

Transformation for growth

Transformation is vital to ensuring steady growth in today's rapidly evolving operating environment. While constantly adhering to its founding business concept of working to help women look and feel more beautiful, Wacoal has continued to take decisive steps to reform the Company so that it can adapt to changing market trends and customer purchasing requirements. Now, Wacoal has launched a package of reform measures that is aimed at moving the Company toward its next stage of development. At the same time, we will continue pursuing our mission to enhance women's lifestyles, to increase our points of contact with customers, and to build a sound corporate structure.



Transformation for Increasing **Its Value**

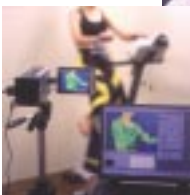
Wacoal is increasing its corporate value through a transformation of its operations, in the same way that a tulip grows in value as it develops from a bulb to a bud and finally blooms.

▷ **Wacoal is transforming its operations to achieve its new business concept, Body Designing.**

Looking to the future, Wacoal is in the process of steadily shifting the focus of its operations from intimate apparel to Body Designing. This new business concept capitalizes on the results of our long-term research in the field of human science and on our product development know-how to bolster the development of intimate apparel and services that are in harmony with the lifestyles of our customers.

In intimate apparel, we have worked to reorganize our brands, create new sales outlets, and develop products to allow us to respond precisely to customer requirements according to age and lifestyle. As a part of these efforts, we have expanded our Dublevé custom-made intimate apparel service for customers seeking an individual fit by opening directly managed and franchise shops that offer this service. In addition, we launched our "good age" business for the development of goods targeting older women.

Wacoal is also focusing on its Wellness wear business. We have already launched a wide variety of products, including Wacoal's range of CW-X conditioning wear for athletes, swimwear co-developed with NIKE Japan, Inc., and ergonomic foot products. Wacoal will redouble efforts to promote its Body Designing business concept by retailing its mainstay products globally and strengthening business alliances that draw on the Company's renowned technology and know-how.



The Human Science Research Center



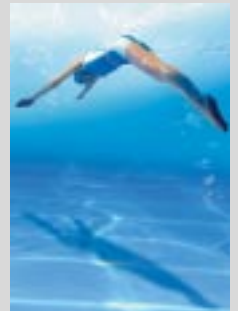
Dublevé



Ergonomic foot products



Japanese pro-baseball player Ichiro Suzuki in CW-X conditioning wear



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NIKE swimwear



Transformation for Expanding Its Territory

Wacoal is extending its points of contact with customers by transforming its sales network, in the same way that a caterpillar, through metamorphosis in its chrysalis, extends its sphere of activity by becoming a butterfly.



.....▷ **Wacoal is transforming its sales network to achieve a three channel retailing strategy.**

Three channel retailing is a marketing strategy crucial to securing the Company's continued expansion in the 21st century. Due to limited growth that can be achieved by selling wholesale to department stores, specialty shops, and general merchandising stores, it is necessary to establish new sales channels to increase our points of contact with customers. Wacoal's three channel retailing strategy aims to expand the Company's network of directly managed SPA shops and Internet and mail-order catalog operations through effective cross-linking of each area.

In our SPA business, which was launched in 2001, we had established 40 SPA shops as of the end of June 2002, and we plan to expand the network to approximately 150 shops, with annual sales of about ¥10 billion, by March 2004. By targeting different customer groups and lifestyles, Wacoal is developing a variety of brands that are retailed exclusively through SPA shops, including SUBITO, une nana cool, Intimates, QCVD, and CHERCHEZ. In an effort to create brand differentiation from Wacoal goods available through other retailing channels, we have focused our SPA product ranges on customers in their 20s and emphasized design and price.

Meanwhile, we made a full-scale launch of intimate apparel sales utilizing Wacoal's Internet and mail-order catalog retailing channels during the year under review. Our website, WACOAL ONLINE, and our mail-order catalogs, SACHET and LOVE BODY, have become established strategic retailing tools.

SUBITO

une
nana
cool

Cherchez
BOY OF PARIS

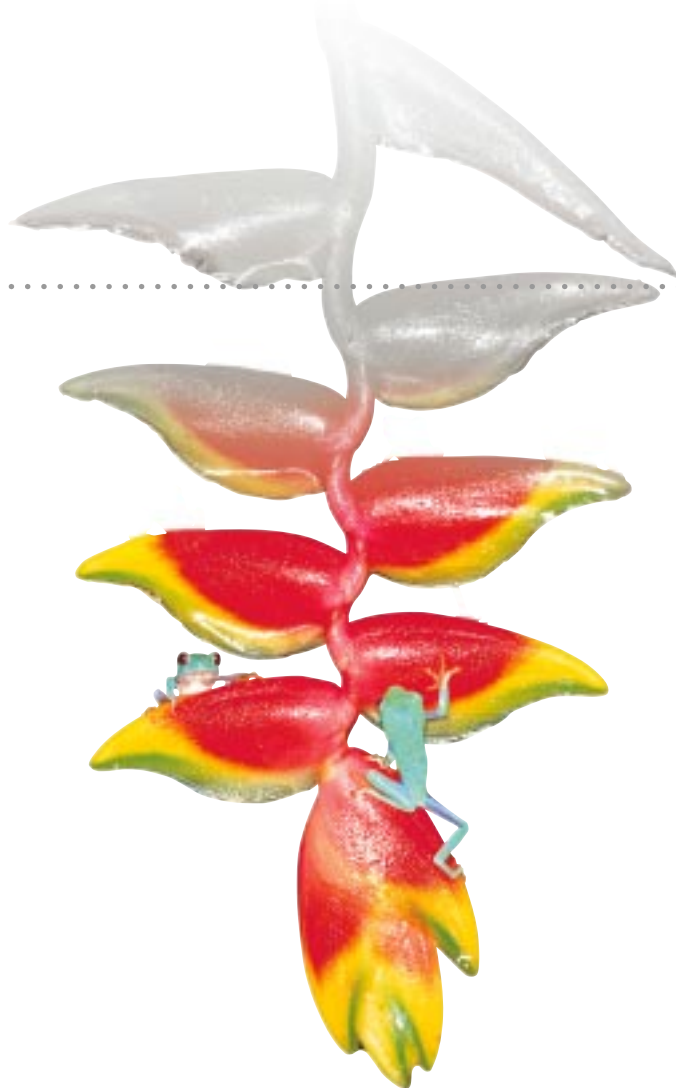


une nana cool (Sannomiya shop)



<http://www.e-shop.wacoal.co.jp/>





Transformation for Adapting to Its Changing Environment

Wacoal is reforming the structure of its operations to enable it to adapt to changes in its business environment, in the same way that a tadpole undergoes a transformation as it matures into a frog to allow it to live both on land and in water.



▷ **Wacoal is transforming its operational structure to achieve strong profitability.**

Given the increasingly intense competition among companies in the intimate apparel market, Wacoal is moving forward with structural reform measures aimed at creating a company with higher profitability. Specific structural reforms, which target cost reductions, will primarily entail consolidating distribution centers, reorganizing production bases in Japan and overseas, reassessing raw materials sourcing, reviewing product designs, and increasing the effectiveness of staff deployment.

During the year under review, we introduced a new distribution system that utilizes only four distribution centers in Japan. This step has not only facilitated a reduction in distribution costs but also made a major contribution to lowering inventory losses and improved the efficiency of operations between our Head Office and branches. Moreover, Wacoal is targeting lower production costs by purchasing materials overseas and boosting production capacity at its subsidiaries in China, Vietnam, and other countries. In two years time, we plan to raise our overseas production ratio to 50% in volume terms. Further, we will reduce personnel costs through the utilization of diverse employment formats, including part-time and contract employees. In conjunction with these efforts, the Company will pursue reform of its personnel system, introducing rewards that reflect improvements in professional performance and other measures.

By proceeding with this multifaceted structural reform package, our mid-to-long-term strategy is to build an organization that enables the supply of highly cost-competitive products globally and that can generate profits through a flexible response to changes in our operating environment, while ensuring we continue to create enduringly popular products that meet customer needs.



Factory at Beijing Wacoal



Beijing Wacoal



Sales floor in a department store in Shanghai



Vietnam Wacoal

