

# AN INTERVIEW WITH THE PRESIDENT

## PERFORMANCE EVALUATION

**Q.** How would you evaluate Wacoal's performance in view of the market conditions that prevailed during the fiscal year ended March 31, 2003?

**A.** Net sales and operating income were up from the previous fiscal year. While I am not entirely satisfied with these results, we did perform well in a tough operating environment. Net income declined year on year, but this was attributable to an extraordinary valuation loss on investments in marketable securities.

Sales in the domestic market account for roughly 90% of consolidated net sales. However, for some time now, personal consumption has been stagnant due to instability in the financial services industry, deflation, and deteriorating job security. While there were signs of a slight upturn in business at some department stores and general merchandising stores, continued lower sales and customer numbers in the retail industry as a whole had a negative impact on the Company's performance. On the other hand, Wacoal's results in the fiscal year under review were driven up by the robust performance of mainstay overseas operations in North America.

**“Wacoal's growth until now has been founded on a forward-looking business philosophy. And, experience has shown that hit products sell irrespective of the business climate.”**



Yoshikata Tsukamoto, President

**Q.** What is the outlook for the women's intimate apparel market?

**A.** Product development capabilities will be the key to success not only in the women's intimate apparel market but also in the fashion industry as a whole. Only those companies offering products that accurately cater to the dynamic changes in consumer trends and preferences that are shaping today's market are assured of future growth. Although it may be difficult to outline bright scenarios for the future based on current economic conditions and consumer trends, in the end the onus remains on companies to use their capabilities to develop market potential and to create growth. Wacoal's growth until now has been founded on this forward-looking business philosophy. And, experience has shown that hit products sell irrespective of the business climate.

Our *SHAKITTO bra*, launched in July 2002, has become a top seller, with 800,000 pieces sold in the fall/winter season. This success demonstrates the paramount importance of developing products with real value. I am convinced that as long as women want to look and feel more beautiful and as long as we can respond to this need, there will be many business opportunities for us to take.

## DOMESTIC GROWTH STRATEGY

**Q.** Amid the difficult operating environment, what will Wacoal have to do to achieve continued growth?

**A.** As I just mentioned, it will be vital that we draw on our product development capabilities. At the same time, in marketing efforts, we must secure sustained growth by increasing points of contact with customers. In other words, we have to respond to changes in sales channels and the age composition of the consumer population and to the diversification of customer needs.

Specifically, we need to attract young customers while expanding operations that target the promising markets presented by older generations. As the demographic aging of Japan's population becomes ever more pronounced, we must strive to earn the loyalty of customers in their teens and 20s, who will underpin the market going forward. Unless we rethink and bolster our sales channels, it will be difficult to attract younger consumers through the department store and general merchandising store oriented retailing that we have used up to now. At the same time, we must also offer appealing products to the increasing numbers of elderly women who represent a market that is expected to grow.

**Q.** Would you please give some examples of the concrete measures Wacoal has taken recently to increase its points of contact with customers?

**A.** A good example is the development of our SPA (specialty store retailing of private label apparel) shop network targeting younger customers. Many young people tend to prefer shopping at malls or specialty stores than at department stores. In view of this, over the past two years Wacoal has been working to increase its points of contact with these consumers by opening directly managed SPA shops. We are developing several types of stores that are designed to target specific customer groups and lifestyles and to reflect the distinctive characteristics of store locations.

The outlook for our SPA operations is promising based on their favorable performance up to this point. Our target is to build

a network of 100 SPA shops by March 2004, while adhering to a store-opening strategy that emphasizes the profitability of each shop. By drawing on our experience of which stores succeed and which stores do not, we are carefully selecting store locations to construct a competitive network of high-quality, directly managed outlets.

**Q.** Aside from developing Wacoal's SPA shop network, what measures is the Company taking to expand its operations?

**A.** In order to strengthen our sales channels, we are aggressively developing Internet and mail-order catalog retailing operations. During the fiscal year under review, combined sales through these channels amounted to ¥6.3 billion.

In addition, based on expertise and data acquired over many years by our Human Science Research Center, Wacoal will continue to use its core competence in original product development to expand the Company's peripheral operations. For example, we are leveraging research results accumulated in the development of intimate apparel to create new product categories, such as our Wellness product range. Built around CW-X conditioning wear for athletes, this range has recorded strong sales growth, reaching ¥5.6 billion in the year under review.



**“We are carefully selecting store locations to construct a competitive network of high-quality, directly managed outlets.”**

## FINANCIAL HIGHLIGHTS

WACOAL CORP. AND SUBSIDIARIES  
Years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars*	% Change
	2003	2002	2001	2003	2003 vs 2002
Net sales .....	¥163,709	¥162,829	¥162,023	\$1,386,542	+0.5%
Operating income .....	7,264	7,186	9,624	61,523	+1.1
Income before income taxes, equity in net income of affiliated companies, minority interests and cumulative effect of accounting change .....	4,604	7,613	20,129	38,994	-39.5
Net income .....	2,898	4,983	10,889	24,545	-41.8
Per 5 shares of common stock (in yen/dollars):					
Net income .....	¥97	¥166	¥356	\$0.82	-41.4
Cash dividends .....	68	68	83	0.58	-
Shareholders' equity .....	¥160,839	¥168,205	¥172,558	\$1,362,234	-4.4
Total assets .....	218,105	223,985	232,262	1,847,252	-2.6

\* The U.S. dollar amounts represent translations of Japanese yen solely for convenience at the rate of ¥118.07=\$1.

**Q.** What results did Wacoal's structural reform measures produce in the fiscal year under review?

**A.** Over the past few years, we have implemented a program of cost reductions focused on reducing materials costs by reviewing procurement channels; cutting production costs by transferring manufacturing operations overseas; and lowering distribution costs by reforming the Company's logistics system. Thanks to these continued endeavors, we achieved cost reductions of approximately ¥0.7 billion during the year, roughly equivalent to the level in the previous fiscal year.

Aiming to reduce production costs, we will continue to shift production to our subsidiaries in China and Vietnam. At present, approximately half of our mainstay brassieres are produced overseas.

## OVERSEAS OPERATIONS

**Q.** Would you please outline the main developments in Wacoal's business activities overseas?

**A.** During the fiscal year under review, overseas operations represented approximately 11% of net sales. But, I should mention that in such Asian countries as Thailand, Taiwan, and South Korea, where *Wacoal* has become a leading brand, we are involved in joint-venture operations with local capital. As these affiliates are generally accounted for in consolidated financial statements using the equity method, their robust sales performances over the past year are not reflected in consolidated sales figures. Consequently, the actual presence of the *Wacoal* brand in overseas markets is greater than our consolidated net sales would suggest. At present, Wacoal's products are sold in 10 countries. Including affiliated companies, worldwide sales during the year under review totaled approximately ¥200 billion, of which ¥55 billion were overseas sales.



“Our basic strategy for accelerated growth is two-pronged—revitalizing domestic markets and developing overseas markets.”

Of the 31 million Wacoal brassieres sold during the year, more than half, or 16 million, were sold overseas.

Also, U.S. subsidiary Wacoal International Corp. (WIC) makes a considerable contribution to our consolidated results. In the fiscal year ended December 31, 2002, WIC posted increased revenues and earnings, with sales of \$103 million, or ¥12.2 billion, and operating income of \$13 million, or ¥1.5 billion. Moreover, our manufacturing subsidiaries in China and Vietnam are now large enough to make steady contributions to our consolidated results.

**Q.** What strategy will Wacoal adopt in its overseas operations going forward?

**A.** I believe that, in addition to the Japanese market, overseas markets will play an absolutely crucial role in our realization of sustained growth. Our basic strategy for accelerated growth is two-pronged—revitalizing domestic markets and developing overseas markets. In our overseas operations, the United States and China will remain the focus of our efforts. While we have already successfully established a solid operating base in the United States, we plan to further expand the scale of our U.S. business while enhancing its profitability.

We were quick to realize the potential of the Chinese market, establishing a joint-venture company in Beijing in 1986. Since then, Wacoal has steadily developed its manufacturing and sales operations in China. In December 2000, the Beijing joint venture was made a wholly owned subsidiary and positioned as the strategic base for our Chinese operations. In preparation for stepped-up marketing activities in China, we extended our retailing network to five bases, adding two retailing bases in Dalian and Chengdu to existing operations in Beijing, Guangzhou, and Shanghai.

## CORPORATE GOVERNANCE

**Q. What corporate governance systems does Wacoal have in place?**

**A.** During the year under review, Wacoal introduced a corporate officer system that defines the process for formulating management strategies by the Company's board of directors and clarifies the operating responsibilities of executive officers. This new system has enabled the Company to accelerate decision-making processes and to respond precisely to today's rapidly changing operating conditions. Also, we intend to evaluate structures that will allow Wacoal to incorporate outside opinions into its management decisions with a view to further enhancing openness.

At the same time, Wacoal will continue to promote the transparency of its management by bolstering IR activities targeting greater disclosure to its shareholders and other investors. Moreover, by reviewing all aspects of the Company's activities from the perspective of corporate ethics, we will work to improve the quality and equitability of Wacoal's management and business. To this end, we will formulate Wacoal guidelines for corporate ethics, which we will seek to inculcate in all employees through workshops organized by a newly established committee for the implementation of corporate ethics.

**Q. Would you please explain Wacoal's basic policies to increase shareholder value?**

**A.** Our most important policy for raising shareholder value is to conduct investments that will expand future earnings. We will heighten our competitiveness by investing in the expansion of our SPA shop network and refurbishing existing sales areas at department stores and general merchandising stores. In addition, we will



**“Over the past three years, the Company has bought back and retired 7.5 million shares, at a total value of ¥7.5 billion.”**

invest in our Wellness operations and mail-order catalog retailing operations while upgrading distribution and store information systems.

Over the past three years, the Company has bought back and retired 7.5 million shares, at a total value of ¥7.5 billion. In the future, we will implement similar policies aimed at returning profits to shareholders. In the year ending March 31, 2004, we plan to repurchase a maximum of 5 million shares.

## OUTLOOK

**Q. Finally, how do you think Wacoal will perform in the current fiscal year?**

**A.** The economic outlook at home and abroad is more uncertain than ever due to such factors as international political instability and concern over the slowdown in the U.S. economy. Despite some signs of mild recovery in the retail industry, it remains difficult to be optimistic about the prospects for personal consumption. Against this backdrop, Wacoal will make concerted efforts to develop products that offer even greater added value and work to enhance its performance by implementing the strategies and policies just outlined. We anticipate consolidated net sales of ¥167.0 billion and operating income of ¥8.3 billion in the current fiscal year.

In closing, I would like to take this opportunity to ask our shareholders and other investors for their continued support.

June 2003

A handwritten signature in black ink, which appears to read "Yoshikata Tsukamoto". The signature is written in a cursive style and includes a small mark at the end.

Yoshikata Tsukamoto  
President and Representative Director