

Improving our Group, going for growth

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My name is Tadashi Yanai and I am the Chairman, President and CEO of FAST RETAILING CO., LTD.

I would like to talk to you today on the topic of improving our Group and going for growth.

Improving our Group

First I would like to concentrate on the first part of this concept – namely improving our Group.



A look back over the 6 mths to Feb 07

UNIQLO

- **Expanding customer base**

- Better awareness of fashion elements attracted new & young customers
- Successful garments created through shrewd recognition of fashion trends

- **Progress on global development**

- New York global flagship store, Shanghai flagship store, second Hong Kong store all doing well

- **Need for better control gross margins**

- Adverse impact of warm winters
- Insufficient early planning and preparation

The FR Group

- **G.U. entering the low price brand market**

- Revision to initial plans for sales of ¥9.6bln in first business year

- **CABIN**

- Further strengthening of production, store openings, personnel training and management systems

- **VIEWCOMPANY welcomed into the group**

- Bought 33.4% ownership stake in November 2006

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If I might take a moment to consider the UNIQLO performance over the six months to February 2007. On the upside, we increased the number of new customers visiting our stores by developing new products that incorporated a greater element of fashion detail for the autumn/winter season. We noted a particular increase in the number of younger female customers visiting our stores for the first time. For instance our SKINNY jeans, that captured the fashion trends of the moment superbly well, have proved extremely popular.

Another positive factor to note in the interim period was the feeling that we are making progress on our global development. I feel that the direction of our global development is becoming ever clearer with the opening of our global flagship store in New York, the flagship store in Shanghai and the second store in Hong Kong.

On the other hand, there were one key area of concern during the interim period. And that was namely our ability to control our gross profit margin. The adverse impact of the warm winter has been named as the reason for our lack of control over gross margins in the first half. But we could also mention insufficient initial planning and preparation as a probable cause.

Looking back over the Group's performance as a whole, first of all I must mention the revision to our initial projections for our expansion into the low price brand market with our g.u. brand.

At CABIN CO., LTD. we continue to monitor the situation and to further strengthen production, new store plans, personnel training and management structures.

And in November 2006 we invested in the women's footwear chain VIEWCOMPANY CO.,LTD. bringing that company under the FR Group umbrella.



UNIQLO gross margin control

Reason for fall

- **Expanded discounting during warm winter**
 - Large discounting in November to make up for poor October, same trend continued from December onwards.
- **Numerous new trials detracted from planning & preparation**
 - Less attention paid to core products and core business
- **Delay in launching spring products**
 - Plan to offer winter garments through to January

Countermeasures

- **Bring forward the new season launch**
 - Heighten fashion appeal to coincide with new seasonal range launch
- **Strengthen our fashionable basic items**
 - Incorporate a greater fashion element into our basic items
- **More accurate product & production plans, better preparation**
 - An organizational structure that fine tunes production to suit demand
 - Agile review of sales and marketing plans

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I would like to take some time here to explain about the issue of gross margin control at UNIQLO. First of all, expanded discounting on the back of the warm winter has been cited as a reason for the fall in gross margin.

We did introduce significant discounting from November onwards in an attempt to bounce back from a particularly poor sales performance in October. And on top of that, the warm winter conditions actually continued through November and December leading to further discounting from December onwards as well.

You could also blame part of the fall in gross margins however on a waning attention to the core products and core UNIQLO business. Over the period, we did introduce many fashion products, we did open our New York flagship store, and we did conduct many “new experiments” including our Designers Invitation Project.

In addition, following our experience during the extremely cold winter last year when we ran out of some winter stock in December, we had determined to continue selling winter garments this season until January. As a result, the launch of our spring garments was somewhat delayed and this had an impact on our gross profit margin.

On ways to improve the level of control over our gross margin, we have decided to bring forward the launch of our new seasonal ranges. And I particularly want to emphasize the appeal of our fashion clothes each time a new season’s range comes into the stores.

In addition, I want to strengthen our “fashionable basic clothes”, and to incorporate more fashionable elements into the basic ranges. I also want to improve the accuracy of our product and production plans and strengthen our initial preparation phase. I am very keen to further strengthen our organizational structure to be able to fine tune production to better suit demand. In so doing, I want to ensure more accurate and agile reviews of our sales and marketing plans.

Going for growth

Next, I would like to talk about our strategy for future growth going forward.



Making UNIQLO a big name brand

From a suburban basic casual wear chain to a big name brand in the global market

**Big name brand = A completely new type of global brand,
recognized as a main player in the world market.**

- Open 200 large-format stores in Japan, shop space 1600 – 3300sqm
- The most impressive range of fashionable, high quality casual wear around
- Offer fashion, coordinates, styling options as well as single product appeal
- The fullest range of colors and sizes for each and every garment style
- Even offering a range of home furnishings to make everyday life more pleasurable
- HOTELS HOMES, BODY by UNIQLO, kids and baby wear

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First I would like to transform UNIQLO into a big name brand.

Up until now UNIQLO has been essentially a suburban basic casual wear chain, but I want to develop it into a big name brand that competes on the global stage. I want to transform UNIQLO into a global brand that is recognized as a main player in the world market along with the likes of other big names such as H&M, ZARA, GAP, etc. And to that aim I want to build a network of around 200 large format stores in Japan with shop floor space between 1600 and 3300 square meters.

Then I want to ensure that our brand is known for the most impressive range of fashionable, high quality casual wear around. That it doesn't just go for single product appeal but offers fashion, coordinates and styling suggestions as well.

I also want to ensure that we have the fullest range of colors and sizes for each single garment style.

On product development, I want to increase the range of home furnishings and other goods that can help make our customers' everyday lives more pleasurable. What I mean here is that I want to expand and strengthen the range of products on offer including miscellaneous home items with our HOTELS HOMES line, women's inner and underwear under BODY by UNIQLO, and kid's and baby products.

- **Opening flagship stores in the world's major cities**
- **Securing platform companies through large scale M&A**

We are making progress on our quest to transform UNIQLO into a global brand and now I am looking to open flagship stores in major cities around the world.

Encouraged by the success of our New York Soho store, we are looking to open flagship stores in London, Paris, Shanghai and Seoul.

And I am also looking to secure platform companies through large scale M&A to help develop UNIQLO's future overseas presence.

- **Consider a full network across China**
- **Open flagship stores in China's major cities**
- **Build an organization to equal the UNIQLO operation in Japan**

Next, I would like to talk about UNIQLO's development in China. We are considering developing a full network of UNIQLO stores throughout China, and we want to open flagship stores in China's major cities.

Then we would like to build an organization on a par with that in Japan.



Expand into related businesses

- **A footwear industry presence:**

**ONEZONE
VIEWCOMPANY**

Create a new shoes business, transform footwear and stores

- **Expanding into women's fashion: CABIN**

Pinpoint ways to create a new chain of women's clothing

- **The low price sector challenge: G.U.**

Grow the presence as a mainstay of the FR Group
Radical review of product lineup to suit the low price market

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Next, let me talk about progress made into new related businesses.

First, on penetrating the footwear industry. We have invested in ONEZONE CORPORATION and VIEWCOMPANY CO.,LTD.. And we are looking now to create an entirely new shoes business by redeveloping both the footwear and the stores in which they are sold.

We can look at our newly incorporated subsidiary CABIN CO., LTD. for progress on our entry into the women's clothing market. I want to use the CABIN business as a springboard to creating a new chain of women's clothing.

We have also begun our challenge into the low priced clothing sector with our g.u. brand.

I want to grow the g.u. brand into a mainstay operation for the FR Group.

But I realize that we have to conduct a radical review of our product lineup to better suit the low priced clothing market.

Creating a brand portfolio

Securing and expanding brands for global development

• FR FRANCE

- COMPTOIR DES COTONNIERS

- PRINCESSE TAM.TAM

• LINK THEORY HOLDINGS

- including the Theory brand

• Acquire strong European & US brands

I am also looking to create a brand portfolio through M&A.

We continue to pursue our strategy of securing and expanding brands with global potential.

For instance, we have bought the COMPTOIR DES COTONNIERS and PRINCESSE TAM.TAM brands under the FR FRANCE operation, we have purchased LINK THEORY HOLDINGS brands Theory, and Helmut Lang. And we are also investing in the development of the ASPESI brand for instance in Japan. I want to continue to develop our global presence by acquiring strong European and US brands.

**A highly profitable company
competing on the global stage**

So what is that I want in the end – to create a highly profitable company competing on the global stage.

And with that statement, I'll close my presentation.

Thank you.