# Consolidated Financial Statements for the Fiscal Year Ended March 31, 2018 (U.S. Accounting Standards)

**[Translation]**

May 15, 2018

Listed Company: Wacoal Holdings Corp. Stock Exchanges: Tokyo (1st section)
Code Number: 3591 URL: http://www.wacoalholdings.jp/
Representative: (Position) Representative Director (Name) Yoshikata Tsukamoto
For Inquiries: (Position) General Manager of Corporate Planning (Name) Akira Miyagi Tel: +81 (075) 682-1010
Scheduled date of Ordinary Shareholders' Meeting: June 28, 2018 Scheduled Commencement Date of Dividend Payment: June 5, 2018
Scheduled date of Annual Securities Report Filing: June 28, 2018
Supplementary materials regarding Annual Business Results: Yes
Explanatory meeting regarding Annual Business Results: Yes

(Amounts less than 1 million yen have been rounded.)

1. Consolidated Results for the Fiscal Year Ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(1) Consolidated Business Results

(% indicates changes from previous fiscal year)

| | Net Sales | | Operating Income | | Income Before Income Taxes and Equity in Net Income of Affiliated Companies | | Net Income Attributable to Wacoal Holdings Corp. | |
|---|---|---|---|---|---|---|---|---|
| | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % |
| Fiscal Year Ended March 31, 2018 | 195,725 | (0.1) | 12,534 | 13.3 | 14,286 | (13.8) | 9,745 | (22.2) |
| Fiscal Year Ended March 31, 2017 | 195,881 | (3.5) | 11,065 | (20.2) | 16,569 | 10.8 | 12,525 | 12.2 |

(Note) Comprehensive income: Fiscal Year ended March 31, 2018: 16,448 million yen (33.8 %)
Fiscal Year ended March 31, 2017: 12,296 million yen (- %)

| | Net Income Attributable to Wacoal Holdings Corp. Per Share | Diluted Net Income Attributable to Wacoal Holdings Corp. Per Share | Ratio of Net Income Attributable to Wacoal Holdings Corp. to Shareholders' Equity | Ratio of Income Before Income Taxes and Equity in Net Income of Affiliated Companies to Total Assets | Ratio of Operating Income to Net Sales |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| Fiscal Year Ended March 31, 2018 | 143.46 | 142.98 | 4.2 | 4.8 | 6.4 |
| Fiscal Year Ended March 31, 2017 | 180.26 | 179.71 | 5.5 | 5.6 | 5.6 |

(Reference) Equity in net income of affiliated companies: Fiscal Year ended March 31, 2018: 916 million yen
Fiscal Year ended March 31, 2017: 1,359 million yen

(Note) We have conducted a share consolidation of common stock of Wacoal Holding Corp. (the "Company") pursuant to which two (2) shares were consolidated into one (1) share effective as of October 1, 2017. Accordingly, the "net income attributable to Wacoal Holdings Corp. per share" and the "diluted net income attributable to Wacoal Holdings Corp. per share" have been calculated assuming that such share consolidation has been conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Condition

| | Total Assets | Total Equity (Net Assets) | Total Shareholders' Equity | Total Shareholders' Equity Ratio | Shareholders' Equity Per Share |
|---|---|---|---|---|---|
| | Millions of Yen | Millions of Yen | Millions of Yen | % | Yen |
| Fiscal Year Ended March 31, 2018 | 298,534 | 237,497 | 232,712 | 78.0 | 3,454.40 |
| Fiscal Year Ended March 31, 2017 | 294,958 | 232,482 | 227,568 | 77.2 | 3,317.05 |

(Note) We have conducted a share consolidation of common stock of the Company pursuant to which two (2) shares were consolidated into one (1) share effective as of October 1, 2017. Accordingly, the "shareholders' equity per share" has been calculated assuming that such share consolidation has been conducted at the beginning of the previous fiscal year.

(3) Consolidated Cash Flow Status

| | Cash Flow provided by Operating Activities | Cash Flow provided by (used in) Investing Activities | Cash Flow provided by (used in) Financing Activities | Balance of Cash and Cash Equivalents at End of Fiscal Year |
|---|---|---|---|---|
| | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen |
| Fiscal Year Ended March 31, 2018 | 15,493 | (7,362) | (12,303) | 29,487 |
| Fiscal Year Ended March 31, 2017 | 16,351 | (3,032) | (13,055) | 33,995 |

2. Status of Dividends

| | Annual Dividend | | | | | Total Amount of Dividends (annual) | Payout Ratio (consolidated) | Ratio of Dividend to Shareholders' Equity (consolidated) |
|---|---|---|---|---|---|---|---|---|
| | End of First Quarter | End of Second Quarter | End of Third Quarter | Year-end | Annual | | | |
| | Yen | Yen | Yen | Yen | Yen | Millions of Yen | % | % |
| Fiscal Year Ended March 31, 2017 | - | - | - | 36.00 | 36.00 | 4,940 | 39.9 | 2.2 |
| Fiscal Year Ended March 31, 2018 | - | 18.00 | - | 36.00 | - | 4,871 | 50.2 | 2.1 |
| Fiscal Year Ending March 31, 2019 (Estimates) | - | 36.00 | - | 36.00 | 72.00 | | 48.5 | |

(Note) We have conducted a share consolidation of common stock of the Company pursuant to which two (2) shares were consolidated into one (1) share effective as of October 1, 2017. Please note that such share consolidation is taken into consideration in determining the amount of the year-end cash dividend per share for the fiscal year ended March 31, 2018 mentioned above and the total annual dividend amount is indicated as "-". The year-end cash dividend per share and total annual dividend amount per share for the fiscal year ending March 31, 2018, without taking into consideration of the share consolidation, are 18 yen and 36 yen, respectively.

3. Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(% indicates changes from the previous fiscal year with respect to "Annual" and from the six-month period ended September 30, 2017 with respect to "Six-month Period Ending September 30, 2018")

| | Net Sales | | Operating Income | | Pre-tax Net Income | | Net Income Attributable to Wacoal Holdings Corp. | | Net Income Attributable to Wacoal Holdings Corp. Per Share |
|---|---|---|---|---|---|---|---|---|---|
| | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % | Yen |
| Six-month Period Ending September 30, 2018 | 103,000 | 1.0 | 8,000 | (20.7) | 9,500 | (13.7) | 7,000 | (5.9) | 103.91 |
| Annual | 200,000 | 2.2 | 10,000 | (20.2) | 13,000 | (9.0) | 10,000 | 2.6 | 148.44 |

*Notes

(1) Changes in significant subsidiaries during the fiscal year ended March 31, 2018 (change in scope of consolidation): None

New: None
Excluded: None
(Note) For details, please see "(7) Basic Significant Matters in Preparation of Consolidated Financial Statements" in Section 3 "Consolidated Financial Statements" on page 17.

(2) Changes in Accounting Principles:

(i) Changes due to modifications in accounting standards, etc.: Yes
(ii) Changes other than (i) above: None
(Note) For details, please see "(7) Basic Significant Matters in Preparation of Consolidated Financial Statements" in Section 3 "Consolidated Financial Statements" on page 17.

(3) Number of Issued Shares (Common Stock)

| | Fiscal Year Ended March 31, 2018 | Fiscal Year Ended March 31, 2017 |
|---|---|---|
| (i) Number of issued shares (including treasury stock) as of period-end: | 71,689,042 shares | 71,689,042 shares |
| (ii) Number of shares held as treasury stock as of period-end: | 4,322,121 shares | 3,083,605 shares |
| (iii) Average number of shares during the period: | 67,928,557 shares | 69,483,315 shares |

(Note) We have conducted a share consolidation of common stock of the Company pursuant to which two (2) shares were consolidated into one (1) share effective as of October 1, 2017. Accordingly, the "number of issued shares," "number of shares held as treasury stock as of period-end" and "average number of shares during the period" have been calculated assuming that such share consolidation has been conducted at the beginning of the previous fiscal year.

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for the Fiscal Year Ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(1) Non-consolidated Business Results

(% indicates changes from previous fiscal year)

| | Net Sales | | Operating Income | | Ordinary Income | | Net Income | |
|---|---|---|---|---|---|---|---|---|
| | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % |
| Fiscal Year Ended March 31, 2018 | 12,644 | (3.8) | 8,546 | (7.5) | 6,308 | (31.5) | 6,461 | (43.6) |
| Fiscal Year Ended March 31, 2017 | 13,139 | 20.2 | 9,241 | 31.7 | 9,215 | 30.8 | 11,453 | 70.0 |

| | Net Income Per Share | Diluted Net Income Per Share |
|---|---|---|
| | Yen | Yen |
| Fiscal Year Ended March 31, 2018 | 95.12 | 94.47 |
| Fiscal Year Ended March 31, 2017 | 164.85 | 164.32 |

(Note) We have conducted a share consolidation of common stock of the Company pursuant to which two (2) shares were consolidated into one (1) share effective as of October 1, 2017. Accordingly, the "net income per share" and "diluted net income per share" have been calculated assuming that such share consolidation has been conducted at the beginning of the previous fiscal year.

(2) Non-consolidated Financial Condition

(% indicates changes from previous fiscal year)

| | Total Assets | Net Assets | Capital-to-asset Ratio | Net Asset per Share |
|---|---|---|---|---|
| | Millions of Yen | Millions of Yen | % | Yen |
| Fiscal Year Ended March 31, 2018 | 160,140 | 140,510 | 87.4 | 2,078.38 |
| Fiscal Year Ended March 31, 2017 | 165,113 | 145,496 | 87.9 | 2,114.38 |

(Reference) Equity Capital: As of the end of the fiscal year ended March 31, 2018: 140,013 million yen
As of the end of the fiscal year ended March 31, 2017: 145,057 million yen

(Note) We have conducted a share consolidation of common stock of the Company pursuant to which two (2) shares were consolidated into one (1) share effective as of October 1, 2017. Accordingly, the "net asset per share" has been calculated assuming that such share consolidation has been conducted at the beginning of the previous fiscal year.

*These financial statements are not subject to audit procedures by the certified public accountants or the independent auditor.

*Cautionary Statement regarding Forward of Business Results

(Cautionary note on forward-looking statements)

The forecast of business results is based on reasonable information we obtained as of the date hereof and, due to various risks, uncertainties and other factors arising in the future, actual results in the future may differ largely from the estimates set out in this document.

(Representation of Calendar Dates)

We have changed the indication of dates in this document (in Japanese) to follow the western calendar rather than the Japanese calendar.

Table of Contents for Attached Materials

**Qualitative Information and Financial Statements**

1. Business Results

(1) Business Results for Fiscal Year 2018

Results for the Fiscal Year Ended March 31, 2018

During the current fiscal year (from April 1, 2017 to March 31, 2018), the consumer spending in the domestic economy showed a sign of recovery to some extent as the employment environment improved. The environment surrounding women's domestic innerwear market, however, remained difficult, due to a slowdown in the recovery of consumer spending, led by deep-rooted concern for future, which continued to make consumers budget-conscious, and as we continued to experience a series of closings of general merchandise stores and management of inventories. In the overseas markets, consumer spending was stable in Europe and the United States, as consumer sentiment remained strong in the United States, and the employment environment continued to improve in the Eurozone area, despite the significant uncertainty underlying Brexit in Europe. In China, consumer spending was stable as a result of strong growth in the real per capita disposable income, and retail sales continued to achieve a high level of growth due to reduced employment uncertainty.

In such an environment, our group moved forward with efforts to improve and strengthen our business structure toward achieving the objectives of our mid-term business plan. In our domestic business, we made efforts to improve business efficiency through restructuring and strengthening of our wholesale business structure, to realize omni-channel services that will achieve synergies with our wholesale business and retail business, to form core IT systems which will improve inventory efficiency, and to improve profitability by updating each of our brands and product groups. In our overseas business, we focused on our initiatives to pursue business collaboration among Europe and the United States and Asian countries, strengthen our ability to respond to the e-commerce market, and improve product quality and cost competitiveness in China and ASEAN-member countries where our product supply bases are located.

Our consolidated sales for the current fiscal year slightly fell by 0.1% from such sales for the previous fiscal year. While consolidated sales from our domestic business for the current fiscal year fell by 2% from such sales for the previous fiscal year due to difficult environment for our wholesale business, our consolidated sales from our overseas business exceeded such sales for the previous fiscal year by 7% as a result of strong e-commerce sales and steady sales at the existing stores in Europe and the United States, and China. Revenue from our Peach John and other business segments decreased.

Consolidated operating income increased by 13% as compared to such consolidated operating income for the previous fiscal year. In addition to our initiatives to improve business profitability in the domestic business, an increase in sales profit resulting from increased revenue from our overseas business contributed to the increase. Also, consolidated operating income increased as a result of recognition of compensation income from leaving a factory space occupied by our subsidiary and the absence of non-recurring expenses related to the liquidation proceedings for our French subsidiary that we recorded for the previous fiscal year.

Consolidated income before income taxes and equity in net income of affiliated companies fell by 14% from such consolidated income for the previous fiscal year, due to the absence of gain on sales of fixed assets (land) that we recorded for the previous fiscal year.

The key exchange rates used for the current fiscal year were: 110.85 yen to the U.S. dollar; 147.03 yen to the Sterling pound; and 16.63 yen to the Chinese yuan.

| | |
|---|---|
| Net sales: | 195,725 million yen<br>(a decrease of 0.1% as compared to the previous fiscal year) |
| Operating income: | 12,534 million yen<br>(an increase of 13.3% as compared to the previous fiscal year) |
| Income before income taxes and equity in net income of affiliated companies: | 14,286 million yen<br>(a decrease of 13.8% as compared to the previous fiscal year) |
| Net income attributable to Wacoal Holdings Corp.: | 9,745 million yen<br>(a decrease of 22.2% as compared to the previous fiscal year) |

Business Overview of Our Operating Segments

a. Wacoal Business (Domestic)

Wacoal Corp. reorganized its divisions, formerly called the Wacoal Brand Operation Division and Wing Brand Operation Division, into the Wacoal Brand Operation Division, which is responsible for planning and development of "Wacoal" brand products and wholesale business mainly with department stores and specialty store channels, and the Chain Store Operation Division, which is responsible for planning and development of "Wing" brand products and wholesale business with general merchandise stores.

Sales from our wholesale business, mainly composed of wholesale business from the Wacoal Brand Operation Division and the Chain Store Operation Division, decreased by 2% as compared to such sales for the previous fiscal year. Over-the-counter sales at department stores remained at about the same level as such sales for the previous fiscal year due to weak sales in the provincial cities of the Kanto, Koshinetsu, and Hokuriku regions, although sales expanded significantly in Tokyo and the Osaka area as a result of consumption by inbound tourists. Although we have actively promoted renovations of our shops for "Dual W" that effectively brings together our Wacoal and Wing brands, and expanded our share in the market, over-the-counter sales at general merchandise stores remained at about the same level as such sales for the previous fiscal year due to poor sales of men's innerwear products and nightwear. With respect to over-the-counter sales of our core brassieres products, while sales of our Wacoal brand products increased by 6% from such sales for the previous fiscal year due to strong sales of "GOCOCi," our brassieres marketed for their comfort, which achieved 2.9 times more than such sales for the previous fiscal year, sales of our Wing brand products only increased by 1%. Although the over-the-counter sales were stable, a series of closings of general merchandise stores and management of inventories impacted sales from our wholesale business.

In our retail business, sales only increased by 1% as compared to such sales for the previous fiscal year as a result of prioritizing improving business profitability and closing 11 underperforming stores, while minimizing the number of new shop openings. Sales of our cross-store common products among directly managed retail stores "BRAGENIC" have increased by 54% from such sales for the previous fiscal year, which accounts for approximately 20% of the overall sales, and the number of registered shop members, mainly from our core directly managed retail stores, "AMPHI," has reached over 660 thousand. We focused on increasing sales per product, and reducing discount sales through strengthening relationships with our important customers.

Sales from our wellness business fell by 5% as compared to such sales for the previous fiscal year due to decreased sales (by 9%) of our core "CW-X" brand products, which were impacted by the termination of business with certain sport specialty stores. Sales of "SUCCESS WALK" were strong.

In our Web sales business (formerly catalog sales business), sales increased by 1% as compared to such sales for the previous fiscal year. Sales from our webstore business increased by 14% as compared to such sales for the previous fiscal year as a result of our efforts to give guidance to our registered shop members and to recapture our inactive customers, in collaboration with our retail business, as well as our efforts to strengthen our ability to respond to phone orders and launch of consulting services by beauty advisers. On the other hand, sales from our catalog sales business decreased by 4%, due to a gradual decrease in the number of users and purchasers in our winter and spring catalogues.

Sales from Ai Co., Ltd. were weak, which decreased by 8% as compared to such sales for the previous fiscal year. Sales from our core swimwear business decreased by 4% as compared to such sales for the previous fiscal year despite our efforts to enhance revenue efficiency per store by reducing the number of our seasonal stores opened only during a period of peak demand, while retaining temporary sales representatives became difficult. Sales from the underwear business were also weak and decreased by 14% as compared to such sales for the previous fiscal year due to closure of underperforming stores, and a decline in the competitiveness of our products.

As a result, sales attributable to our "Wacoal Business (Domestic)" segment decreased by 2% as compared to such sales for the previous fiscal year.

Operating income increased by 13% as compared to such sales for the previous fiscal year. We focused on improving the gross profit rate and to minimize selling, general and administrative expenses with our efforts to improve business efficiency by reducing the amount of returned items in our wholesale business and to strengthen profitability of our retail business, while IT infrastructure related expenses, expenses related to changes in the health insurance premium rate, and selling, general and administrative expenses such as retirement benefit expenses increased. In addition, recognition of compensation income from leaving a factory space occupied by our subsidiary during the first quarter of the current fiscal year contributed to the increase.

| | |
|---|---|
| Net sales: | 116,085 million yen<br>(a decrease of 1.9% as compared to the previous fiscal year) |
| Operating income: | 7,885 million yen<br>(an increase of 13.3% as compared to the previous fiscal year) |

b. Wacoal Business (Overseas)

Sales (on a local currency basis) from Wacoal International Corp. (the United States) increased by 3% as compared to such sales for the previous fiscal year. This was due to overall sales driven by e-commerce sales through our website and third-party e-commerce websites, which showed strong sales growth, as well as the positive impact of initial product delivery due to an increase in the number of department stores handling Wacoal brand products during the first quarter of the current fiscal year. However, although over-the-counter sales were steady at department stores (physical shops) throughout the current fiscal year, sales for the second half of the current fiscal year fell by 3% as compared to such sales for the corresponding period of the previous fiscal year due to the management of inventories by certain department stores and the EC companies specialized for e-commerce.

Operating income on a local currency basis increased by 2% (ratio of operating income: 11%) as compared to such operating income for the previous fiscal year. While the gross profits rate increased as a result of reducing discount sales and increasing the percentage of sales from our own e-commerce website, selling, general and administrative expenses as a percentage of sales increased due to costs related to product listing advertisements and website renewal to strengthen e-commerce sales, and an increase in medical insurance premiums. In addition, one-off expenses from restructuring our subsidiary, Wacoal Sports Science Corp., in the United States during the fourth quarter of the current fiscal year impacted the results.

Sales on a local currency basis (Sterling pound) for Wacoal Europe increased by 3% as compared to such sales for the previous fiscal year. This was due to steady sales through third-party e-commerce websites which specialize in selling luxury lingerie and specialty stores in the major markets in the United Kingdom and the United States, while sales in France fell below such sales for the previous fiscal year due to the effect of loss of sales that could have been recorded from the brands which were liquidated. In addition, sales in Germany and Spain achieved a double-digit increase from such sales for the previous fiscal year due to an expansion in the number of Wacoal brands handled by our clients and sales which enjoyed the favorable effect of the appreciation of the Euro. In our underwear business, sales of our plus-size brand “elomi” products continued to show strong growth with an increase of 20% as compared to such sales for the previous fiscal year, and sales of our swimwear products under “FANTASIE” and “Freya” were also strong with an increase of 17%, respectively, contributing to sales growth in various countries.

Operating income as a percentage of sales for the current fiscal year was 9%, as compared to the previous fiscal year which recorded an operating loss due to the non-recurring expenses related to the liquidation proceedings for our French subsidiary. Also, operating income improved over budget as a result of improvement in the gross profit rate from a depreciation of the dollar and reduction in transportation costs, as well as minimizing selling, general and administrative expenses following the postponement of our website renewal for e-commerce sales.

In China, sales on a local currency basis increased by 10% as compared to such sales for the previous fiscal year. We captured consumers who are becoming more sensitive to fashion trends and enhanced sales initiatives, including through the openings of specialty stores during China’s high-demand seasons such as the Chinese New Year, International Women’s Day and China National Day. As a result, sales per department store increased by 8% as compared to such sales for the previous fiscal year. In addition, e-commerce sales through third-party e-commerce websites increased by 29% as compared to such sales for the previous fiscal year as a result of focusing on handling regular-priced products and of strong sales from the China Double 11 shopping festival sales. By brands, sales of our Wacoal brand products increased by 10%, and sales of our Peach John brand products, including our popular product “Cover Cleavage Strapless” bras, also increased by 51%, resulting from steady growth in the number of repeat users.

Operating income on a local currency basis increased by 9% (ratio of operating income: 5%) as compared to such operating income for the previous fiscal year. While we continued to minimize selling, general and administrative expenses through closure of underperforming stores, selling, general and administrative expenses as a percentage of sales increased during the fourth quarter of the current fiscal year due to commencement of operation of our centralized distribution warehouse to achieve effective distribution of bargain products, and costs related to advertisements to strengthen e-commerce sales.

As a result of the above, the overall sales attributable to our “Wacoal Business (Overseas)” segment on the Japanese Yen basis increased by 7% as compared to such sales for the previous fiscal year. The overall operating income attributable to “Wacoal Business (Overseas)” segment on the Japanese Yen Basis increased by 26% as compared to such operating income for the previous fiscal year. This increase was affected by the impairment charges of 206 million yen on goodwill related to our raw materials company, A Tech Textile Co., Ltd., in Thailand, which was recognized for the current fiscal year.

| | |
|---|---|
| Net sales: | 51,888 million yen<br>(an increase of 7.2% as compared to the previous fiscal year) |
| Operating income: | 3,852 million yen<br>(an increase of 26.1% as compared to the previous fiscal year) |

c. Peach John Business

Overall sales attributable to our “Peach John Business” segment fell below by 3% as compared to such sales for the previous fiscal year due to weak sales from our domestic mail-order catalogue business, while operating income attributable to our “Peach John Business” segment increased by 18% as compared to such operating income for the previous fiscal year as a result of an improvement in the gross profit rate in Japan, as well as an improvement in profitability of our Chinese business.

Sales from our domestic business, specifically from retail stores, remained at about the same level as such sales for the previous fiscal year. Although sales from our premium themed “Salon by Peach John” increased by 31% as a result of a positive impact of new shop openings, sales of our “Peach John” products decreased by 2% as it was impacted by a decrease in the number of shop visitors, despite the strong sales of “Miracle Work Bra” launched in the fourth quarter of the current fiscal year. Sales from our mail-order catalogue business decreased by 12% from such sales for the previous fiscal year. This was due to a decrease in the number of users who visited our own e-commerce website as our products failed to attract consumers’ attention, while average spending per customer increased. Sales from our wholesale business, particularly for the third-party e-commerce websites increased by 4% from such sales for the previous fiscal year as a result of successful sales during the fourth quarter of the current fiscal year. Sales from our overseas business were strong as demonstrated by the sales from Taiwan Peach John

Ltd., which, after commencing operations in May 2017, achieved sales over budget by 56% and were twice the sales budgeted for our own e-commerce website.

Positive factors including an improvement in the gross profit rate resulting from a reduction in discount sales of our domestic innerwear products, our efforts to reduce advertising expenses, and an improvement in profitability of our businesses resulting from sales expansion in China and Taiwan were attributable to the result of operating income.

| | |
|---|---|
| Net sales: | 10,795 million yen<br>(a decrease of 2.8% as compared to the previous fiscal year) |
| Operating income: | 441 million yen<br>(an increase of 17.9% as compared to the previous fiscal year) |

d. Other

Sales from the business of Lecien Corporation (“Lecien”) decreased by 16% from such sales for the previous fiscal year. This was impacted by sales of our core innerwear business decreased by 13% from such sales for the previous fiscal year, due to a decrease in the number of orders received for our private brand products sold at major general merchandise stores, a reduction in the number of products handled and weak shop sales. In addition, sales from our art & hobby business decreased by 4% from such sales for the previous fiscal year, due to poor sales of sewing fabrics, despite steady sales of handcraft products. Sales from our material business were also weak, decreasing 13% from such sales for the previous fiscal year due to a decrease in demand for garment laces. Further, sales from our apparel business significantly decreased by 47% from such sales for the previous fiscal year due to the withdrawal of our private brand business sold at major general merchandise stores and the impact of weak sales from teleshopping.

Operating income decreased by 86% from such operating income for the previous fiscal year due to a drop in sales profit resulting from decreased revenue, despite our efforts to reduce selling, general and administrative expenses, and the absence of the favorable effect of the exchange rate fluctuation on sales profit during the previous fiscal year.

Sales from Nanasai Co., Ltd. (“Nanasai”) fell by 2% as compared to such sales for the previous fiscal year. Although business confidence in the clothing industry continued to show no sign of prominent improvement, a sign of recovery was seen in demand for short-term leases for specialty stores at department stores and demand for renovation projects in our construction business for department stores and specialty stores as we entered the second half of the current fiscal year. As a result, we were able to maintain sales from both rental business and sales business at about the same level as such sales for the previous fiscal year. However, sales from construction business could not make up for the absence of the number of large-scale orders received during the previous fiscal year, and decreased by 2%, which impacted the overall sales.

Operating income increased by 90% as compared to such operating income for the previous fiscal year due to cost rate improvement in our rental business and an improvement in the gross profit rate from a decrease in the percentage of sales from our construction business.

As a result of the above, overall sales and operating income attributable to our “Other” segment decreased by 6% and 47%, respectively, as compared to the sales and operating income for the previous fiscal year.

| | |
|---|---|
| Net sales: | 16,957 million yen<br>(a decrease of 5.6% as compared to the previous fiscal year) |
| Operating income: | 356 million yen<br>(a decrease of 47.4% as compared to the previous fiscal year) |

Forecast for Next Fiscal Year

Our group will continue to move forward with improving and strengthening of our business structure in accordance with the basic policies stipulated in our mid-term business plan.

“To ensure profits from our domestic business,” we will integrate our wholesale business into one organization. We will make efforts to optimize our value chain process, including the product planning, production, inventory controls, distribution, and in-store customer service, and to enhance further efficiency of each of our brands, product mix, and human resources. With respect to our retail business, we will continue to strengthen business profitability by improving the gross profit rate, and to improve operational efficiency by promoting the phased introduction of RFID (radio frequency identification). Simultaneously, we will accelerate new shop openings at suitable locations. In addition, we will conduct website renewal and application development, in order to enhance user-friendliness of our own e-commerce website. In line with the functional enhancement of our own e-commerce website, we will aim to recover growth potential by promoting the realization of omni-channel services that will achieve synergies with our wholesale and retail businesses through the utilization of digital devices such as tablets at the stores.

“To achieve further growth of our overseas business,” we will continue to pursue business collaboration between Europe and the United States, and to establish system infrastructure that enables sharing of information on product planning and product management, aiming for the development of highly competitive products and decreases in procurement lead time. Further, in China, we will strengthen our ability to respond to the rapidly expanding e-commerce market. While strengthening our display advertising on third-party e-commerce websites, we will conduct flexible sales promotion, using our centralized distribution warehouse for bargain products. We will also aim to achieve growth in response to the purchasing habit seen in the accelerating expansion of e-commerce markets in Europe and the United States, by adding new languages and currencies available on our own e-commerce website and thereby expanding sales in the surrounding countries. In China and ASEAN-member countries, where our product supply bases are located, we will promote an environment that enables us to accurately react with our product quality and cost competitiveness to diversifying trends and to different needs. We will seek to supply high-value-added materials/products and stabilize procurement costs for our group companies within and outside Japan.

We will actively promote growth investment in these fields. In addition, following changes in the accounting standards generally accepted in the United States, the expected return on plan assets which was recorded under the retirement benefit expenses, as operating income (expenses), will be recorded as non-operating income or loss from the next fiscal year, which will reduce our operating income by 1.1 billion yen. Also, it will be required to record the valuation gain or loss on available for sale securities, which has been recorded as unrealized gain on securities, as non-operating income or loss. However, such change in accounting is not reflected in the forecast below.

Our forecast for the next fiscal year is as follows. The exchange rate used for the U.S. dollar is 110 yen to the dollar; the exchange rate used for the Sterling pound is 150 yen to the pound; and the exchange rate used for the Chinese yuan is 17 yen to the yuan.

| | |
|---|---|
| Net sales: | 200,000 million yen<br>(an increase of 2.2% as compared to the previous fiscal year) |
| Operating income: | 10,000 million yen<br>(a decrease of 20.2% as compared to the previous fiscal year) |
| Income before income taxes and equity in net income of affiliated companies: | 13,000 million yen<br>(a decrease of 9.0% as compared to the previous fiscal year) |
| Net income attributable to Wacoal Holdings Corp.: | 10,000 million yen<br>(an increase of 2.6% as compared to the previous fiscal year) |

(2) Financial Condition as of Fiscal Year 2018

Status of Assets, Liabilities and Shareholders' Equity

Our total assets as of March 31, 2018 were 298,534 million yen, an increase of 3,576 million yen from the end of the previous fiscal year, mainly due to an increase in investments at market value.

With regard to liabilities, our current liabilities were 61,037 million yen, a decrease of 1,439 million yen from the end of the previous fiscal year, due to decreases in income taxes payable and deferred income taxes.

Shareholders' equity was 232,712 million yen, an increase of 5,144 million yen from the end of the previous fiscal year, due to increases in retained earnings and unrealized gain on securities.

As a result of the above, our total shareholders' equity ratio as of March 31, 2018 was 78.0%, an increase of 0.8% from the end of the previous fiscal year.

Cash Flows Status

Cash flow provided by operating activities:

Cash flow provided by operating activities was 15,493 million yen, a decrease of 858 million yen as compared to the previous fiscal year, after adjustments for changes in assets and liabilities to our net income of 9,660 million yen plus adjustments for depreciation expenses and deferred taxes.

Cash flow used in investing activities:

Cash flow used in investing activities was 7,362 million yen, an increase of 4,330 million yen as compared to the previous fiscal year, due to increases in time deposits and capital expenditures.

Cash flow used in financing activities:

Cash flow used in financing activities was 12,303 million yen, a decrease of 752 million yen as compared to the previous fiscal year, due to cash dividend payments and repurchase of treasury stock.

As a result, the balance of cash and cash equivalents at the end of fiscal year 2018, calculated by adding the exchange difference on cash and cash equivalents to the above total, was 29,487 million yen, a decrease of 4,508 million yen as compared to the end of the previous fiscal year.

Free cash flow, which was calculated by subtracting the amount of capital investment from the cash flow provided by operating activities, amounted to 9,609 million yen.

Trends in certain cash-flow indicators

| | Fiscal Year Ended March 31, 2016 | Fiscal Year Ended March 31, 2017 | Fiscal Year Ended March 31, 2018 |
|---|---|---|---|
| Shareholders' equity ratio (%) | 76.6 | 77.2 | 78.0 |
| Shareholders' equity ratio based on market value (%) | 64.6 | 63.9 | 69.5 |
| Debt redemption years (years) | 1.0 | 0.5 | 0.5 |
| Interest coverage ratio (times) | 188.6 | 605.6 | 1,408.5 |

Shareholders' equity ratio = shareholders' equity/total assets
Shareholders' equity ratio based on the market value = aggregate market value of shareholders' equity/total assets
Debt redemption years = interest-bearing debt/cash flow provided by operating activities
Interest coverage ratio = cash flow provided by operating activities/interest payment
Interest payment = "cash paid for interest" as described in the additional cash flow information following the consolidated statements of cash flows

(3) Basic Policy Regarding Distribution of Profits and Dividends for Fiscal Year 2018 and Fiscal Year 2019

Our basic policy on profit distributions to shareholders is to make stable distributions based on consideration of our consolidated performance, while seeking to increase our enterprise value through active investments aimed at higher profitability and to increase net income per share. With respect to retained earnings, we have actively invested and will continue to actively invest in expanding our customer bases for our domestic business and our overseas businesses, with the aim of improving our corporate value. We also plan to use our retained earnings for strategic investments for maintaining competitiveness and reinforcing growth. With these efforts, we seek to benefit our shareholders by improving future profitability.

We also intend to acquire treasury stock in a flexible manner taking into account the level of free cash flow as well as the market environment, and will make effort to improve capital efficiency and return profits to our shareholders.

Based on this policy, we are scheduled to distribute 36.00 yen per share as a year-end dividend for the current fiscal year, the estimated dividend as announced during the latest quarter. As a result, the dividend payout ratio on a consolidated basis will be 50.2% for the current fiscal year (Note: We have conducted a share consolidation of Company common stock pursuant to which two (2) shares have been consolidated into one (1) share effective as of October 1, 2017. Without taking into consideration the share consolidation, the year-end dividend per share will be 18.00 yen, and the annual dividend amount per share will be 36.00 yen, including the interim dividend per share of 18.00 yen).

For the fiscal year ending March 31, 2019, annual cash dividend per share will be 72.00 yen, the total of interim dividend per share of 36.00 yen and year-end dividend per share of 36.00 yen.

2. Basic Policies regarding Selection of Accounting Standards

Our group has been preparing our consolidated financial statements based on the accounting standards prior to the introduction of the accounting standards for consolidated financial statements in Japan and, for this reason, we have been adopting the accounting standards generally accepted in the United States.

In view of adopting International Financial Reporting Standards in the future, our group is making efforts to prepare internal manuals and guidelines.

3. Consolidated Financial Statements (Unaudited)

(1) Consolidated Balance Sheets

| Accounts | As of March 31, 2017 | As of March 31, 2018 | Amount Increased/(Decreased) |
|---|---|---|---|
| (Assets) | Millions of Yen | Millions of Yen | Millions of Yen |
| I. Current assets | | | |
| Cash and cash equivalents | 33,995 | 29,487 | (4,508) |
| Time deposits | 2,722 | 4,296 | 1,574 |
| Marketable securities | 1,457 | 1,567 | 110 |
| Notes and accounts receivable | 25,563 | 25,873 | 310 |
| Allowance for returns and doubtful receivables | (2,477) | (2,459) | 18 |
| Inventories | 43,822 | 42,676 | (1,146) |
| Deferred income taxes | 4,049 | - | (4,049) |
| Other current assets | 4,683 | 4,372 | (311) |
| Total current assets | 113,814 | 105,812 | (8,002) |
| II. Property, Plant and Equipment | | | |
| Land | 21,555 | 21,561 | 6 |
| Buildings and building improvements | 72,664 | 73,618 | 954 |
| Machinery and equipment | 17,722 | 18,268 | 546 |
| Construction in progress | 274 | 254 | (20) |
| | 112,215 | 113,701 | 1,486 |
| Accumulated depreciation | (56,927) | (59,368) | (2,441) |
| Net property, plant and equipment | 55,288 | 54,333 | (955) |
| III. Other assets | | | |
| Investments in affiliated companies | 20,868 | 22,512 | 1,644 |
| Investments | 59,847 | 69,318 | 9,471 |
| Goodwill | 16,071 | 16,594 | 523 |
| Other intangible assets | 11,849 | 12,859 | 1,010 |
| Prepaid pension expense | 10,287 | 10,178 | (109) |
| Deferred income taxes | 1,060 | 1,194 | 134 |
| Other | 5,874 | 5,734 | (140) |
| Total other assets | 125,856 | 138,389 | 12,533 |
| Total Assets | 294,958 | 298,534 | 3,576 |

| Accounts | As of March 31, 2017 | As of March 31, 2018 | Amount Increased/(Decreased) |
|---|---|---|---|
| (Liabilities) | Millions of Yen | Millions of Yen | Millions of Yen |
| I. Current Liabilities | | | |
| Short-term bank loans | 7,716 | 7,104 | (612) |
| Notes and accounts payables | | | |
| Trade notes | 1,438 | 1,174 | (264) |
| Trade accounts | 11,605 | 11,393 | (212) |
| Other payables | 6,185 | 7,053 | 868 |
| | 19,228 | 19,620 | 392 |
| Accrued payroll and bonuses | 7,093 | 7,213 | 120 |
| Income taxes payable | 2,964 | 1,979 | (985) |
| Current portion of long-term debt | 50 | 50 | - |
| Other current liabilities | 4,008 | 3,666 | (342) |
| Total current liabilities | 41,059 | 39,632 | (1,427) |
| II. Long-term liabilities | | | |
| Long-term debt | 185 | 138 | (47) |
| Liabilities for termination and retirement benefit | 1,956 | 1,852 | (104) |
| Deferred income taxes | 17,862 | 17,231 | (631) |
| Other long-term liabilities | 1,414 | 2,184 | 770 |
| Total long-term liabilities | 21,417 | 21,405 | (12) |
| Total liabilities | 62,476 | 61,037 | (1,439) |
| (Equity) | | | |
| I. Common stock | 13,260 | 13,260 | - |
| II. Additional paid-in capital | 29,707 | 29,765 | 58 |
| III. Retained earnings | 170,062 | 172,418 | 2,356 |
| IV. Accumulated other comprehensive income (loss) | | | |
| Foreign currency translation adjustments | 1,212 | 2,274 | 1,062 |
| Unrealized gain on securities | 21,075 | 27,424 | 6,349 |
| Pension liability adjustments | (414) | (1,101) | (687) |
| V. Treasury stock, at cost | (7,334) | (11,328) | (3,994) |
| Total Wacoal Holdings Corp. shareholders' equity | 227,568 | 232,712 | 5,144 |
| VI. Noncontrolling interests | 4,914 | 4,785 | (129) |
| Total equity | 232,482 | 237,497 | 5,015 |
| Total liabilities and equity | 294,958 | 298,534 | 3,576 |

(2) Consolidated Statements of Income

| Accounts | Fiscal Year Ended March 31, 2017 | | Fiscal Year Ended March 31, 2018 | | Amount Increased/(Decreased) |
|---|---|---|---|---|---|
| | Millions of Yen | % | Millions of Yen | % | Millions of Yen |
| I. Net Sales | 195,881 | 100.0 | 195,725 | 100.0 | (156) |
| II. Operating costs and expenses | | | | | |
| Cost of sales | 92,950 | 47.5 | 91,909 | 47.0 | (1,041) |
| Selling, general and administrative expenses | 91,866 | 46.9 | 91,784 | 46.9 | (82) |
| Compensation income | - | - | (708) | (0.4) | (708) |
| Impairment charges on goodwill | - | - | 206 | 0.1 | 206 |
| Total operating costs and expenses | 184,816 | 94.4 | 183,191 | 93.6 | (1,625) |
| Operating income | 11,065 | 5.6 | 12,534 | 6.4 | 1,469 |
| III. Other income (expenses) | | | | | |
| Interest income | 157 | | 194 | | 37 |
| Interest expense | (27) | | (10) | | 17 |
| Dividend income | 1,176 | | 1,329 | | 153 |
| Gain or loss on sale or exchange of marketable securities and investments – net | 441 | | 203 | | (238) |
| Valuation loss on marketable securities and investments – net | 1 | | 3 | | 2 |
| Gain on sale of property, plant and equipment | 3,770 | | - | | (3,770) |
| Other – net | (14) | | 33 | | 47 |
| Total other income (expenses) | 5,504 | 2.9 | 1,752 | 0.9 | (3,752) |
| Income before income taxes and equity in net income of affiliated companies | 16,569 | 8.5 | 14,286 | 7.3 | (2,283) |
| Income taxes | | | | | |
| Current | 4,830 | 2.5 | 4,880 | 2.5 | 50 |
| Deferred | 450 | 0.2 | 662 | 0.3 | 212 |
| Total income taxes | 5,280 | 2.7 | 5,542 | 2.8 | 262 |
| Income before equity in net income of affiliated companies | 11,289 | 5.8 | 8,744 | 4.5 | (2,545) |
| Equity in net income of affiliated companies | 1,359 | 0.7 | 916 | 0.4 | (443) |
| Net income | 12,648 | 6.5 | 9,660 | 4.9 | (2,988) |
| Net income attributable to non-controlling interests | (123) | (0.1) | 85 | 0.1 | 208 |
| Net income attributable to Wacoal Holdings Corp. | 12,525 | 6.4 | 9,745 | 5.0 | (2,780) |

(3) Consolidated Statements of Comprehensive Income

| Accounts | Fiscal Year Ended March 31, 2017 | Fiscal Year Ended March 31, 2018 | Amount Increased/(Decreased) |
|---|---|---|---|
| | Millions of Yen | Millions of Yen | Millions of Yen |
| I. Net income | 12,648 | 9,660 | (2,988) |
| II. Other comprehensive income (loss) – net of tax | | | |
| Foreign currency translation adjustments | (4,079) | 1,113 | 5,192 |
| Net unrealized gain on securities | 3,109 | 6,355 | 3,246 |
| Pension liability adjustments | 618 | (680) | (1,298) |
| Other comprehensive income (loss) | (352) | 6,788 | 7,140 |
| Comprehensive income (loss) | 12,296 | 16,448 | 4,152 |
| Comprehensive income (loss) attributable to noncontrolling interests | (6) | 21 | 27 |
| Comprehensive income (loss) attributable to Wacoal Holdings Corp. | 12,290 | 16,469 | 4,179 |

(4) Consolidated Statements of Equity

Fiscal Year Ended March 31, 2017

| Item | Shares of Outstanding Common Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated other comprehensive income | Treasury stock | Total Shareholders' Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Equity | | | | | | | | |
| | Thousand shares | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen |
| As of April 1, 2016 | 70,429 | 13,260 | 29,686 | 162,196 | 22,108 | (2,876) | 224,374 | 5,027 | 229,401 |
| Cash dividends paid to Wacoal Holdings Corp. shareholders | | | | (4,648) | | | (4,648) | | (4,648) |
| Cash dividends paid to noncontrolling interests | | | | | | | - | (167) | (167) |
| Repurchase of treasury stock | (1,851) | | | | | (4,522) | (4,522) | | (4,522) |
| Other | 27 | | 21 | (11) | | 64 | 74 | 48 | 122 |
| Net income | | | | 12,525 | | | 12,525 | 123 | 12,648 |
| Other comprehensive income (loss) | | | | | (235) | | (235) | (117) | (352) |
| As of March 31, 2017 | 68,605 | 13,260 | 29,707 | 170,062 | 21,873 | (7,334) | 227,568 | 4,914 | 232,482 |

Fiscal Year Ended March 31, 2018

| Item | Shares of Outstanding Common Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated other comprehensive income | Treasury stock | Total Shareholders' Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Equity | | | | | | | | |
| | Thousand shares | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen | Millions of Yen |
| As of April 1, 2017 | 68,605 | 13,260 | 29,707 | 170,062 | 21,873 | (7,334) | 227,568 | 4,914 | 232,482 |
| Cash dividends paid to Wacoal Holdings Corp. shareholders | | | | (7,386) | | | (7,386) | | (7,386) |
| Cash dividends paid to noncontrolling interests | | | | | | | - | (194) | (194) |
| Repurchase of treasury stock | (1,243) | | | | | (4,007) | (4,007) | | (4,007) |
| Other | 5 | | 58 | (3) | | 13 | 68 | 86 | 154 |
| Net income | | | | 9,745 | | | 9,745 | (85) | 9,660 |
| Other comprehensive income (loss) | | | | | 6,724 | | 6,724 | 64 | 6,788 |
| As of March 31, 2018 | 67,367 | 13,260 | 29,765 | 172,418 | 28,597 | (11,328) | 232,712 | 4,785 | 237,497 |

(Note) We have conducted a share consolidation of common stock of the Company pursuant to which two (2) shares were consolidated into one (1) share effective as of October 1, 2017. Accordingly, the "shares of outstanding common stock" have been calculated assuming that such shares consolidation has been conducted at the beginning of the previous fiscal year.

(5) Consolidated Statements of Cash Flows

| Accounts | Fiscal Year Ended March 31, 2017 | Fiscal Year Ended March 31, 2018 | Amount Increased/(Decreased) |
|---|---|---|---|
| | Millions of Yen | Millions of Yen | Millions of Yen |
| I. Operating activities | | | |
| 1. Net income | 12,648 | 9,660 | (2,988) |
| 2. Adjustments to reconcile net income to net cash provided by operating activities | | | |
| (1) Depreciation and amortization | 5,032 | 5,492 | 460 |
| (2) Provision for returns and doubtful receivables – net | 264 | 18 | (246) |
| (3) Deferred income taxes | 450 | 662 | 212 |
| (4) Gain or loss on sales or disposal of property, plant and equipment –net | (3,374) | 250 | 3,624 |
| (5) Compensation income | - | (708) | (708) |
| (6) Goodwill impairment | - | 206 | 206 |
| (7) Gain or loss on sales or exchange of marketable securities and investments - net | (441) | (203) | 238 |
| (8) Valuation loss on marketable securities and investments – net | (1) | (3) | (2) |
| (9) Equity in net income of affiliated companies, less dividends | (837) | (397) | 440 |
| (10) Changes in assets and liabilities | | | |
| Decrease (increase) in notes and receivable | 882 | (232) | (1,114) |
| Decrease (increase) in inventories | (378) | 1,012 | 1,390 |
| Decrease in other current assets | 475 | 270 | (205) |
| Increase (decrease) in notes and accounts payable | (95) | 676 | 771 |
| Decrease in liabilities for termination and retirement benefits | (417) | (833) | (416) |
| Increase (decrease) in other liabilities | 1,615 | (518) | (2,133) |
| (11) Other | 528 | 141 | (387) |
| Net cash provided by operating activities | 16,351 | 15,493 | (858) |
| II. Investing activities | | | |
| 1. Increase in time deposits | (4,336) | (5,129) | (793) |
| 2. Decrease in time deposits | 3,717 | 3,368 | (349) |
| 3. Proceeds from sale and redemption of marketable securities | 1,257 | 827 | (430) |
| 4. Payments to acquire marketable securities | (295) | (112) | 183 |
| 5. Proceeds from sale of property, plant and equipment | 3,585 | 159 | (3,426) |
| 6. Compensation income | - | 708 | 708 |
| 7. Capital expenditures | (5,504) | (3,429) | 2,075 |
| 8. Payments to acquire intangible assets | (1,941) | (2,455) | (514) |
| 9. Proceeds from sales of investments | 835 | 134 | (701) |
| 10. Payments to acquire investments | (387) | (1,515) | (1,128) |
| 11 Proceeds from sale of shares of an affiliated company | 4 | - | (4) |
| 12. Other | 33 | 82 | 49 |
| Net cash used in investing activities | (3,032) | (7,362) | (4,330) |
| III. Financing activities | | | |
| 1. Net decrease (increase) in short-term bank loans | (3,613) | (755) | 2,858 |
| 2. Proceeds from issuance of long-term debt | 250 | - | (250) |
| 3. Repayment of long-term debt | (403) | (47) | 356 |
| 4. Repurchase of treasury stock | (4,522) | (4,007) | 515 |
| 5. Dividends paid on common stock | (4,648) | (7,386) | (2,738) |
| 6. Dividends paid to noncontrolling interests | (167) | (194) | (27) |
| 7. Other | 48 | 86 | 38 |
| Net cash used in financing activities | (13,055) | (12,303) | 752 |
| IV. Effect of exchange rate changes on cash and cash equivalents | (328) | (336) | (8) |
| V. Net decrease in cash and cash equivalents | (64) | (4,508) | (4,444) |
| VI. Cash and cash equivalents, beginning of year | 34,059 | 33,995 | (64) |
| VII. Cash and cash equivalents, end of year | 33,995 | 29,487 | (4,508) |

Additional Cash Flow Information

| Accounts | Fiscal Year Ended March 31, 2017 | Fiscal Year Ended March 31, 2018 | Amount Increased/(Decreased) |
|---|---|---|---|
| Cash paid for | | | |
| Interest | 27 | 11 | (16) |
| Income taxes | 2,812 | 5,853 | 3,041 |
| Noncash investing activities | | | |
| Acquisition of fixed assets by assuming payment obligation | 795 | 583 | (212) |

(6) Notes on Going Concern

Not applicable.

(7) Basic Significant Matters in Preparation of Consolidated Financial Statements

(i) Matters Regarding the Scope of Consolidation and Application of the Equity Method

Major consolidated subsidiaries:
Wacoal Corporation, Peach John Co., Ltd., Lecien Corporation, Kyushu Wacoal Manufacturing Corp., Torica Co., Ltd., Nanasai Co., Ltd., Wacoal International Corp., Wacoal America, Inc., Wacoal Europe Ltd., Wacoal EMEA Ltd., Wacoal Europe SAS, Wacoal Hong Kong Co., Ltd., Wacoal Investment Co. (Taiwan), Ltd., Wacoal China Co., Ltd., Wacoal International Hong Kong Co., Ltd. and A Tech Textile Co., Ltd.

Major Affiliated Companies:
Shinyoung Wacoal Inc., Taiwan Wacoal Co., Ltd. and Thai Wacoal Public Co., Ltd.

(ii) Changes Regarding Subsidiaries and Affiliated Companies

Consolidated (new):
Wacoal I Next Corp.

Consolidated (excluded):
Wacoal Sports Science Corp.

(iii) Standard of Preparation of Consolidated Financial Statements

The consolidated financial statements have been prepared based on terms, format and preparation methods in compliance with accounting standards generally accepted in the United States as required in connection with the issuance of American Depositary Receipts. For this reason, the consolidated financial statements may be different from those that have been prepared based on the Consolidated Financial Statement Regulations and the Standard of Preparation of Consolidated Financial Statements in Japan.

(iv) Significant Accounting Policies

a. Valuation Standard of Inventories

The average cost method was mainly used for goods, products and supplies, and the first-in first-out method was used for raw materials, with both valued at the lower of cost or market.

b. Valuation Standard of Property, Plant and Equipment and Method of Depreciation

Property, plant and equipment are valued at the acquisition cost. Depreciation expenses are calculated mainly using the fixed-rate method based on the estimated useful lives of the assets (the lease term is used for capitalized leased assets).

c. Valuation Standard of Securities and Investments

Based on the provisions of U.S. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, marketable securities and investments have been classified as “trading securities,” “available for sale securities” and “held-to-maturity securities.” “Trading securities” and “available for sale securities” are valued at fair value and “held-to-maturity securities” are valued at amortized cost. Gain or loss on sale of marketable securities is calculated based on acquisition cost using the moving-average method. Nonmarketable securities are valued at cost using the moving-average method.

d. Liabilities for Termination and Retirement Benefits

This is accounted for based on FASB ASC 715.

e. Consumption Taxes

Consumption taxes have been excluded from sales.

f. Consolidated Statements of Cash Flows

In preparing the consolidated cash flow statements, highly liquid investments with original maturities of three (3) months or less have been included in cash and cash equivalents.

(v) Changes in Accounting Policy

New accounting guidance has been adopted for the balance sheet classification of deferred taxes from the current consolidated fiscal year. The new guidance requires deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. The new accounting guidance has not been applied retrospectively for the consolidated financial statements for the prior periods. The amount of current deferred tax assets as of the end of the previous consolidated fiscal year was 4,049 million yen.

(8) Notes to the Consolidated Financial Statements

(i) Marketable Securities and Investments

(Millions of Yen)

| | As of March 31, 2017 | | | | As of March 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value | Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Marketable Securities | | | | | | | | |
| National debt securities | 10 | 0 | - | 10 | 10 | 0 | - | 10 |
| Mutual Fund | 701 | 168 | 1 | 868 | 575 | 15 | - | 590 |
| Total | 711 | 168 | 1 | 878 | 585 | 15 | - | 600 |
| Investments | | | | | | | | |
| Corporate debt securities | - | - | - | - | 464 | 150 | - | 614 |
| Equity securities | 23,153 | 34,833 | 10 | 57,976 | 23,106 | 43,645 | 0 | 66,751 |
| Total | 23,153 | 34,833 | 10 | 57,976 | 23,570 | 43,795 | 0 | 67,365 |

(Note) Securities which are classified as trading and available for sale securities are shown in the above table and investments in nonmarketable equity securities for which there are no readily determinable fair values are not shown.

(ii) Contract Amount, Market Value and Valuation Profit/Loss of Derivative Transactions

Our subsidiaries have been utilizing foreign exchange forward contracts to prepare for exposure to market risks from changes in foreign exchange rates. The disclosure of gains and losses of such contracts has been omitted as the amounts involved are non-material.

(iii) Per Share Information

| | Fiscal Year Ended March 31, 2017 | Fiscal Year Ended March 31, 2018 |
|---|---|---|
| Net income attributable to Wacoal Holdings Corp. | 12,525 million yen | 9,745 million yen |
| Number of average shares issued during the year | 69,483,315 shares | 67,928,557 shares |
| Net income attributable to Wacoal Holdings Corp. per share | 180.26 yen | 143.46 yen |
| Diluted net income attributable to Wacoal Holdings Corp. per share | 179.71 yen | 142.98 yen |

(Note) The "number of average shares issued during the year," "net income attributable to Wacoal Holdings Corp. per share," "diluted net income attributable to Wacoal Holdings Corp. per share" and "net income attributable to Wacoal Holdings Corp." have been calculated assuming that the share consolidation, which we conducted during the current consolidated fiscal year, has been conducted at the beginning of the previous fiscal year.

(iv) Segment Information

a. Operating Segment Information

Fiscal Year Ended March 31, 2017 (April 1, 2016 - March 31, 2017)

(Millions of Yen)

| | Wacoal business (Domestic) | Wacoal business (Overseas) | Peach John business | Other | Total | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | |
| (1) External customers | 118,389 | 48,423 | 11,107 | 17,962 | 195,881 | - | 195,881 |
| (2) Intersegment | 1,098 | 9,236 | 1,006 | 5,947 | 17,287 | (17,287) | - |
| Total | 119,487 | 57,659 | 12,113 | 23,909 | 213,168 | (17,287) | 195,881 |
| Operating costs and expenses | 112,528 | 54,604 | 11,739 | 23,232 | 202,103 | (17,287) | 184,816 |
| Operating income | 6,959 | 3,055 | 374 | 677 | 11,065 | - | 11,065 |

Fiscal Year Ended March 31, 2018 (April 1, 2017 - March 31, 2018)

(Millions of Yen)

| | Wacoal business (Domestic) | Wacoal business (Overseas) | Peach John business | Other | Total | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | |
| (1) External customers | 116,085 | 51,888 | 10,795 | 16,957 | 195,725 | - | 195,725 |
| (2) Intersegment | 1,051 | 10,180 | 1,281 | 5,283 | 17,795 | (17,795) | - |
| Total | 117,136 | 62,068 | 12,076 | 22,240 | 213,520 | (17,795) | 195,725 |
| Operating costs and expenses | 109,251 | 58,010 | 11,635 | 21,884 | 200,780 | (17,795) | 182,985 |
| Impairment charges on goodwill | - | 206 | - | - | 206 | - | 206 |
| Total operating costs and expenses | 109,251 | 58,216 | 11,635 | 21,884 | 200,986 | (17,795) | 183,191 |
| Operating income | 7,885 | 3,852 | 441 | 356 | 12,534 | - | 12,534 |

(Note) 1. Core products of respective businesses:

Wacoal business (Domestic): innerwear (foundation, lingerie, nightwear and children’s innerwear), outerwear, sportswear, hosiery, etc.

Wacoal business (Overseas): innerwear (foundation, lingerie, nightwear and children’s innerwear), outerwear, sportswear, hosiery, and other textile-related products, etc.

Peach John business: innerwear (foundation, lingerie and nightwear), outerwear, and other textile-related products, etc.

Other: innerwear (foundation, lingerie, nightwear and children’s innerwear), outerwear, other textile-related products, mannequins, shop design and implementation, etc.

b. Information by Region

Fiscal Year Ended March 31, 2017 (April 1, 2016 to March 31, 2017)

(Millions of Yen)

| | Japan | Asia/Oceania | Europe/N.A. | Total | Elimination or corporate | Consolidated |
|---|---|---|---|---|---|---|
| I. Net sales<br>External customers | 147,061 | 19,187 | 29,633 | 195,881 | - | 195,881 |
| II. Operating income | 7,738 | 1,758 | 1,569 | 11,065 | - | 11,065 |
| III. Long-lived assets | 47,452 | 4,661 | 3,175 | 55,288 | - | 55,288 |

Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Millions of Yen)

| | Japan | Asia/Oceania | Europe/N.A. | Total | Elimination or corporate | Consolidated |
|---|---|---|---|---|---|---|
| I. Net sales<br>External customers | 143,196 | 21,057 | 31,472 | 195,725 | - | 195,725 |
| II. Operating income | 8,521 | 1,200 | 2,813 | 12,534 | - | 12,534 |
| III. Long-lived assets | 46,367 | 4,916 | 3,050 | 54,333 | - | 54,333 |

(Note) 1. Countries or areas are classified according to geographical proximity.
2. Main countries and areas belonging to classifications other than Japan
Asia/Oceania: various countries of East Asia, Southeast Asia and West Asia, and Australia
Europe/N.A.: North America and European countries
3. Sales in respect of consolidated companies are categorized by location.
4. Long-lived assets include property, plant and equipment.

c. Overseas Sales

Fiscal Year Ended March 31, 2017 (April 1, 2016 - March 31, 2017)

(Millions of Yen)

| | Asia/Oceania | Europe/N.A. | Total |
|---|---|---|---|
| I. Overseas net sales | 19,187 | 29,633 | 48,820 |
| II. Consolidated net sales | - | - | 195,881 |
| III. Ratio of overseas net sales to total consolidated net sales | 9.8% | 15.1% | 24.9% |

Fiscal Year Ended March 31, 2018 (April 1, 2017 - March 31, 2018)

(Millions of Yen)

| | Asia/Oceania | Europe/N.A. | Total |
|---|---|---|---|
| I. Overseas net sales | 21,057 | 31,472 | 52,529 |
| II. Consolidated net sales | - | - | 195,725 |
| III. Ratio of overseas net sales to total consolidated net sales | 10.7% | 16.1% | 26.8% |

(Note) 1. Countries or areas are classified according to geographical proximity.
2. Main countries and areas belonging to classifications other than Japan
Asia/Oceania: various countries of East Asia, Southeast Asia and West Asia, and Australia
Europe/N.A.: North America and European countries

(v) Status of Sales

| Type of product | Fiscal Year Ended March 31, 2017 | | Fiscal Year Ended March 31, 2018 | |
|---|---|---|---|---|
| | Amount | Distribution ratio | Amount | Distribution ratio |
| | Millions of Yen | % | Millions of Yen | % |
| Innerwear | | | | |
| Foundation and lingerie | 145,188 | 74.1 | 146,970 | 75.1 |
| Nightwear | 9,154 | 4.7 | 8,758 | 4.5 |
| Children's underwear | 1,429 | 0.7 | 1,376 | 0.7 |
| Subtotal | 155,771 | 79.5 | 157,104 | 80.3 |
| Outerwear/Sportswear | 17,189 | 8.8 | 16,128 | 8.2 |
| Hosiery | 2,235 | 1.1 | 1,983 | 1.0 |
| Other textile goods and related products | 9,346 | 4.8 | 8,907 | 4.6 |
| Others | 11,340 | 5.8 | 11,603 | 5.9 |
| Total | 195,881 | 100.0 | 195,725 | 100.0 |

(vi) Significant Subsequent Events

Not applicable.

Omission of Disclosure:

We have omitted notes regarding the lease transactions, related-party transactions, stock options and income taxes etc. because we believe it is not sufficiently necessary to disclose information on these matters in these financial statements.

4. Other

Changes to Corporate Officers

The scheduled changes to the composition of the board of directors after the conclusion of the 70th Ordinary General Meeting of Shareholders to be held on June 28, 2018 will be as follows.
(Please note that the following information has already been disclosed, as announced on April 26, 2018 in our press release "Announcement of Change of Representative Director and President" and "Announcement of Officer Change.")

1. Promotion of Director (as of June 28, 2018 (scheduled))

   Current Representative Director and President Yoshikata Tsukamoto is scheduled to be promoted to and appointed as Representative Director and Chairman.

   Current Director and Vice President Hironobu Yasuhara is schedule to be promoted and appointed as Representative Director and President.

2. Resignation of Director (as of June 28, 2018 (scheduled))

   Atsushi Horiba is scheduled to resign as Director (outside director).

3. New appointment of Director (as of June 28, 2018 (scheduled))

   Current General Manager of Corporate Planning Akira Miyagi is schedule to be appointed as Director.

   Tsunehiko Iwai, Senior Advisor of Shiseido Co., Ltd., is schedule to be appointed as Director (outside director).

4. Resignation of Audit & Supervisory Board Member (as of June 28, 2018 (scheduled))

   Akira Katayanagi is scheduled to resign as Audit & Supervisory Board Member (outside auditor).

5. New appointment of Audit & Supervisory Board Member (as of June 28, 2018 (scheduled))

   Minoru Shimada, Representative Director and President of *Naigai Kensetsu Kabushiki Kaisha*, Representative Director and President of SOTSU CORPORATION, and Representative Director and President of SOTSU *Amenity Service Kabushiki Kaisha*, is schedule to be appointed as Audit & Supervisory Board Member (outside auditor).

The management and administrative organization after the conclusion of the 70th Ordinary General Meeting of Shareholders to be held on June 28, 2018 will be as follows:

Management and Administrative Organization for the 71st Fiscal Year

| Director/Audit & Supervisory Board Member | Name |
|---|---|
| Representative Director and Chairman | Yoshikata Tsukamoto |
| Representative Director and President | Hironobu Yasuhara |
| Director and Vice President | Masaya Wakabayashi |
| Managing Director | Masashi Yamaguchi |
| Director | Akira Miyagi |
| Director (outside director) | Madoka Mayuzumi |
| Director (outside director) | Shigeru Saito |
| Director (outside director) | Tsunehiko Iwai (newly appointed) |
| Audit & Supervisory Board Member | Tomoki Nakamura |
| Audit & Supervisory Board Member | Kiyotaka Hiroshima |
| Audit & Supervisory Board Member (outside auditor) | Hiroshi Shirai |
| Audit & Supervisory Board Member (outside auditor) | Mitsuhiro Hamamoto |
| Audit & Supervisory Board Member (outside auditor) | Minoru Shimada (newly appointed) |

(Reference)

The management and administrative organization for the 14th term of Wacoal Corporation will be as follows:

Management and Administrative Organization for the 14th Term

| Director/ Audit & Supervisory Board Member | Corporate Officer | Name | Responsibility |
|---|---|---|---|
| Representative Director and Chairman | | Hironobu Yasuhara | |
| Representative Director | President and Corporate Officer | Tomoyasu Ito | |
| Director | Vice President and Corporate Officer | Yuzo Ide (*) | |
| Director | Vice President and Corporate Officer | Masashi Yamaguchi | In charge of Administration and General Manager of Personnel Division |
| Director | Managing Corporate Officer | Kuniharu Suzuki (*) | Assistant to president of special affairs |
| Director | Managing Corporate Officer | Hidehiko Imaizumi | General Manager of Retail Operation Division |
| Director | Managing Corporate Officer | Yasuo Kamoshita | Chief of Corporate Planning Office |
| Director | Managing Corporate Officer | Masaaki Yajima | General Manager of Wholesale Division |
| Director | Corporate Officer | Junko Kasai | Chief of Diversity Promotion, President of Wacoal I Next Corp. |
| | | | |
| Audit & Supervisory Board Member | | Kiyotaka Hiroshima | |
| Audit & Supervisory Board Member | | Hisashi Mazuyama | |
| | | | |
| | Managing Corporate Officer | Hideo Senoue | General Manager of Department Store Sales Control of Wholesale Division |
| | Managing Corporate Officer | Atsushi Kotani | General Manager of Chain Store Sales Control of Wholesale Division |
| | Corporate Officer | Hiroshi Shimoyama | General Manager of Omni-channel Strategy Promotion, Corporate Planning Office |
| | Corporate Officer | Toshihiro Inokuma | General Manager of Public Relations and Advertising, Corporate Planning Office |
| | Corporate Officer | Takahiko Hasegawa | Personnel Administrator of Personnel and Administration Division |
| | Corporate Officer | Hiroshi Imai | Director of Human Science Research Center |
| | Corporate Officer | Shuji Morimoto | General Manager of Information System Division |
| | Corporate Officer | Masahiro Shigemoto | General Manager of Business Administration Department, Wholesale Division |
| | Corporate Officer | Katsuya Kodama | General Manager of East Japan Sales Control of Wholesale Division |
| | Corporate Officer | Toshiaki Sato | General Manager of West Japan Sales Control of Wholesale Division |
| | Corporate Officer | Katsuhiro Okamoto | General Manager of Wacoal Brand Product Control, Wholesale Division |
| | Corporate Officer | Hiroyuki Sekiguchi | General Manager of Direct Marketing Operations |
| | Corporate Officer | Kazuhiro Shibahara | General Manager of Technology/Production Division |
| | Corporate Officer | Mitsuru Sekiguchi | General Manager of International Division |
| | Corporate Officer | Masami Ono | Director, General Manager of Wacoal China Co., Ltd. |
| | Corporate Officer | Takuya Miura | Chairman of Wacoal Europe Limited |

*Mr. Yuzo Ide, Director, Vice President and Corporate Officer, and Mr. Kuniharu Suzuki, Director, Managing Corporate Officer, are to resign upon the closure of the Ordinary General Meeting of Shareholders to be held in late June 2018.

- End -