

Restoring growth and improving profitability

EMBRACING CHANGE NURTURING FOUNDATION

1.

**Developing Highly Differentiated Products
through the Human Science Research Center**

Wacoal's Human Science Research Center has been measuring the human body for more than four decades.

Based on that accumulated data, we are developing original and functional products that create new markets.





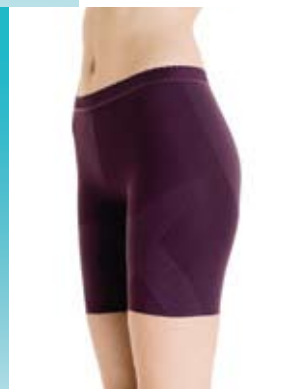
Based on the cumulative results of more than four decades of independent research, the Human Science Research Center aims to overwhelmingly differentiate us from our competitors by continuing to develop products that offer superior functionality.



CW-X Performance-up Model



The Human Science Research Center



Onaka Walker

Style Science lineups such as *Onaka Walker* and *Hip Walker*, *CW-X*, *Shakitto Bra*...

Many of Wacoal's flagship products result from the long-term research of the Human Science Research Center.

For more than forty years, since its establishment in 1964, the Human Science Research Center has specialized in research on the physiques of women, boasting a long and varied track record of achievements. Every year, the center measures the physiques of between 500 and 1,000 women, ranging from those in their late teens through to those in their 60s. To date, we have gathered data on more than 40,000 individuals. Further, by measuring the same individuals over long periods of time, we are advancing research that sheds light on the changes in women's physiques that accompany aging. Other initiatives include body movement research, which has enabled us to realize sportswear with advanced functionality that promotes fluid movement and lessens muscle fatigue by incorporating a taping principle to stabilize joints during exercise. That research also underpins our offerings that alleviate the infirmities of senior citizens resulting from changes in physique and physiology as they age. And, Wacoal's lineups featuring functions that comfortably support posture and movement are also the fruit of research on body movement. The center not only focuses on functionality but enables the creation of comfortable products through research on the wearing comfort and texture of apparel. In those initiatives, the center investigates the sensory and physiological reactions to three basic stimuli: temperature, such as warmth or coolness; pressure, such as tightness or looseness; and touch, such as pleasant or unpleasant textures.

In 2002, Wacoal established the Chinese Human Science Research Center as a research base in China. Despite a common Asian ancestry, Japanese and Chinese people differ significantly in their physiques and lifestyles. We cannot market products with the same measurements and specifications as those marketed in Japan because they do not suit Chinese women. Therefore, in the same way that we do for Japanese women, we began collecting detailed measurement data on the physiques of Chinese women, which we are now reflecting in original lineups.

Through such initiatives, Wacoal draws on a huge volume of data and unparalleled expertise in research on proportional changes, the senses and physiology to further product development. The outstanding functionality that results markedly differentiates Wacoal's products from those of competitors – a major factor in heightening brand value. Based on an overriding strategy of applying technological capabilities and new knowledge gained from human science research to product development, we will create products that make everyone more beautiful, comfortable, and healthy and that customers will always love.



Restoring growth and improving profitability

EMBRACING CHANGE NURTURING FOUNDATION

2.

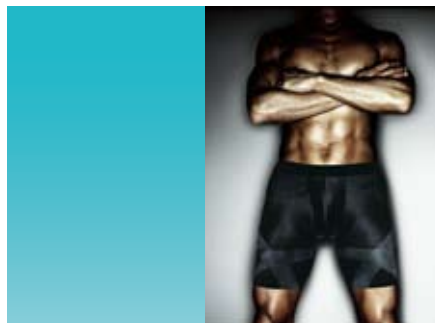
Providing Our Products to More Customers

In response to Japan's maturing market, Wacoal is increasing points of contact with customers, launching new sales campaigns, and developing and creating sales channels.



In order to counteract the maturing of such wholesale channels as department stores and general merchandising stores, we are creating fresh growth opportunities by developing and strengthening new sales channels – including SPA operations, Internet sales and mail-order catalog sales – and developing new business areas to increase points of contact with customers.

In recent years, Japan has seen growing concern about diseases and health problems stemming from obesity. Viewing that trend as a chance to expand our business, we developed Style Science lineups that exercise the wearers' bodies as they walk, thereby reducing body fat and firming up the physique. Moreover, we have launched Style Science products for men. Against the backdrop of the introduction of mandatory health checkups and health guidance to prevent metabolic syndrome, we have begun marketing those functional products through such new sales channels as corporate health insurance associations and gyms as well as through department stores, general merchandising stores and innerwear specialty stores.



Cross Walker marked our fully-fledged entry into the underwear market for men

In addition, Wacoal paved the way for expansion of innerwear operations' business area and market share by moving forward from a capital and operational tie-up with Peach John Co., Ltd., concluded in June 2006, to make it a wholly owned subsidiary in January 2008. Through mail-order sales and retail operations targeting young customers, our new subsidiary covers age groups and product preferences that we had not fully covered. Also, to strengthen Peach John's mail-order catalog sales operations, we will rebuild the subsidiary's production base and information systems to realize a production-planning system based on demand forecasts that will reduce sales opportunity loss due to product shortages and deliver products to customers reliably.



Exwalker is sold through such channels as corporate health insurance associations

Although the Company is developing new sales channels and increasing points of contact with customers, sales of Wacoal's mainstay brassiere lineups have been declining in recent years. Reasons for that decrease include the maturing of Japan's innerwear market, product diversification and consumers' increasingly selective use of sales channels and brands. Furthermore, as loyal customers who love and place a great deal of trust in Wacoal products age, the number of young women or young career women among our customers is decreasing.



Wacoal web store
<http://store.wacoal.jp/top/CWcTop.jsp>

One of Wacoal's strategies in response to that trend is the development of a new Wacoal-brand marketing campaign centered on the LALAN brand. Our aim is to excite the interest of women with little interest in Wacoal in order to have women of all generations equate innerwear with Wacoal. To that end, we are developing a more stylish image for the Wacoal brand. As part of that initiative, we have changed from launching fresh marketing campaigns every season that highlight the functionality of new products to an approach that emphasizes the fashionable and stylish aspects of products. Those efforts will strengthen the brand's association with novelty, fashion and innovation, which married with products' practicality and functionality, will heighten brand value and drive recovery in brassiere sales.

Restoring growth and improving profitability

EMBRACING CHANGE NURTURING FOUNDATION

3.

Increasing Presence and Profitability in Overseas Markets

The Wacoal Group will build its presence worldwide by stepping up operations in countries and regions in which it already has a presence while launching forays into new regions that offer business opportunities.





Entry into Southeast Asian markets in the 1970s heralded the beginning of the Wacoal Group's operations overseas. Subsequently, we penetrated markets in the United States, China and Europe and built *Wacoal* as a leading brand in mid-to-high-end markets of numerous regions around the world. Japan's innerwear market is unlikely to generate large increases in earnings due to the aging of society in recent years. Therefore, we must expand our operational platforms in overseas markets for growth.

As well as stepping up initiatives in regions where it has a presence, Wacoal will consider the feasibility of leveraging existing production platforms to enter new countries and regions that promise growth.

Mainstay U.S. operations are making an increasingly important contribution to the Company's business results, accounting for more than 10% of consolidated net sales. In those operations, we will cancel our manufacturing and sales contract for DK1 and DKNY designer brands. As result of that cancellation, sales will decrease in the current fiscal year. However, we will quickly bring sales back to previous levels through our original *Wacoal Luxe* brand, which we have already marketed, and the launch of a new brand: *b.tempt'd by Wacoal*. Moreover, Wacoal will increase sales channels by targeting specialty retail stores in addition to department stores. Also, we will advance new strategies such as entering the Canadian market. In order to heighten profitability, Wacoal will reduce the transportation times and costs for the procurement of materials from Group companies while improving productivity by increasing the operating efficiency of sewing plants.

In China's promising market, Wacoal will deploy further management resources to expand operations. Because the Chinese market is beginning to segment into distinct consumer groups, the Company will cater to a wider range of customer groups by rolling out *amphi* as a brand for younger customers and *Salute* as a high-value-added brand. And, aiming to heighten the image and name recognition of the *Wacoal* brand, we will implement an advertising campaign featuring the singer Ayumi Hamasaki, who is extremely popular in Japan and Asia. By bringing new brands to market, developing advertising campaigns and advancing initiatives to increase the number of stores that carry our products, we will achieve even higher growth that reflects the pace of market growth and changes in business conditions.

Vietnam, the location of some of our production bases, will remove regulatory restrictions in the retail industry on foreign capital from 2009, which is likely to trigger inflows of foreign capital that will expand the country's innerwear market. To ensure the Company does not miss this opportunity to expand operations, Wacoal will begin sales in Vietnam from January 2009. Further, Peach John plans to expand its operations in Japan and develop directly managed stores overseas. As a first step, the subsidiary aims to open a store in Hong Kong in the current fiscal year.



Sales counter in Bloomingdales, New York



Sales counter in the Shanghai Ongoing Department Store, China