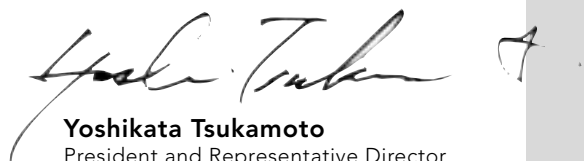


# Interview with the President



*“To increase profitability, we are actively pursuing a forward-looking operating strategy that focuses on achieving sustainable growth and undertaking structural reform.”*

  
**Yoshikata Tsukamoto**  
President and Representative Director,  
Corporate Officer

## Performance Evaluation and Operating Environment

Q: What is your assessment of Wacoal's performance given the business conditions that prevailed during the fiscal year under review?

A: I think we effectively met the challenges presented by a difficult operating environment that was characterized by sluggish personal consumption and stronger deflationary trends in our main market, Japan. On the other hand, I do not feel that our results were satisfactory in all respects. Our performance was adversely affected by a series of failures and store closures among our major business partners, including department stores and general merchandising stores. However, we were unable to fully respond to these developments, which indicates we have to address the Company's management of such external factors. To that end, we are taking a variety of measures to ensure that the Company can maintain steady growth, even in such unfavorable business conditions.

Q: What changes has weak personal consumption brought about in Japan's intimate apparel market?

A: Although the intimate apparel market has been severely affected by stagnation in the retail industry, this does not signify a loss of interest in intimate apparel among women. On the contrary, women are tending to regard intimate apparel as fashion items, increasingly selecting foundation garments and other items according to the time, place, and occasion. As a result, customers are now seeking products ranging from the functional to the highly fashionable. In addition, certain new consumption trends have emerged. While, on the one hand, there has been a growing shift toward lower-priced items, particularly among younger customers, there has also been an increase in the number of customers seeking luxury, brand name intimate apparel.

*“At present, based on its strategy of increasing points of contact with customers, Wacoal is creating new sales channels through such measures as the promotion of its SPA shop operations.”*

Q: It is said that intimate apparel is a matured market sector. Do you think there is any room for further expansion?

A: Yes, of course. For example, Wacoal has been taking the lead in the intimate apparel market by actively promoting increased sales of lingerie items, such as slips. In the past, Wacoal's intimate apparel sales were divided roughly equally between foundation garments and lingerie. Recently, however, fewer women are wearing slips, and the proportion of sales accounted for by lingerie has decreased. Our aim is to remind women of the attractiveness of lingerie by creating new products in keeping with the times. Also, we plan to develop a new market for intimate apparel targeting older women, accompanying growing numbers of senior women who are seeking fashion items that enhance their individuality, beauty, and self-confidence. Accordingly, we will draw on the results of Wacoal's human science research to offer products that are designed to take into account the changes the aging process brings about in women's body shapes, skeletal structure, skin sensitivity, and respiratory functions. These are only two examples of the wide-ranging opportunities that exist to invigorate and expand the intimate apparel market.

#### Growth Strategy

Q: What is Wacoal's strategy for achieving sustainable growth?

A: Broadly speaking, we have two main strategies. First is our strategy targeting increased sales, which is indispensable if the Company is to maintain growth. Second is our strategy aimed at strengthening and reorganizing the Company's income structure so that Wacoal can achieve steady profitability even when sales are depressed. While we intend to establish time frames and to move forward quickly to implement these two key



strategies, it will take time for the benefits of these strategies to be fully realized.

Q: Could you be more specific about how Wacoal intends to increase sales?

A: We are presently developing various initiatives based on our basic concept of expanding points of contact with customers. Until now, department stores and general merchandising stores have been our mainstay retailing channels; however, depressed conditions in the retailing industry have led to reductions in the number of retail outlets. Consequently, securing new retailing channels to increase our points of contact with customers has become a pressing issue for Wacoal. In concrete terms, we will principally expand our points of contact with customers by opening SPA shops targeting younger customers and by bolstering our Internet and mail-order catalog operations. By March 2004, we aim to have opened approximately 150 SPA shops, generating net sales of about ¥10 billion. Similarly, we plan to boost Internet and mail-order catalog sales from approximately ¥6 billion to about ¥7 billion by March 2004.

Q: Could you tell us about the current state of progress and plans for Wacoal's SPA shop operations?

A: As of the end of June 2002, Wacoal had opened 40 SPA shops. We have created several types of these shops to cater to specific customer groups and lifestyles and to reflect the characteristics of their respective locations. We plan to step up the pace of SPA shop openings while giving high priority to quality by carefully selecting store locations. At the same time, we will close low-performing SPA shops to build a highly profitable store network. Until recently, separate sections within the Company had conducted the development of our SPA shops. In January 2002, however, we integrated

these sections to enhance the management and operational efficiency of our SPA development activities.

Q: What are Wacoal's strategies for increasing sales in areas other than its SPA shop operations?

A: In intimate apparel, we are working to develop new value-added products and services. For example, through our Dublevé intimate apparel fitting service, we have been able to provide customers with a value-added service that gives meticulous attention to detail. During the year under review, we opened 10 shops that offer this service, bringing the total to 17. In other areas of our operations, we are working to increase sales of our range of CW-X conditioning wear, which was developed based on the results of Wacoal's research in the field of human science, and to promote sales of the swimwear range we developed through an alliance with NIKE Japan. Wacoal intends to boost sales of both of these lines through a marketing strategy that takes into consideration opportunities in overseas markets. Furthermore, as I mentioned earlier, we also intend to focus on meeting the specific needs of older women by drawing on our human science research work to offer products that are designed to suit the body shapes, skeletal structure, skin sensitivity, and respiratory functions of older women.

Q: What successes did the Company have in the fiscal year under review with structural reform aimed at securing profitability?

A: During the year, we undertook a variety of structural reform measures to reduce distribution costs and reorganize our production centers in Japan and overseas. Thanks to these steps, we hope to achieve total savings of approximately ¥3.2 billion by March 2004. To give an example of the success that we have had thus far, two years ago Wacoal



had 17 distribution centers in Japan. Thanks to the measures taken to consolidate these operations, we reduced the number of distribution centers to four. In addition to lower distribution costs, the rationalization of our distribution centers has led to reduced inventory losses. Meanwhile, we have also cut costs by shifting production to our subsidiaries in China and Vietnam and increasing our overseas procurement of materials. The implementation of these comprehensive structural reform measures reduced costs by approximately ¥1.0 billion in the fiscal year under review.

#### Overseas Operations

Q: Would it be correct to say that bolstering the Company's operating infrastructure in China is an integral part of Wacoal's overseas strategy?

A: For the manufacturing sector, China is crucial in two respects. First, it is a potential market, and, second, it is important as a production center for the development of global business. Now that China has gained membership of the World Trade Organization, we expect the opening up of markets to accelerate. Wacoal realized the potential of the Chinese market from an early stage, commencing local production and retailing activities through a joint venture company established in Beijing in 1986. Subsequently, in December 2000, the company became a wholly owned subsidiary of Wacoal, forming the strategic base for the Company's future operations in China.

Q: Could you explain the details of Wacoal's business plan for China?

A: By 2004, we aim to complete the operating infrastructure required for a full-scale expansion of our business in China. Plans call for building an efficient, nationwide retailing network by bolstering and improving existing production and

*"Our plans call for constructing a sales network covering 200 mainstay department stores in China by 2004."*

*“In the year under review, Wacoal carried out a buy-back and retirement of 2 million shares, at a market value of ¥2.4 billion.”*

marketing operations in Beijing, Shanghai, and Guangzhou and by establishing new retailing bases in Dalian and Chengdu, which will give Wacoal the capacity to merchandise its products in 200 department stores across China.

Q: What developments have there been in Wacoal's performance in the United States?

A: In 2001, the business results of Wacoal America were satisfactory. Wacoal has three brands in the U.S. market: DKI, Wacoal, and DKNY. Although our DKNY brand, which targets the casual wear market, struggled in 2000, its performance recovered substantially in 2001 thanks to a return to market competitiveness. Our DKI and Wacoal brands, which already have firmly established positions in mid-to-high-end markets, also recorded robust sales in 2001. As a result, Wacoal America's net sales rallied to approximately \$100 million.

#### Corporate Governance

Q: What is Wacoal's basic philosophy with respect to corporate governance?

A: In today's dynamically changing business environment, we are striving to create an efficient system of management in order to enhance the corporate value of Wacoal Group companies. In June 2002, the Company introduced an corporate officer system, which clarifies the process for formulating operating strategies as well as the operating responsibilities of executive officers on the board of directors. Also, we intend to reform the Company's management processes by accelerating decision making and bolstering functions for assessing the Company's operations. At the same time, we will realize open management by introducing a system under which executive officers from outside the Company become members of the board of directors. Further, to increase the transparency of



management, the Company will actively promote greater disclosure of information to its shareholders and investors.

Q: Could you explain Wacoal's policy for enhancing corporate value and returns to shareholders?

A: The Company's basic policy is to continue providing steady returns to its shareholders while taking steps to bolster Wacoal's financial position from a long-term perspective. In the fiscal year under review, Wacoal carried out a buy-back and retirement of 2 million shares, at a total market value of ¥2.4 billion. We will use our internal reserves to invest in distribution and information technology as well as in the expansion of our network of SPA shops, which will in turn enable us to pass on to our shareholders the benefits derived from our improved performance.

#### Outlook

Q: In closing, what is the performance outlook for Wacoal in the current fiscal year?

A: Although a strong sense of uncertainty surrounds the future direction of the Japanese economy, and personal consumption is not yet on course for recovery, the current economic slump has almost bottomed out, and we can expect a gradual upturn in consumer spending. Based on its medium-term operating plan, Wacoal will continue to actively implement strategies to increase its points of contact with customers. We will also work to improve our financial performance by seeking more efficient business management, giving greater priority to such performance indicators as ROE, operating profit margins, and operating cash flows. We anticipate net sales of ¥165 billion and operating income of ¥8.7 billion in the current fiscal year.