



Yoshikata Tsukamoto

“Wacoal is confident of capturing growth potential in challenging markets by providing innovative, value-added products and services that are tailored to the times and the lifestyles of its customers.”

Operating Environment during the Fiscal Year

During the fiscal year ended March 31, 2001, the Company faced challenging market conditions due to a prolonged slump in domestic consumer spending. Despite aggressive sales and marketing activities using our strong brand image and emphasizing our competitive range of products, customer demand for our intimate apparel remained weak. The difficult operating environment faced by our main sales channels, department stores and general merchandising stores, resulted in a number of company failures and store closures and had a significant impact on our business. Moreover, against a background of continuing shifts in consumers' sense of value, clear distinctions began to emerge in what different groups of women look for when buying intimate apparel, depending on their age and lifestyles.

Although the operating environment remained difficult, we viewed it as an opportunity to secure a competitive advantage in the marketplace by capitalizing on our unique core competences. While working to develop new

business models, we continued to lay the foundation for future growth through the strategic use of our competitive management resources—advanced product development capabilities, superior products, a formidable sales network, well-established global manufacturing facilities, a strong financial base, and a trusted brand image.

Our New Business Concept

In April 2001, Wacoal embarked on a three-year business plan centered on strengthening its existing business, reforming its profit structure, and defining its new business concept, Body Designing. This new concept is being used to steer the Company in a new direction: giving women the opportunity to express the individual natural beauty of both the physical and emotional aspects of their bodies. Based on this concept, during the year under review we began to develop new points of contact with customers and to offer a range of new products, focusing on meeting the increasingly distinct lifestyle needs of women in different age groups.

Increasing Our Points of Contact with Customers

The expansion of our network of directly managed SPA (specialty store retailing of private label apparel) shops is just one way that Wacoal is increasing its points of contact with customers. Over the next three years, we plan to build a network of approximately 100 SPA shops. In contrast to our traditional method of marketing Wacoal products through department stores and general merchandising stores, our directly managed SPA shop strategy allows us to respond more rapidly to shifts in the market in such areas as pricing, product strategy, store layout, and store operations. This strategy also benefits us in another way; it provides us with valuable feedback through direct interaction with customers, helping us to develop new products and improve services. The SPA shop expansion program is progressing well, with 24 stores already established.

In the year under review, we also worked to expand our catalog mail-order business in line with the start-up of Internet-based sales of our range of women's intimate apparel. Annual sales in our catalog mail-order business totaled ¥5.4 billion, and plans call for boosting this figure to ¥10.0 billion within five years. In this way, we are increasing our points of contact with customers and

strengthening our foundation for growth through the development of a three channel retailing strategy that is based on a combination of shop, catalog, and Internet sales.

Strengthening Our Existing Business

In our existing business, centered on sales through department stores and general merchandising stores, we are reinforcing our competitiveness by reorganizing our brand lineup and creating new value-added businesses. In particular, we are reassessing our range of brands sold through these points of sale to ensure that they are capable of more accurately targeting and meeting the diverse lifestyle needs of women in different age groups. We are also enhancing our value-added businesses through the expansion of our brassiere fitting service, which allows women to order custom-made brassieres, while continuing to create products that target women aged over 50. Meanwhile, we are strengthening our business alliances, aiming to develop innovative products by capitalizing on our extensive research in the field of human science; projects with Procter & Gamble and NIKE Japan are already under way.

Across-the-Board Structural Reform

In combination with the strategies just mentioned, Wacoal is implementing a series of structural reforms aimed at reducing costs in all areas of its operations. We are fully aware that to secure our competitive position in the marketplace we have to reduce operating costs, enhance our profit-generating structure, and further strengthen customer loyalty to the Wacoal brand. To these ends, we are streamlining our distribution operations, reducing material and product design costs, and reorganizing our international and domestic manufacturing bases. In particular, the Company is working to shorten production lead time and to put in place a low-cost operating structure by gradually transferring manufacturing capacity to subsidiaries in Vietnam and China. Based on these measures, we expect to achieve cost savings of between ¥3 billion and ¥4 billion in the next few years.

Outlook

The Japanese retail industry is currently in the throes of a major transformation. At the same time, there is still little



sign of a turnaround in consumer spending. In the wholesale retail business, the traditional driving force behind the Company's growth, department stores and general merchandising stores are experiencing an exceptionally difficult operating environment, which in turn is having a significant impact on Wacoal's business. Nonetheless, the market for women's fashions and intimate apparel still offers considerable growth potential, especially overseas, and with this in mind Wacoal is continuing to strengthen its business in the United States, China, and Southeast Asia. The Company is confident of capturing growth potential in these markets by providing innovative, value-added products and services that are tailored to the times and the lifestyles of its customers.

Finally, I would like to take this opportunity to ask our shareholders and investors for their continued support as we face the challenges ahead.

July 2001

Yoshikata Tsukamoto

President and Representative Director