, 2021 and 2020, respectively.

For the year ended March 31, 2020, acquisition-related costs were ¥245 million and had been included in selling, general and administrative expenses. For the year ended March 2021, acquisition-related cost did not occur.

As a result of the purchase price allocation, the Company recognized ¥11,551 million of goodwill and ¥1,923 million of other intangible assets in Wacoal Business (Overseas). The goodwill arising from the acquisition consists largely of the expected growth of Intimates Online, synergies and economies of scale expected from combining the operations with Wacoal International. Other intangible assets were composed of ¥1,097 million brands, ¥793 million customer relationships, and ¥33 million of noncompetition agreements, respectively. Goodwill is not deducted for tax purposes. The amount of brands, customer relationships and noncompetition agreements are amortized based on the estimated useful lives of 10 and 5 years, respectively.

The Company adjusted the fair values of assets acquired and liabilities assumed as of the acquisition date based on the information the Company obtained subsequent to the acquisition date. These adjustments are reflected retrospectively to the fair value of assets acquired and liabilities assumed as of the acquisition date.

The fair values of assets acquired and liabilities assumed as of the acquisition date were as follows:

Millions of Yen

	July 31, 2019	
	Before Adjustment	After Adjustment
Cash and cash equivalents	¥ 167	¥ 167
Notes and accounts receivable	14	14
Inventories	341	383
Other current assets	16	12
Property, plant and equipment	14	17
Operating leases right-of-use assets	295	290
Goodwill	13,505	11,551
Other intangible assets		1,923
Other assets	18	18
Total assets	14,370	14,375
Notes and accounts payables	222	228
Short-term operating lease liabilities	47	47
Other current liabilities	42	43
Deferred income taxes		288
Long-term operating lease liabilities	249	249
Total liabilities	560	855
Total equity	¥13,810	¥13,520

Pro Forma Financial Information (Unaudited)

Unaudited supplemental pro forma information for the combined result of operation of the Company and its subsidiary as though the acquisition had occurred as of April 1, 2018 were as follows:

Millions of Yen

	2020	2019
Net sales	¥187,482	¥195,684
Operating income	6,338	4,346
Net income (loss) attributable to Wacoal Holdings Corp.	3,172	(193)

Net sales and operating loss of Intimates Online included in the Company's consolidated statements of income for the year ended March 31, 2020 are ¥1,301 million and ¥1,250 million, respectively.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill—Changes in the carrying amount of goodwill by operating segments for the years ended March 31, 2021, 2020 and 2019 were as follows.

Millions of Yen

	2021		
	Wacoal Business (Overseas)	Peach John	Total
Balance at the beginning of the year:			
Acquisition cost	¥22,371	¥	¥22,371
Accumulated impairment charges			
Carrying amount	22,371		22,371
Acquisition during the year			
Impairment charges	(2,673)		(2,673)
Foreign currency translation adjustments	1,471		1,471
Balance at the end of the year:			
Acquisition cost	24,103		24,103
Accumulated impairment charges	(2,934)		(2,934)
Carrying amount	¥21,169	¥	¥21,169

Millions of Yen

	2020		
	Wacoal Business (Overseas)	Peach John	Total
Balance at the beginning of the year:			
Acquisition cost	¥11,954	¥	¥11,954
Accumulated impairment charges			
Carrying amount	11,954		11,954
Acquisition during the year	11,551		11,551
Impairment charges	(217)		(217)
Foreign currency translation adjustments	(917)		(917)
Balance at the end of the year:			
Acquisition cost	22,594		22,594
Accumulated impairment charges	(223)		(223)
Carrying amount	¥22,371	¥	¥22,371

Millions of Yen

	2019		
	Wacoal Business (Overseas)	Peach John	Total
Balance at the beginning of the year:			
Acquisition cost	¥12,269	¥ 11,203	¥ 23,472
Accumulated impairment charges		(6,878)	(6,878)
Carrying amount	12,269	4,325	16,594
Impairment charges		(4,325)	(4,325)
Foreign currency translation adjustments	(315)		(315)
Balance at the end of the year:			
Acquisition cost	11,954	11,203	23,157
Accumulated impairment charges		(11,203)	(11,203)
Carrying amount	¥11,954	¥	¥ 11,954

The Company recorded impairment charges on goodwill of ¥2,673 million for the WACOAL EUROPE LTD. in the year ended March 31, 2021, which was included in operating costs and expenses of Wacoal Business (Overseas). The Company recorded impairment charges on goodwill of ¥217 million for the G Tech Material Co., LTD. ("G Tech") in the year ended March 31, 2020, which was included in operating costs and expenses of Wacoal Business (Overseas). The Company recorded impairment charges on goodwill of ¥4,325 million for the Peach John Business in the year ended March 31, 2019, which was included in operating costs and expenses of the Peach John Business. See Note 21 for further information about measurement of fair value.

Other Intangible Assets—The components of intangible assets excluding goodwill as of March 31, 2021 and 2020 were as follows:

Millions of Yen

Years Ended March 31	2021		2020	
	Gross Carrying Amount	Accumulated Amortization and Impairment Charges	Gross Carrying Amount	Accumulated Amortization and Impairment Charges
Amortized intangible assets:				
Brands	¥ 7,479	¥ 2,748	¥ 6,670	¥ 2,076
Software	17,910	9,273	16,039	8,163
Others	2,544	1,256	2,534	1,022
Total	¥27,933	¥13,277	¥25,243	¥11,261
Unamortized intangible assets:				
Trademarks	¥ 5,316	¥ 4,827	¥ 5,316	¥ 4,827
Other	75		76	
Total	¥ 5,391	¥ 4,827	¥ 5,392	¥ 4,827

Other intangible assets acquired during the year ended March 31, 2021 totaled ¥3,073 million, which primarily consist of software. Other intangible assets acquired during the year ended March 31, 2020 totaled ¥5,313 million, which primarily consist of brands and software. Other intangible assets acquired during the year ended March 31, 2019 totaled ¥3,266 million, which primarily consist of software. Estimated useful life for brands and software are ten and five years, respectively.

During the year ended March 31, 2021, the Companies recorded impairment charges on software of Taiwan Peach John of ¥12 million, which was included in operating costs and expenses of the Peach John Business. During the years ended March 31, 2020 and 2019, the Companies recorded impairment charges on the trademark of Peach John of ¥191 million and ¥1,314 million, which was included in operating costs and expenses of the Peach John Business. During the year ended March 31, 2020, the Companies also recorded ¥65 million of impairment charges on software of the A Tech Textile Co., LTD. ("A Tech"), which was included in operating expenses of the Wacoal Business (Overseas).

During the year ended March 31, 2019, the Companies recorded ¥195 million of impairment charges on software of Ai Co., Ltd., which was included in operating expenses of the Other segment. See Note 21 for further information.

Aggregate amortization expenses for the years ended March 31, 2021, 2020 and 2019 related to other intangible assets were ¥2,989 million, ¥2,484 million and ¥2,109 million, respectively. Future estimated amortization expenses as of March 31, 2021 were as follows:

Years Ending March 31	Millions of Yen
Estimated amortization expenses	
2022	¥ 2,912
2023	2,834
2024	2,416
2025	1,782
2026	1,040
Total	¥10,984

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

Short-term bank loans as of March 31, 2021 and 2020 consisted of the following:

Millions of Yen

	2021	2020
Unsecured bank loans	¥40,672	¥3,364

The weighted-average annual interest rates on short-term bank loans as of March 31, 2021 and 2020 were 0.2% and 0.3%, respectively.
Unused lines of credit for short-term financing as of March 31, 2021 and 2020 aggregated to ¥37,614 million and ¥28,657 million, respectively.

Long-term debt as of March 31, 2021 and 2020 was summarized below. The interest rates and maturities were for loans as of March 31, 2021.

Millions of Yen

	2021	2020
Collateralized bank loans, with fixed interest at 0.6%, maturing through 2022	¥ 15	¥ 35
Unsecured bank loans, with fixed interest at 0.0 ~ 1.8%, maturing through 2026	1,518	50
Total	1,533	85
Less current portion of long-term portion	(35)	(50)
Long-term debt, less current portion	¥1,498	¥ 35

The annual maturities of long-term debt as of March 31, 2021 were as follows:

Years Ending March 31	Millions of Yen
2022	¥35
2023	
2024	
2025	
2026	1,498
Total	¥1,533

A subsidiary has pledged assets as security for loans. As of March 31, 2021 and 2020, assets pledged as collateral for bank loans were as follows:

Millions of Yen

	2021	2020
Land	¥150	¥150
Buildings	124	146
Total	¥274	¥296

As is customary in Japan, both short-term and long-term loans are made under general agreements which provide for security and guarantees for future and present indebtedness to be given upon request of the bank. The bank has the right to offset cash deposits against obligations that have come due or, in the event of default, against all obligations due to the bank.

FACTS

10. LEASES

Lessor Accounting

Operating lease income for the year ended March 31, 2021 and 2020 was as follows. Lease income was included in net sales and other net income.

Millions of Yen

	2021	2020
Operating lease income	¥1,741	¥2,392

The acquisition costs of equipment leased to customers under operating leases were ¥2,756 million and ¥2,756 million of land and ¥513 million and ¥516 million of building and building improvements. Accumulated depreciation on these equipment was ¥416 million and ¥413 million as of March 31, 2021 and 2020. These are included in net property, plant and equipment.

Future minimum lease income classified as operating leases as of March 31, 2021 were as follows. Note that lease payments related to mannequins and display furniture which were mainly part of the Companies' lease income were not included in the below table because the contracts terms were not material.

Years Ending March 31	Millions of Yen
2022	¥ 249
2023	187
2024	186
2025	127
2026	93
Thereafter	1,204
Total	¥2,046

Lessee accounting

Operating lease costs for the years ended March 31, 2021 and 2020 were as follows. Lease expenses were included in cost of sales and selling, general and administrative expenses.

Gain or loss recognized as a result of not being treated as lease modifications are ¥550 million and these are reduced from variable lease cost.

Millions of Yen

	2021	2020
Operating lease costs	¥5,121	¥4,945
Short-term lease costs	535	635
Variable lease costs	424	1,295
Total	¥6,080	¥6,875

Supplemental cash flow information related to operating leases for the years ended March 31, 2021 and 2020 was as follows.

Millions of Yen

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities	¥4,542	¥4,798
Non-cash activities concerning right-of-use assets obtained in exchange for new operating lease liabilities	4,523	5,483

Weighted-average remaining lease term and discount rate for operating leases were as follows:

	2021	2020
Weighted-average remaining lease term	60.1 months	63.0 months
Weighted-average discount rate	1.7%	1.7%

Future minimum lease payments classified as operating leases as of March 31, 2021 were as follows:

Years Ending March 31	Millions of Yen
2022	¥ 4,602
2023	2,841
2024	1,682
2025	1,223
2026	866
Thereafter	2,466
Total minimum lease payments	13,680
Less interest cost	(749)
Total lease liabilities	¥12,931

Any material leases commenced after April 1, 2021 were not recognized as of March 31, 2021.

11. ASSET RETIREMENT OBLIGATIONS

The Companies recorded the fair value of asset retirement obligations in order to recognize legal obligations associated with the removal of leasehold improvements from leased facilities and return of the property to a specified condition when the lease terminates.

A reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligation is as follows:

Millions of Yen

	2021	2020	2019
Balance at the beginning of the year	¥827	¥813	¥ 825
Accretion expense	3	3	2
Liabilities incurred	38	63	92
Liabilities settled	(41)	(52)	(106)
Change due to foreign currency translation	(1)	0	0
Balance at the end of the year	¥826	¥827	¥ 813

12. TERMINATION AND RETIREMENT PLANS

Employee Retirement Plans—Certain subsidiaries of the Company sponsor termination and retirement benefit plans that cover substantially all employees. Benefits are based on the employee's years of service, position and performance. If the termination is involuntary or caused by death, the employee is usually entitled to greater payments than in the case of voluntary termination.

Certain subsidiaries of the Company have contributory defined retirement benefit plans and several unfunded termination plans administered by certain subsidiaries of the Company. Benefits under the contributory defined retirement benefit plan are usually paid in a lump sum at the earlier of termination or retirement, although periodic payments are available under certain conditions. Benefits under the other termination and retirement benefit plan are paid either as lump-sum payments or periodic payments under certain conditions. The benefits are usually paid as a lump-sum payment, if the employee resigns before the mandatory retirement age.

Contributory Defined Retirement Benefit Plan—The following provides a reconciliation of benefit obligations, plan assets, and funded status of the plans:

Millions of Yen

	2021	2020	2019
Change in benefit obligations:			
Benefit obligations at the beginning of the year	¥37,674	¥38,681	¥34,580
Service cost	1,109	1,243	1,196
Interest cost	180	176	178
Participants' contributions	59	60	62
Actuarial (gain) loss	(902)	(217)	4,937
Loss based on prior service benefits		253	
Benefits paid from plan assets	(950)	(961)	(961)
Settlement paid from plan assets	(1,097)	(1,275)	(976)
Settlement paid by the Company and certain subsidiaries	(301)	(289)	(339)
Changes in foreign currency exchange rates	(5)	3	4
Benefit obligations at the end of the year	35,767	37,674	38,681
Change in plan assets:			
Fair value of plan assets at the beginning of the year	¥40,464	¥40,680	¥42,736
Actual return on plan assets	4,121	1,375	(846)
Employer contributions	594	579	657
Participants' contributions	59	60	62
Benefit payments	(950)	(961)	(961)
Settlement payments	(1,097)	(1,275)	(976)
Changes in foreign currency exchange rates	24	6	8
Fair value of plan assets at the end of the year	43,215	40,464	40,680
Funded status at the end of the year	¥ 7,448	¥ 2,790	¥ 1,999

Amounts recognized in the consolidated balance sheets as of March 31, 2021 and 2020 consisted of:

Millions of Yen

	2021	2020
Prepaid pension expense	¥ 9,533	¥ 4,974
Other current liabilities	(143)	(115)
Liability for termination and retirement benefits	(1,942)	(2,069)
Total	¥ 7,448	¥ 2,790

Amounts recognized in accumulated other comprehensive income, as of March 31, 2021 and 2020 were as follows:

Millions of Yen

	2021	2020
Actuarial loss	¥(164)	¥(5,048)
Prior service cost	(232)	(253)
Total	¥(396)	¥(5,301)

The accumulated benefit obligations for all defined retirement benefit plans as of March 31, 2021 and 2020 were as follows:

Millions of Yen

	2021	2020
Accumulated benefit obligations	¥35,658	¥37,532

FACTS

The projected benefit obligations and the fair value of the plan assets for certain subsidiaries' of the Company with projected benefit obligations in excess of the fair value of plan assets, and the accumulated benefit obligations and the fair value of the plan assets for certain subsidiaries' pension plans with accumulated benefit obligations in excess of the fair value of plan assets were as follows:

Millions of Yen

	2021	2020
Plans with projected benefit obligations in excess of plan assets:		
Projected benefit obligations	¥2,971	¥3,075
Fair value of plan assets	735	738
Plans with accumulated benefit obligations in excess of the fair value of plan assets:		
Accumulated benefit obligations	2,971	3,075
Fair value of plan assets	735	738

Net periodic benefit costs for plans of certain subsidiaries' of the Company consisted of the following for the years ended March 31, 2021, 2020 and 2019:

Millions of Yen

	2021	2020	2019
Service cost	¥ 1,109	¥ 1,243	¥ 1,196
Interest cost	180	176	178
Expected return on plan assets	(1,015)	(1,006)	(1,007)
Amortization of actuarial loss (gain)	876	1,186	5
Amortization of prior service benefits	21		
	¥ 1,171	¥ 1,599	¥ 372

The unrecognized net actuarial gain or loss and prior service benefits are amortized within 12 years (the average remaining service life of active participants) using the declining-balance method and the straight-line method, respectively.

Other changes in plan assets and benefit obligations recognized in other comprehensive income for the years ended March 31, 2021, 2020 and 2019 were as follows:

Millions of Yen

	2021	2020	2019
Actuarial gain (loss)	¥4,008	¥ 586	¥(6,790)
Amortization of actuarial loss (gain)	876	1,186	5
Prior service benefits		(253)	
Amortization of prior service benefits	21		
	¥4,905	¥1,519	¥(6,785)

Certain subsidiaries of the Company use a measurement date of March 31 for their plans. The weighted-average assumptions used as of March 31, 2021 and 2020 in computing the benefit obligations shown above were as follows:

	2021	2020
Discount rate	0.6%	0.5%
Expected revaluation rate for cash balance plan	0.9%	0.9%

The weighted-average assumptions used as of March 31, 2021, 2020 and 2019 in computing the net periodic benefit costs shown above were as follows:

	2021	2020	2019
Discount rate	0.5%	0.5%	0.5%
Rate of increase in future compensation	5.3%	5.3%	5.3%
Expected long-term rate of return on plan assets	2.5%	2.5%	2.5%
Expected revaluation rate for cash balance plan	0.9%	0.9%	0.9%

Certain subsidiaries' of the Company approach to establishing the discount rate is based upon corporate bond indices. The discount rate assumption is based upon effective yields as of March 31, 2021 on the corporate bond indices for which maturity dates approximate the timing of the expected future benefit payments.

The retirement benefit plan of certain subsidiaries of the Company is a point-based benefits system, and, therefore, the rate of compensation increase has not been included in computing the benefit obligations.

The expected long-term rate of return on plan assets is derived proportionally from return assumptions determined for each of the major asset classes. The return expectations for each of the asset classes are based largely on assumptions about economic growth and inflation, which are supported by long-term historical data. The estimated long-term rate of return is based on an asset allocation of equity securities of 26.0%, debt securities of 54.0%, life insurance company general accounts of 18.0%, and other short-term investments of 2.0%.

The plan investment strategy of certain subsidiaries of the Company is to maintain actual asset weightings within a preset range of target allocations. The plan investment strategy of certain subsidiaries of the Company is broadly diversified, consisting primarily of equity and debt securities. Certain subsidiaries of the Company believe these ranges represent an appropriate risk profile for the planned benefit payments of the plans based on the timing of the estimated benefit payments.

The asset allocation as of March 31, 2021 and 2020 was as follows:

	2021	2020
Equity securities	48.8%	44.7%
Debt securities	28.6%	31.1%
Life insurance company general accounts	7.5%	9.3%
Real estate	6.5%	3.2%
Other short-term investments	8.6%	11.7%

The target allocation percentages are reviewed and approved by the Pension Committee. The actual allocations for 2021 and 2020 are different from the target allocation percentages primarily because Wacoal Corp. maintained additional equity securities within a separate plan asset, which is assigned to the plan based on an agreement between Wacoal Corp. and its employees and is not governed by the Pension Committee. As such, the actual allocation percentage of equity securities to the total plan assets is higher than the target allocation and, similarly, the actual allocation for some other types of assets is lower than the target allocation.

The following tables present the plan assets of certain subsidiaries of the Company using the fair value hierarchy as of March 31, 2021 and 2020. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value. For references to each level, see Note 21.

Millions of Yen

2021	Level 1	Level 2	Level 3	Total
Assets evaluated by other than net asset value per share				
Equity securities:				
Japanese companies	¥10,934			¥10,934
Foreign companies				
Debt securities:				
Corporate bonds		¥ 81		81
Foreign government bonds	112			112
Life insurance company general accounts		3,255		3,255
Other types of investments:				
Other short-term investments		1,828		1,828
Assets evaluated by net asset value per share (a)				
Equity securities:				
Pooled funds (b)				7,084
Debt securities:				
Pooled funds (c)				7,526
Other types of investments:				
Hedge funds (d)				3,671
Pooled funds (e)				8,724
Total	¥11,046	¥5,164		¥43,215

Millions of Yen

2020	Level 1	Level 2	Level 3	Total
Assets evaluated by other than net asset value per share				
Equity securities:				
Japanese companies	¥9,707			¥ 9,707
Foreign companies	43			43
Debt securities:				
Foreign government bonds	216			216
Life insurance company general accounts		¥3,773		3,773
Other types of investments:				
Other short-term investments		2,209		2,209
Assets evaluated by net asset value per share (a)				
Equity securities:				
Pooled funds (b)				5,227
Debt securities:				
Pooled funds (c)				8,145
Other types of investments:				
Hedge funds (d)				3,634
Pooled funds (e)				7,510
Total	¥9,966	¥5,982		¥40,464

(a) Certain assets evaluated by net asset value per share (or its equivalent) are not categorized in the fair value hierarchy. Total amounts in the above table are presented to reconcile the amounts in the fair value hierarchy to the amounts stated on the consolidated balance sheets.
(b) This class includes common stock of approximately 51% Japanese companies and 49% foreign companies as of March 31, 2021 and 52% and 48%, respectively, as of March 31, 2020.
(c) This class includes approximately 89% of foreign government bonds and 11% of corporate bonds investments as of March 31, 2021 and 83% and 17%, respectively, as of March 31, 2020.
(d) This class consists of hedge funds that invest in both securities and equity securities as of March 31, 2021 and 2020.
(e) This class includes approximately 22% corporate bonds, 1% common stock of Japanese companies, 24% common stock of foreign companies, 32% real estate and 21% other short-term investments as of March 31, 2021. This class includes approximately 20% corporate bonds, 0% common stock of Japanese companies, 29% common stock of foreign companies, 17% real estate and 34% other short-term investments as of March 31, 2020.

Equity securities and debt securities presented in Level 1 are primarily valued using a market approach based on the quoted market prices of identical instruments. Life insurance company general accounts categorized in Level 2 include contracts with insurance companies with guaranteed rates of return and capital, and those values are based on the sum of principal amount and return. Pooled funds are valued using the net asset, value per share provided by the administrator of the fund.

The funding policy for the funded plans of certain subsidiaries of the Company is to contribute amounts computed in accordance with actuarial methods accepted by Japanese tax law. Certain subsidiaries of the Company expect to contribute ¥571 million to their plans in the fiscal year ending March 31, 2022.

The following benefit payments, which reflect expected future services, are expected to be paid:

Years Ending March 31	Millions of Yen
2022	¥ 2,194
2023	2,404
2024	2,129
2025	2,184
2026	2,198
Thereafter	10,764

Defined Contribution Plan—Certain subsidiaries of the Company have defined contribution plans. The amounts of cost recognized for their contributions to the plan were ¥327 million, ¥407 million and ¥394 million for the years ended March 31, 2021, 2020 and 2019, respectively.

Termination Plan for Directors—The Company previously had, and certain subsidiaries of the Company currently have, termination plans for directors. Payment of termination benefits to directors is made in a lump sum upon termination and requires the approval of the shareholders before payment. In June 2005, the Company rescinded its termination plan for directors upon the approval of its shareholders. The amount of benefits for each individual was fixed as of June 29, 2005 and will remain frozen until the retirement of each respective director. Outstanding liabilities of ¥346 million and ¥344 million as of March 31, 2021 and 2020, respectively, were recorded in other long-term liabilities. A certain subsidiary has plans for its directors and recorded a liability for termination benefits for directors at the amount that would be needed if all directors were to resign at each balance sheet date in accordance with the guidance for determination of vested benefit obligations for a defined benefit pension plan.

13. COMMITMENT AND CONTINGENT LIABILITIES

The Company entered into a construction supervision and construction contract in the amount of ¥4,290 million, in connection with a new logistics center that will be built next to the Moriyama Distribution Center in Moriyama, Shiga on March 16, 2020.

The Company had contractual obligations of ¥3,390 million as of March 31, 2021.

Future payments of contractual obligations as of March 31, 2021 were as follows:

Years Ending March 31	Millions of Yen
2022	¥3,200
2023	190
Total	¥3,390

14. SHARE-BASED COMPENSATION

The Company adopted an annual stock option plan in the fiscal year ended March 31, 2009. Under the stock option plan, the Company granted shares of its common stock to directors of the Company, excluding outside directors and directors of the Company's wholly-owned subsidiary, Wacoal Corp., in the fiscal years ended March 31, 2021, 2020 and 2019. The Company believes that such awards better align the interests of its directors with those of its shareholders by sharing both risk and return from fluctuations in stock prices and giving motivation to enhance corporate value. Each stock option is exercisable to acquire 100 shares of the Company's common stock at ¥1 per share (for stock option granted prior to September 1, 2017, it is exercisable to acquire 500 shares of the Company's common stock). The compensation cost is measured at fair value on the grant date. Options vest over one year in proportion to the services rendered by the directors, and are exercisable from the day after the date of retirement up to (i) 20 years from the grant date or (ii) 5 years from the day after the date of retirement, whichever is earlier.

The fair value of the options is estimated by using the Black-Scholes option-pricing model with the following assumptions.

Expected dividend yield is based on the actual payout of dividends in the last fiscal year and the closing price of the Company's common stock on the grant date. Expected volatility is based on the historical volatility of the Company's share price over the most recent period commensurate with the expected term of the Company's stock options. The risk-free interest rate is based on the Japanese government bond yield curve in effect at the time of grant for a period commensurate with the expected term of the Company's share options. The expected term of options granted is based on the average remaining service period of directors, assuming that those who are granted options will render service until the stated retirement and they will exercise options immediately after their retirement.

	2021	2020	2019
Expected dividend yield	3.0%	2.6%	2.2%
Expected volatility	23.6%	25.0%	24.6%
Risk-free interest rate	(0.2)%	(0.2)%	(0.1)%
Expected term	3.6 years	4.0 years	3.7 years

A summary of stock option activities under the plan for the years ended March 31, 2021 and 2020 was as follows:

	Shares	Yen Weighted-Average Exercise Price	Years Weighted-Average Remaining Contractual Term	Millions of Yen Aggregate Intrinsic Value
Outstanding as of April 1, 2020	255,900	¥1		
Granted	35,700	1		
Exercised	18,500	1		
Outstanding as of March 31, 2021	273,100	1	13.61 years	¥670
Exercisable as of March 31, 2021	18,300	1	2.84 years	45

	Shares	Yen Weighted-Average Exercise Price	Years Weighted-Average Remaining Contractual Term	Millions of Yen Aggregate Intrinsic Value
Outstanding as of April 1, 2019	249,900	¥1		
Granted	28,500	1		
Exercised	22,500	1		
Outstanding as of March 31, 2020	255,900	1	12.95 years	¥600
Exercisable as of March 31, 2020	36,800	1	3.23 years	86

The total intrinsic value of options exercised was ¥41 million, ¥62 million and ¥33 million as of the years ended March 31, 2021, 2020 and 2019, respectively.

The total compensation costs recognized for the years ended March 31, 2021, 2020 and 2019 were ¥63 million, ¥71 million and ¥62 million, respectively. The total recognized tax benefits related thereto for the years ended March 31, 2021, 2020 and 2019 were ¥19 million, ¥22 million and ¥19 million, respectively.

The weighted-average grant date fair values of options granted for the years ended March 31, 2021, 2020 and 2019 were ¥1,768, ¥2,516 and ¥3,005, respectively.

As of March 31, 2021, there was ¥11 million in total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over three months.

15. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the companies so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

16. OTHER COMPREHENSIVE (LOSS) INCOME

Changes in the components of accumulated other comprehensive income, including amounts attributable to noncontrolling interests, were as follows:

Millions of Yen

	2021			2020		
	Foreign Currency Translation Adjustments	Unrealized Gain on Securities	Pension Liability Adjustments	Foreign Currency Translation Adjustments	Unrealized Gain on Securities	Pension Liability Adjustments
Balance at the beginning of the year (after-tax)	¥(1,033)	¥	¥(4,594)	¥ 1,551	¥	¥(5,679)
Cumulative effects (net of tax) of the adoption of ASU No. 2016-01 and 2018-03						
Amount arising during the year:						
Pre-tax amount	2,685		4,067	(2,529)		265
Tax credit	(37)		(1,229)	(3)		(140)
Net amount	2,648		2,838	(2,532)		125
Reclassification adjustments:						
Pre-tax amount			(1,056)			1,357
Tax credit			(303)			(397)
Net amount			753			960
Other comprehensive loss (income) attributable to noncontrolling interests (after-tax)	155		(5)	(52)		
Balance at the end of the year (after-tax)	¥1,770	¥	¥(1,008)	¥(1,033)	¥	¥(4,594)

Millions of Yen

	2019		
	Foreign Currency Translation Adjustments	Unrealized Gain on Securities	Pension Liability Adjustments
Balance at the beginning of the year (after-tax)	¥2,274	¥ 27,424	¥(1,101)
Cumulative effects (net of tax) of the adoption of ASU No. 2016-01 and 2018-03		(27,320)	
Amount arising during the year:			
Pre-tax amount	(795)	(10)	(6,866)
Tax credit	45	3	2,079
Net amount	(750)	(7)	(4,787)
Reclassification adjustments:			
Pre-tax amount		(140)	202
Tax credit		43	(2)
Net amount		¥ (97)	200
Other comprehensive loss (income) attributable to noncontrolling interests (after-tax)	27		9
Balance at the end of the year (after-tax)	¥1,551	¥	¥(5,679)

Reclassification adjustments (pre-tax) of unrealized gain or loss on securities are included in "Gain (loss) on sales, exchange and valuation of marketable securities and investments – net" in the consolidated statements of income.

Reclassification adjustments (pre-tax) of pension liability adjustments are included in "Other – net" in the consolidated statements of income as the net periodic benefit costs.

17. INCOME TAXES

The Companies are subject to a number of different taxes based on income. The effective income tax rates differed from the normal effective statutory tax rates for the following reasons for the years ended March 31, 2021, 2020 and 2019:

	2021	2020	2019
Normal Japanese effective statutory tax rates	30.6%	30.6%	30.6%
Increase (decrease) in taxes resulting from:			
Permanently nondeductible expenses	2.4	7.3	22.9
Change in valuation allowance	(1.8)	10.3	25.5
Undistributed earnings of associated companies	(0.2)	2.3	3.9
Differences in foreign subsidiaries' tax rate	0.1	(7.2)	(27.3)
Tax exemption	(0.7)	(2.0)	(2.9)
Unrecognized tax benefits	(0.6)	(1.0)	1.4
Impairment losses on goodwill	7.4	1.3	60.1
Changes in Japanese income tax rates	(0.2)	(0.1)	(0.4)
Other – net	0.8	(8.2)	1.2
Effective tax rates	37.8%	33.3%	115.0%

The approximate effect of temporary differences and tax loss carryforwards that gave rise to deferred tax balances as of March 31, 2021 and 2020 were as follows:

Millions of Yen

	2021		2020	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Refund liabilities	¥ 598		¥ 734	
Allowance for doubtful receivables	26		15	
Accruals not currently deductible	167		205	
Inventory valuation	1,176		1,089	
Accrued bonuses	790		882	
Advanced depreciation on property, plant and equipment		¥ 1,842		¥ 1,839
Undistributed earnings of associated companies		2,496		2,485
Net unrealized gain on marketable securities and investments		8,841		5,848
Net realized gain on exchange of investments		416		416
Capitalized supplies	94		137	
Enterprise taxes	62		352	
Accrued vacation	774		741	
Operating leases right-of-use assets		4,069		3,580
Operating lease liabilities	4,159		3,616	
Asset retirement obligation	257		250	
Prepaid pension expense		2,140		720
Liability for termination and retirement benefit	646		611	
Return assets		184		266
Property, plant and equipment	1,517		1,591	
Tax loss carryforwards	3,025		2,388	
Intangible assets		1,213		1,151
Other temporary differences	677	463	36	277
Total	13,968	21,664	12,647	16,582
Valuation allowance	(2,947)		(2,858)	
Total	¥11,021	¥21,664	¥ 9,789	¥16,582

FACTS

The valuation allowance decreased by ¥89 million and decreased by ¥681 million for the years ended March 31, 2021 and 2020, respectively.

The Companies also utilized ¥413 million and ¥245 million of tax loss carryforwards, and recognized tax benefits of ¥77 million and ¥29 million for the years ended March 31, 2021 and 2020, respectively.

As of March 31, 2021, certain subsidiaries had tax loss carryforwards which are available to offset future taxable income of such subsidiaries and expire as follows:

Years Ending March 31	Millions of Yen
2022	¥396
2023	526
2024	355
2025	709
2026	1,417
2027	570
2028	155
2029	1,005
2030	888
2031	1,029
Thereafter	3,260
Total	¥10,310

There was no portion of undistributed earnings of foreign subsidiaries and foreign corporate joint ventures which was deemed to be permanently reinvested as of March 31, 2021 and 2020.

A reconciliation of beginning and ending amounts of unrecognized tax benefits is as follows:

Millions of Yen

	2021	2020	2019
Balance at the beginning of the year	¥2	¥ 101	¥ 5
Additions based on tax positions related to the current year	1	1	60
Additions based on tax positions related to the previous years			36
Reductions for tax positions of previous years		(100)	
Balance at the end of the year	¥3	¥ 2	¥101

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is ¥3 million, ¥2 million and ¥101 million as of March 31, 2021, 2020 and 2019, respectively.

The Companies recognize interest and penalties accrued related to unrecognized tax benefits in income taxes in the consolidated statements of income. Total amounts of interest and penalties recognized in the consolidated statements of income for the years ended March 31, 2021, 2020 and 2019 were not material.

The Companies file income tax returns in Japan and various foreign tax jurisdictions. In Japan, the Companies are no longer subject to regular income tax examinations by the tax authorities for years before 2017, with few exceptions. For other countries, the Companies are no longer subject to regular income tax examinations by the tax authorities for years before 2010, with few exceptions. For certain subsidiaries in Japan, the United States, and Asia, the transfer pricing examinations for the fiscal years ended March 31, 2007, 2010 and 2016 were completed respectively.

18. REVENUE

The Companies focuses on sales of innerwear (women's foundation garments and lingerie, nightwear and children's underwear), sportswear, and other textile products and related products ("Products"), and our customers include retail and wholesale distributors and consumers in Japan and overseas. See Note 23 for revenue information for each segment, by each product and service, and by geographic area.

Revenue from sales of our products is recognized when performance obligations are satisfied, which is upon delivery of the products. We invoice when we satisfy the performance obligation and receive cash payment shortly thereafter.

The Companies' revenue is recognized for transactions, net of any trade discounts or rebates given. We generally provide a right of return to our customers. In order to estimate the transaction price, provision for expected returns is deducted from revenue based on historical returns.

Contract liabilities from contracts with customers consists mainly of customer loyalty points. Some of subsidiaries have customer loyalty programs as part of the promotion and provide loyalty points to customers when they purchase the products. The points provided to customers are identified as performance obligations, which are satisfied when the points are redeemed for the products. The unredeemed points as of the end of years are recorded as contract liabilities, which are estimated based on actual redemption amounts from previous fiscal year. Contract liability is included in other current liabilities, and the amount of contract liabilities as of March 31, 2021 and 2020 are as follows:

Millions of Yen

	2021	2020
Contract liabilities	¥1,275	¥917

Revenue recognized for the years ended March 31, 2021 and 2020, which had been included in the contract liabilities balance at beginning of year were ¥661 million and ¥494 million.

19. EARNINGS PER SHARE

Basic net income attributable to Wacoal Holdings Corp. per share has been computed by dividing net income attributable to Wacoal Holdings Corp. by the weighted-average number of common shares outstanding during each year. Diluted net income attributable to Wacoal Holdings Corp. per share assumes the dilution that would occur if share-based options to issue common stock were exercised.

The weighted-average number of common shares outstanding used in the computations of basic net income attributable to Wacoal Holdings Corp. per share was 62,406,826 shares, 63,989,561 shares and 66,143,405 shares for the years ended March 31, 2021, 2020 and 2019, respectively. The weighted-average number of diluted common shares outstanding used in the computations of diluted net income attributable to Wacoal Holdings Corp. per share was 62,670,759 shares, 64,242,244 shares and 66,393,127 shares for the years ended March 31, 2021, 2020 and 2019, respectively.

20. FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

Fair Value of Financial Instruments

The carrying amounts and fair values of financial instruments as of March 31, 2021 and 2020 were as follows:

Millions of Yen

	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Marketable securities	¥ 253	¥ 255	¥ 656	¥ 657
Investments	51,603	51,603	43,904	43,908
Total assets	¥51,856	¥51,858	¥44,560	¥44,565
Liabilities:				
Long-term debt including current portion	¥ 1,533	¥ 1,532	¥ 85	¥ 85
Total liabilities	¥ 1,533	¥ 1,532	¥ 85	¥ 85

The carrying amounts of all other financial instruments approximate their estimated fair values because of the short maturity of those instruments. For information about fair values of foreign exchange contracts and currency swaps, see Note 21.

Marketable Securities and Investments—The fair value of these held-to-maturity debt securities are based on Level 1 inputs. For all other investments included in marketable securities and investments, see Notes 3 and 21.

Long-Term Debt—The fair values for long-term debt are estimated by discounted cash flow analysis, using rates currently available for similar types of borrowings with similar terms and remaining maturities. The estimated fair value is based on Level 2 inputs.

Limitations—Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Concentration of Credit Risk—The Companies' business consists primarily of sales of women's intimate apparel to a large number of diverse customers in the Japanese retail industry, which include well-established department stores, general merchandise stores, and other general retailers and specialty stores.

21. FAIR VALUE MEASUREMENTS

The guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1—Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3—Inputs are unobservable.

FACTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2021 and 2020 were as follows:

Millions of Yen

2021	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities				
Mutual funds	¥ 31			¥ 31
Investments:				
Equity securities	48,920		¥2,592	51,512
Mutual funds	91			91
Total	49,011		2,592	51,603
Derivative instruments:				
Foreign exchange contracts		¥53		53
Total assets	¥49,042	¥53	¥2,592	¥51,687
Liabilities:				
Derivative instruments:				
Foreign exchange contracts		¥23		¥ 23
Currency swap				
Total				
Contingent consideration			¥2,901	¥ 2,901
Total liabilities		¥23	¥2,901	¥ 2,924

Millions of Yen

2020	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Equity securities	¥40,920		¥2,561	¥43,481
Mutual funds	94			94
Total	41,014		2,561	43,575
Derivative instruments:				
Foreign exchange contracts		¥57		57
Total assets	¥41,014	¥57	¥2,561	¥43,632
Liabilities:				
Derivative instruments:				
Foreign exchange contracts		¥24		¥ 24
Currency swap		72		72
Total		96		96
Contingent consideration			¥3,874	3,874
Total liabilities		¥96	¥3,874	¥ 3,970

Investments presented in Level 1 are valued using unadjusted quoted market prices in active markets with sufficient volume and frequency of transactions. Bonds presented in Level 2 are valued by financial institutions using quoted market prices for identical instruments in markets that are not active. Mutual funds presented in Level 2 are valued by financial institutions based on quoted prices in an inactive market for identical instruments which are included in the mutual funds.

As discussed in Note 3, the Companies record impairment charges on debt securities if a decline in fair value of debt securities is determined to be other than temporary.

Foreign exchange contracts and currency swaps presented in Level 2 are valued by financial institutions based on market data in both active and inactive markets.

Equity securities in Level 3 are non-marketable equity securities and are valued by the comparable multiple valuation method using financial indicators as inputs or other appropriate valuation methods. If unobservable inputs were changed to reflect reasonably possible alternative assumptions, fair values would not change significantly. Contingent consideration is valued by the Monte Carlo simulation using unobservable inputs. If discount rates or volatility fall, the debt will increase. Out of the contingent consideration, ¥1,262 million in consideration that has been fixed is included in the accounts payable on the consolidated balance sheet.

The tables below show the change in assets presented in Level 3 that are continuously assessed at fair value as of March 31, 2021 and 2020:

Millions of Yen

2021	Investment	Contingent Consideration
Balance at the beginning of the year	¥2,561	¥ 3,874
Sell/payment	(18)	(1,061)
Purchase/assumed in acquisition		
Total gains or losses for the period:		
(Loss) gain on sale, exchange and valuation of marketable securities and investments – net	49	
Selling, general and administrative expenses		64
Foreign currency translation adjustments		24
Balance at the end of the year	¥2,592	¥ 2,901
Unrealized (loss) gain included in earnings for assets and liabilities still held as of March 31, 2021	¥ 49	¥ 64

Millions of Yen

2020	Investment	Contingent Consideration
Balance at the beginning of the year	¥2,287	
Purchase/assumed in acquisition	276	¥4,172
Total gains or losses for the period:		
(Loss) gain on valuation of marketable securities and investments – net	(2)	
Selling, general and administrative expenses		(304)
Foreign currency translation adjustments		6
Balance at the end of the year	¥2,561	¥3,874
Unrealized (loss) gain included in earnings for assets and liabilities still held as of March 31, 2020	¥ (2)	¥ (304)

Information about valuation techniques and significant unobservable inputs used for Level 3 assets continuously measured at fair value for the years ended March 31, 2021 and 2020 is as follows:

Millions of Yen

March 31, 2021	Fair Value	Valuation Technique	Principal Unobservable Input	Range
Contingent consideration	¥2,901	Monte Carlo simulation	Discount rate	4.5%
			Volatility	20.0%

Millions of Yen

March 31, 2020	Fair Value	Valuation Technique	Principal Unobservable Input	Range
Contingent consideration	¥3,874	Monte Carlo simulation	Discount rate	5.2%
			Volatility	15.0%

Assets Measured at Fair Value on a Non-recurring Basis

Assets measured at fair value on a non-recurring basis as of March 31, 2021 and 2020 were as follows:

Millions of Yen

2021	Level 1	Level 2	Level 3	Total	Impairment Losses
Land			¥ 172	¥ 172	¥ (526)
Buildings and structures			38	38	(559)
Machinery and equipment					(51)
Goodwill (Note 8)			9,398	9,398	(2,673)
Software (Note 8)					(12)
					¥(3,821)

Millions of Yen

2020	Level 1	Level 2	Level 3	Total	Impairment Losses
Buildings and structures			¥109	¥109	¥ (162)
Machinery and equipment			324	324	(607)
Goodwill (Note 8)					(217)
Trademarks (Note 8)			489	489	(191)
Software (Note 8)			14	14	(65)
					¥(1,242)

As of the end of March 31, 2020, the carrying amount of A Tech's buildings, machinery and equipment, and software under the Wacoal Business (Overseas) were written down to their fair values, resulting in the recognition of an impairment charge of ¥162 million, ¥607 million, and ¥65 million, respectively. The impairment arose due to the revision of the future business plan made in response to a decrease in sales. To measure the fair values of A Tech's reporting units, the Companies used the discounted cash flows method and incorporated relevant unobservable inputs, such as management's assumptions about future cash flows and an appropriately risk-adjusted discount rate, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date. Future cash flows were based on management's cash flow projections for the future five years, and after five years, future cash flows were estimated using a growth rate of 2.0%. Management's cash flow projections were developed using estimates for expected future revenue growth rates, profit margins and working capital levels of the reporting units. The risk-adjusted discount rate represents the weighted-average cost of capital (WACC).

As of the end of March 31, 2020, the carrying amount of G Tech's goodwill under the Wacoal Business (Overseas) was fully written off, resulting in an impairment charge of ¥217 million. The impairment is due to the revision of the future business plan made in response to a decrease in sales. To measure the fair values of G Tech's reporting units, the Companies used discounted cash flows method and incorporated relevant unobservable inputs, such as management's internal assumptions about future cash flows and appropriately risk-adjusted discount rates, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date.

As of the end of March 31, 2020, Peach John's trademarks with a carrying amount of ¥680 million were written down to their fair values of ¥489 million, resulting in the recognition of an impairment charge of ¥191 million for the year ended March 31, 2020. The impairment is due to the decline in their fair value, which was caused by a downturn in consumption due to general market conditions. To measure the fair value of the trademarks, the Companies used the relief-from-royalty method and incorporated relevant unobservable inputs, such as management's assumptions about future cash flows, the rate of royalty, and an appropriately risk-adjusted discount rate, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date. Future cash flows were based on management's cash flow projections for the future three years, and after three years, future cash flows were estimated using a perpetuity growth rate from 0% to 3.0%. Management's cash flow projections were developed using estimates for expected future revenue growth rates, profit margins and working capital levels of the reporting units. The royalty rate used for the valuation was based on the actual royalty ratio used in transactions. The risk-adjusted discount rate represents a weighted-average cost of capital (WACC) adjusted for inherent risk spread.

As of the end of March 31, 2021, the carrying amount of the Company's land, buildings and structures under the Wacoal Business (Domestic) were written down to their fair values, resulting in the recognition of an impairment charge of ¥526 million and ¥99 million, respectively. This is due to the fact that, as a result of determining the necessity of impairment of fixed assets due to a change in the purpose of ownership of some asset groups owned, it was determined that the fair value was lower than the carrying amount. To measure the fair values of the Company's reporting units, the Company used appraisals prepared by independent third party appraisers based on recent transactions involving sales of similar assets.

As of the end of March 31, 2021, the carrying amount of Wacoal Corp.'s buildings and structures, machinery and equipment, subsidiaries' buildings and structures, machinery and equipment under the Wacoal Business (Domestic) were fully written off, resulting in an impairment charge of ¥394 million, ¥29 million, ¥41 million and ¥21 million, respectively. The impairment is due to the decline in their fair value, which was caused by a downturn in sales. To measure the fair values of Wacoal Corp. and subsidiaries' reporting units, the Companies used discounted cash flows method and incorporated relevant unobservable inputs, such as management's internal assumptions about future cash flows and appropriately risk-adjusted discount rates, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date.

As of the end of March 31, 2021, the carrying amount of WACOAL EUROPE LTD.'s goodwill under the Wacoal Business (Overseas) was written off, in light of the impact of COVID-19 and the customs clearance expenses incurred in connection with Brexit in the United Kingdom, we reassessed the fair value of goodwill based on our outlook of our business, and recorded the impairment charges of ¥2,673 million.

To measure the fair values of WACOAL EUROPE LTD.'s reporting units, the Companies used discounted cash flows method and incorporated relevant unobservable inputs, such as management's internal assumptions about future cash flows and appropriately risk-adjusted discount rates, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date. Future cash flows were based on the management's cash flow projections for the future five years, and after five years, future cash flows were estimated using the perpetuity growth rate of 2.0%.

Valuation process:

The valuation process involved in Level 3 measurements for applicable assets and liabilities is governed by the valuation policies and procedures, including evaluation method for fair value measurements, pre-approved by the Companies. Based on the policies and procedures, either personnel from the accounting division or personnel in charge of valuation determine the valuation model to be utilized to measure each asset and liability at fair value. We engage independent external valuation experts to assist us in the valuation process for certain assets over a specific amount, and the results of their valuations are reviewed by the responsible personnel. All of the valuations, including those performed by the external experts, are reviewed and approved by management of the Company before being recorded in the general ledger.

Information about valuation techniques and significant unobservable inputs used for Level 3 assets measured at fair value on a nonrecurring basis for the year ended March 31, 2020 is as follows:

	Millions of Yen			
March 31, 2020	Fair Value	Valuation Technique	Principal Unobservable Input	Range
Buildings and structures	¥109	Expected present value method	Discount rate	10.0%
Machinery and equipment	324		Short-term revenue growth rates (within five years)	(31.1)% – 102.5%
Software	14		Growth rate (over five years)	2.0%
Trademarks	¥489	Relief-from-royalty method	Discount rate	10.3% – 13.9%
			Royalty rate	3.0%
			Short-term revenue growth rates (within three years)	(14.8)% – 24.3%
			Perpetuity growth rate (over three years)	0% – 3.0%

22. DERIVATIVE INSTRUMENTS

Risk Management Policy—The Companies are exposed to the risk of changes in foreign currency exchange rates. Derivative instruments are used to manage such risk. Derivative instruments are used based on Company policy and administrative provisions. There were no derivative instruments used for the purpose of speculative trading. The Companies consider the related credit risk to be low since these derivative instruments are provided by financial institutions with international credibility.

Foreign Exchange Risk—Assets and liabilities denominated in foreign currencies, which are primarily related to international business, are exposed to the risk of changes in foreign currency exchange rates. Foreign exchange contracts and currency swaps are used to mitigate such risk.

Derivative Instruments Not Designated as a Hedge—Foreign exchange contracts and currency swaps are classified as derivative instruments, which are not designated as a hedge since these derivative instruments do not qualify for hedge accounting. These derivative instruments are used to mitigate the risk of changes in foreign currency exchange rates, and the changes in fair value of such derivative instruments are recorded in earnings immediately.

Notional contract amounts of derivative instruments that are not designated as hedges as of March 31, 2021 and 2020 were as follows:

Millions of Yen

	2021	2020
Foreign currency exchange	¥713	¥2,786
Currency swaps	332	695

The amounts of derivative instruments at fair value in the consolidated balance sheets in consolidated balance sheets as of March 31, 2021 and 2020 were as follow:

Millions of Yen

	Balance Sheets Location	2021	2020
Assets:			
Foreign currency exchange	Other current assets	¥53	¥57
Liabilities:			
Foreign currency exchange	Other current liabilities		¥24
Currency swaps	Other current liabilities	¥23	72

The effect of derivative instruments in consolidated statements of income for the years ended March 31, 2021, 2020 and 2019 were as follow:

		Millions of Yen		
	Statements of Income Location	2021	2020	2019
Foreign currency exchange	Other – net	¥61	¥ 57	¥45
Currency swaps	Other – net	20	(36)	(5)

23. SEGMENT INFORMATION

Operating Segment Information

The Companies have three reportable segments: "Wacoal Business (Domestic)," "Wacoal Business (Overseas)," and "Peach John," Business which are based on their locations and brands. These segments represent components of the Companies for which separate financial information is available and for which operating income (loss) is reviewed regularly by the chief operating decision-maker in deciding how to allocate the Companies' resources and in assessing their performance. The accounting policies used for these reportable segments are the same as those described in the summary of significant accounting policies in Note 1.

Starting from the current consolidated first quarter, information on Ai Co., Ltd., which was previously presented in our "Wacoal Business (Domestic)" segment and "Peach John Business" segment, is now reflected and presented in our "Other" segment following review of certain management classification of performance within the Companies. As a result of our assessment on quantitative criteria, "Peach John Business," which had been previously presented in our "Other" segment, has satisfied the criteria and accordingly has been presented as a separate operating segment from the current consolidated second quarter. Part of sales of our Peach John brand products sold in China, which were previously recorded under this "Wacoal Business (Overseas)" segment, are now recorded under our "Peach John Business" segment starting with the current fiscal year. The segment information for the previous fiscal year has been prepared based on the segments reported for the current fiscal year.

The "Wacoal Business (Domestic)" segment primarily produces and sells innerwear (consisting of foundation, lingerie, nightwear, and children's innerwear), outerwear, sportswear, and hosiery. The "Wacoal Business (Overseas)" segment produces and sells innerwear (consisting of foundation, lingerie, nightwear, and children's innerwear), outerwear, sportswear, and other textile-related products. The "Peach John Business" segment produces and sells innerwear (consisting of foundation, lingerie, and nightwear), outerwear, and other textile-related products, which are sold under the *Peach John* brand. The "Other" produces and sells innerwear (consisting of foundation, lingerie, nightwear, and children's innerwear), outerwear, other textile-related products, and mannequins and also engages in construction of stores and interior design.

Information about operating results and assets for each segment as of and for the years ended March 31, 2021, 2020 and 2019 is as follows:

Millions of Yen

2021	Wacoal Business (Domestic)	Wacoal Business (Overseas)	Peach John Business	Other	Elimination	Consolidated
Net sales:						
External customers	¥ 86,133	¥41,355	¥12,200	¥12,516		¥152,204
Intersegment	754	8,769	219	3,827	¥(13,569)	
Total	86,887	50,124	12,419	16,343	(13,569)	152,204
Operating costs and expenses:						
Operating costs and expenses	81,461	48,086	10,491	16,901	(13,569)	143,370
Depreciation and amortization	3,711	1,943	325	149		6,128
Impairment charges on property, plant and equipment	1,088	25		23		1,136
Impairment charges on goodwill		2,673				2,673
Impairment charges on other intangible assets			12			12
Total	86,260	52,727	10,828	17,073	(13,569)	153,319
Operating income (loss)	627	(2,603)	1,591	(730)		(1,115)
Total assets and capital expenditures:						
Total assets	285,421	87,252	11,094	15,724	(76,730)	322,761
Capital expenditures	4,203	1,097	122	182		5,604

Millions of Yen

2020	Wacoal Business (Domestic)	Wacoal Business (Overseas)	Peach John Business	Other	Elimination	Consolidated
Net sales:						
External customers	¥106,112	¥49,808	¥11,224	¥19,616		¥186,760
Intersegment	1,107	10,570	214	5,110	¥(17,001)	
Total	107,219	60,378	11,438	24,726	(17,001)	186,760
Operating costs and expenses:						
Operating costs and expenses	97,561	55,912	11,215	25,170	(17,001)	172,857
Depreciation and amortization	3,575	1,922	383	149		6,029
Impairment charges on property, plant and equipment		769				769
Impairment charges on goodwill		217				217
Impairment charges on other intangible assets		65	191			256
Total	101,136	58,885	11,789	25,319	(17,001)	180,128
Operating income (loss)	6,083	1,493	(351)	(593)		6,632
Total assets and capital expenditures:						
Total assets						
Capital expenditures	237,394	86,292	9,751	18,435	(74,184)	277,688
	4,594	2,106	129	152		6,981

Millions of Yen

2019	Wacoal Business (Domestic)	Wacoal Business (Overseas)	Peach John Business	Other	Elimination	Consolidated
Net sales:						
External customers	¥109,219	¥52,048	¥11,543	¥21,391		¥194,201
Intersegment	1,170	10,121	268	5,363	¥(16,922)	
Total	110,389	62,169	11,811	26,754	(16,922)	194,201
Operating costs and expenses:						
Operating costs and expenses	100,186	56,025	11,615	26,937	(16,922)	177,841
Depreciation and amortization	3,465	1,585	394	203		5,647
Impairment charges on property, plant and equipment						
Impairment charges on goodwill			4,325			4,325
Impairment charges on other intangible assets			1,314	195		1,509
Total	103,651	57,610	17,648	27,335	(16,922)	189,322
Operating income (loss)	6,738	4,559	(5,837)	(581)		4,879
Total assets and capital expenditures:						
Total assets	249,574	78,912	8,038	18,876	(73,633)	281,767
Capital expenditures	3,373	1,837	494	79		5,783

The sum of the operating (loss) income of the reportable segments agrees to the operating income on the consolidated statements of income. For a reconciliation from operating (loss) income to income before income taxes and equity in net income of affiliated companies, see other income (expenses) on the consolidated statements of income.

The Companies account for intersegment sales and transfers at cost plus a markup. Operating (loss) income represents net sales less operating costs and expenses.

Products and Services Information

Net sales information by product and service for the years ended March 31, 2021, 2020 and 2019 is as follows:

Millions of Yen

	2021	2020	2019
Innerwear:			
Foundation and lingerie	¥122,776	¥144,933	¥146,525
Nightwear	6,522	7,459	8,296
Children's underwear	749	1,014	1,213
Subtotal	130,047	153,406	156,034
Outerwear/sportswear and others	¥ 8,836	¥ 12,746	¥ 14,733
Hosiery	918	1,563	1,881
Other textile goods and related products	5,354	7,545	9,428
Others	7,049	11,500	12,125
Total	¥152,204	¥186,760	¥194,201

Geographic Information

Information by major geographic area as of and for the years ended March 31, 2021, 2020 and 2019 is as follows:

Millions of Yen

	2021	2020	2019
Net sales:			
Japan	¥109,464	¥135,273	¥140,189
Asia and Oceania	16,301	20,596	22,509
Americas and Europe	26,439	30,891	31,503
Consolidated	¥152,204	¥186,760	¥194,201
Long-lived assets:			
Japan	¥ 41,198	¥ 44,014	¥ 45,257
Asia and Oceania	3,536	4,034	4,810
Americas and Europe	4,304	4,035	3,203
Consolidated	¥ 49,758	¥ 52,083	¥ 53,270

Countries or areas are classified according to their geographical proximity. Asia and Oceania includes East Asia, Southeast Asia, West Asia, and Australia. Net sales are attributed to countries or areas based on the location where sold. Long-lived assets represent property, plant and equipment.

24. SUBSEQUENT EVENTS

(Dividend Declaration)

On May 14, 2021, the Board of Directors resolved to pay a cash dividend of ¥100 per 5 shares of common stock to holders of record as of March 31, 2021 (aggregate amount of ¥1,248 million).

Independent Auditors' Report

Deloitte.

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To the Board of Directors of Wacoal Holdings Corp.:

Opinion

We have audited the consolidated financial statements of Wacoal Holdings Corp. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America pursuant to the provisions of Article 95 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Valuation of goodwill arising from the acquisition of WACOAL EUROPE LTD.	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As of March 31, 2021, the goodwill in the amount of ¥21,169 million recorded on the consolidated balance sheet includes goodwill of ¥9,398 million, or 2.9% of total assets, arising from the acquisition of WACOAL EUROPE LTD. Also, as described in Notes 8 and 21, the Group recognized ¥2,673 million of impairment charges on goodwill related to WACOAL EUROPE LTD. in the current fiscal year. Based on Accounting Standard Codification 350, "Intangibles—Goodwill and Other," goodwill of a reporting unit shall be tested for impairment on an annual basis and between annual tests in certain circumstances. The Group used an expected present value method to calculate fair value and performed an impairment test. Future cash flows used to calculate fair value were based on a five-year business plan with the terminal value reflecting the average long-term growth rate in the relevant market, including an assumption on recovery from the recession in business activities caused by COVID-19. The plan was approved by management and includes significant assumptions such as the possibility of achievement of expected sales volumes and market growth rate in the regions where WACOAL EUROPE LTD. operates. These significant assumptions involve high uncertainty, and the business plan based on these assumptions involve significant judgment by management. Based on the above, we identified the valuation of goodwill arising from the acquisition of WACOAL EUROPE LTD. as a key audit matter.	We performed the following audit procedures on key assumptions used by management included in the business plan: • We read a report related to impairment tests of goodwill prepared by management. We examined the consistency of assumptions with the business plan approved by management, and discussed the business plan with management. • We read the economic reports published by external organizations regarding the estimation of the timing of recovery from COVID-19, and evaluated management's assumptions about the timing of recovery and market trends. • We obtained an understanding on various measures to expand the sales volume through discussions with management, compared business plans prepared in the prior periods with actual results in the corresponding periods, and evaluated the accuracy of management's estimation ability regarding the possibility of achievement of expected sales volumes. • We compared the market growth rate in the regions where WACOAL EUROPE LTD. operates with the forecasts based on data from the retail industry published by external organizations, as well as involved our specialist on valuation of corporate value.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in United States of America and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

FACTS

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in United States of America, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Audit of Internal Control

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Wacoal Holdings Corp. as of March 31, 2021.
In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Wacoal Holdings Corp. as of March 31, 2021, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Independent Auditors' Report

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Internal Control Audit section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of Management and Audit & Supervisory Board for Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Internal Control Audit

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditor's report that includes our opinion.

As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.
- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.
- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the convenience of the reader.

Deloitte Touche Tohmatsu LLC

June 29, 2021