

Message from the CEO



Chairman, President & CEO Tadashi Yanai

“One year into the transformation of our business structure, we are starting to see solid results. FAST RETAILING is on its way to becoming a global corporate group capable of achieving sustainable growth.”

FAST RETAILING has begun to face direct competition from apparel companies around the world, and its management is being called upon to fulfill their obligations to diverse stakeholders. Viewing these trends as an opportunity, we kicked off organizational reforms one year ago, with an eye to ensuring the Company’s ongoing growth in the global market. As well as these reforms, we have taken steps to make the organization more global, enhance Group management, and refocus on entrepreneurial values along with strengthening corporate governance under a holding company structure. These initiatives have started to produce solid results.

In our UNIQLO operations, we have embarked upon the creation of a new UNIQLO where store development, product development, and a large-format store strategy will drive the business’s growth. As for overseas UNIQLO operations, we opened a global flagship store in the Soho district of New York. We are also pursuing M&A activities and new business expansion, and the Group’s operations are as dynamic as ever.

Business Structure Transformation Yields Results

In fiscal 2006, ended August 31, 2006, FAST RETAILING achieved substantial gains in revenues and earnings, with consolidated net sales climbing 16.9% year on year, to ¥448.8 billion, and operating income rising 24.1%, to ¥70.4 billion. Solid growth in sales in the Group’s core UNIQLO business as well as the addition of new consolidated subsidiaries contributed to the robust performance.

One year ago, we commenced our business structure transformation in line with the belief that “FAST RETAILING must promote globalization and Group management as well as refocus on entrepreneurial values in order to move to the next stage of growth.” As part of the transformation, we established a holding company in November 2005 and set about bolstering the UNIQLO business and augmenting the Group’s operations. Over the past year, we have accomplished many things.

The UNIQLO business has switched to a strategy of accelerating the opening of large-format stores with floor space of approximately 1,600 square meters, which have been positioned as growth drivers. In turn, the Company is shoring up the development of products for large-format stores and has embarked on a path of product development that leverages the Company’s global R&D framework, with offices in Tokyo, New York, Paris, and Milan. In fact, products created under this framework hit store shelves in autumn 2006. Building on UNIQLO’s long-standing forte in basic merchandise, we have infused our offerings with style and shape as well as bolstered our lineup of trendy fashion, primarily with respect to our women’s items.

We are also working to develop flagship UNIQLO stores. Leveraging the success of the Ginza store's October 2005 debut, we opened a 3,300 square meter global flagship store in New York's Soho district in November 2006. The Soho store is a showcase for the world featuring the very best that UNIQLO has to offer in terms of products, sales displays, and service. We are looking to roll out flagship stores of this caliber in major cities around the world.

As for M&A and new business activities, our forays during the past year into apparel-related businesses that have growth potential and are expected to benefit from synergies with the UNIQLO business and raise the Group's corporate value paid off. First, in February 2006, we made PETIT VEHICULE S.A. a consolidated subsidiary, and in June of the same year, we made NELSON FINANCES S.A.S., a wholly owned subsidiary. Then, in August, we acquired a majority stake in CABIN CO., LTD., which operates a domestic chain of women's clothing stores, and subsequently made the company a consolidated subsidiary. Furthermore, in October, we launched a new casual brand of clothing called "g.u.," and in November, we acquired a stake in the shoe company VIEWCOMPANY CO.,LTD. In this way, we have instilled FAST RETAILING's brand portfolio with a more global flavor and progressed on our path toward becoming an apparel retailer with offerings for a broad array of customers.

The holding company FAST RETAILING is actively recruiting talent to assist with the management and bolster the corporate governance of these Group companies. We are enhancing these functions and establishing a solid foundation for Group management.

Large-Format Stores at the Heart of a New UNIQLO

In our domestic UNIQLO operations, we need to think out of the box both with regard to our stores and our products as well as push forward with sweeping reforms if we are to reinvent UNIQLO.

To date, UNIQLO has achieved high rates of growth by rapidly opening stores with standardized product lineups and floor space amounting to roughly 700 square meters in a typical location in the suburbs. However, now that we have a network of 730 stores throughout Japan, these stores and product lineups are only able to meet the relatively limited needs of our customers. By rolling out large-format stores with floor space of around 1,600 square meters, we aim to create a new UNIQLO that entices customers who used to only purchase basic items to take home a wider variety of products.

Over the past year, we have found that the efficiency of these large-format stores with floor space of about 1,600 square meters goes toe to toe with that of our standard stores. Based on our findings, we have decided to open 20 new large-format stores in fiscal 2007, ending August 31, 2007, after which we plan to pick up the pace and open 40 of these stores each year. On another front, we are scrapping existing stores and hope to expand the overall floor space of our domestic UNIQLO stores at a rate of around 10% per year.

Turning to new global R&D, we owe such successes as the autumn 2006 launch of SKINNY jeans to this framework. We caught wind of an emerging trend in the world's fashion markets, latched on, and became the first in Japan to introduce the latest in jeans. I believe that taking UNIQLO's "casual wear that

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can be worn by anybody, anywhere, everyday” concept and infusing it with added value—fashionability, trendiness, and new functional materials—in this way will enable us to attract new types of customers.

Until now, I feel that the perception that “fashion is something for certain young people” has pervaded. At UNIQLO, we believe that fashion is for anybody, anywhere, everyday. To this end, we should be able to offer customers from all walks of life reasonably priced, stylish clothing of world-class quality. We are seeking to uncover latent needs and working with our business partners to develop entirely new, sophisticated materials and products. We want to go beyond UNIQLO’s “basic casual clothing” image to create a product lineup that makes it *the place you can get anything you wear*.

Overseas UNIQLO Business to Leverage Flagship Stores



In autumn 2005, we opened UNIQLO stores in the United States, Hong Kong, and South Korea, expanding our overseas UNIQLO operations to four countries, including previously established stores in England and China. We first saw signs of success in our overseas UNIQLO business at the Hong Kong store, which was opened in September 2005. This store has taken off because we were able to convey what makes UNIQLO products great and what the brand is about, thanks in part to the store’s spacious floor space—about 1,000 square meters—and the fact that UNIQLO was not an unknown name in Hong Kong. Meanwhile, we learned from opening UNIQLO stores in shopping malls in the United States that it is difficult to sell products in new overseas markets where we do not have name recognition. This experience taught us a lesson about the importance of brand awareness in the success of overseas ventures. Taking this lesson to heart, we have switched to a strategy of opening flagship stores in local fashion centers to dramatically boost name recognition.

In November 2006, we took the first step of our new journey and opened a 3,300 square meter global flagship store in New York’s Soho district from which we will proudly display UNIQLO’s wares to the world. The Soho store embodies the very essence of the outstanding products, sales displays, and service that UNIQLO has to offer today. Our decision to open this store in the United States, where competition in the casual apparel market is cutthroat, was based on our belief that survival in this market will give us the strength to compete in the rest of the global market. In December 2006, we took another step forward and opened a 2,300 square meter flagship store in Pudong, Shanghai. We plan to continue our journey and roll out similar flagship stores in other fashion capitals around the world.

Embracing M&A Activities and Establishing a New Brand

Targeting consolidated net sales of ¥1 trillion and ordinary income of ¥150 billion in 2010, M&A and new business activities are FAST RETAILING’s management top priorities. Over the past year, our M&A activities have gradually started to take shape. In February 2006, we made PETIT VEHICULE S.A. a subsidiary; in June 2006, we made NELSON FINANCES S.A.S. a wholly owned subsidiary; and in August 2006, we acquired more than 50% of the shares of CABIN CO., LTD., a company listed on the First Section of the Tokyo Stock Exchange, via a successful tender offer after which we

g.u.



made the company a subsidiary. In addition, in November 2006, we acquired a stake in the JASDAQ listed women's shoe retail company VIEWCOMPANY CO.,LTD.

The objective of M&A activities is to leverage UNIQLO's strengths as a Specialty Store Retailer of Private Label Apparel (SPA), enhance the Group's global brand portfolio, and build a business platform for FAST RETAILING and UNIQLO in major markets around the world.

Going forward, we plan to actively engage in M&A activities, investing between ¥300 billion and ¥400 billion in companies with global potential able to eventually deliver sales of ¥100 billion or higher and a ratio of ordinary income to net sales of 15% or higher, and working together with outstanding business managers to achieve high growth.

As for new business, we opened our first store featuring the new "g.u." brand in October 2006. We created g.u. to develop the market in Japan for "absolutely low prices." In contrast to our quest with UNIQLO to enhance added value with high-quality, fashionable merchandise, we are going after rock-bottom prices with g.u. In the global apparel market, U.S. companies such as Wal-Mart Stores, Inc., and Target Corporation have been successful in the low-end market; however, this market remains undeveloped in Japan—presenting a huge business opportunity. We plan to open up to 50 g.u. stores each year in a variety of locations, including stores in Daiei shopping centers via a business alliance with The Daiei, Inc., stores in other shopping centers, and roadside stores. We aim to realize highly efficient operations by leveraging the SPA know-how that we have gained through our UNIQLO operations in g.u.'s product planning, production management, and store operation.

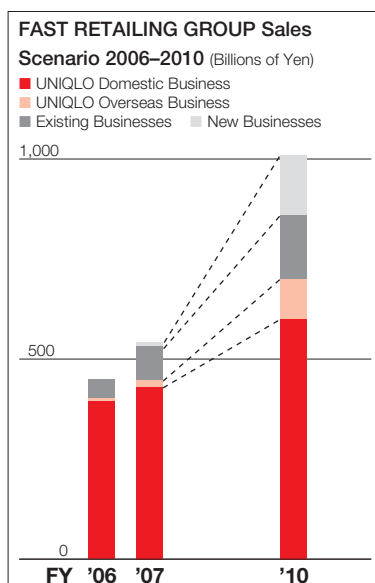
Working to Generate ¥1 Trillion in Group Net Sales

In the domestic UNIQLO business, we intend to accelerate the opening of large-format stores with a scrap-and-build approach while maintaining sales at existing stores. Not only that, but also we aim to increase profit margins by raising the accuracy of production adjustment and achieve growth in consolidated net sales and profits. In fiscal 2007, we will put UNIQLO's large-format store strategy into full play with the opening of a store with roughly 3,300 square meters of floor space in Japan.

We expect to see our overseas UNIQLO subsidiaries return to profitability, with the exception of our U.S. operations, which will remain in the red due to the costs associated with the November 2006 opening of our new store in the Soho district of New York.

Regarding other principal consolidated subsidiaries, we are looking to improve performance at ONEZONE CORPORATION as well as enlist the entire Group in the construction of a support framework for CABIN to put this subsidiary on a growth track. In addition, we will press ahead with the opening of new g.u. stores in line with our plans to develop this new chain of stores.

FAST RETAILING's vision is "to achieve Group net sales of ¥1 trillion and ordinary income of ¥150 billion and become the world's leading apparel retail group in 2010." We are looking to generate sales of ¥600 billion in the domestic UNIQLO business, ¥100 billion in the overseas UNIQLO business, and ¥300 billion in Group operations to reach our ¥1 trillion sales target. However, this is not



* Sales figures do not include the sales of equity-method companies such as LINK THEORY HOLDINGS CO.,LTD. and VIEWCOMPANY CO.,LTD.

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our ultimate goal. We want to be a corporate group that continues to grow even after we surpass the ¥1 trillion sales mark.

Becoming More Global via a Holding Company Structure

In November 2005, FAST RETAILING moved to a holding company structure to ensure its ongoing growth in the future. The new framework is designed to facilitate speedy decision making, flexible management of operating companies, Group-level management and globalization, and reinforcement of Group companies' corporate governance. The holding company's responsibilities include developing M&A activities, supporting individual businesses, and recruiting personnel to manage Group companies. In addition, we realigned and expanded audit, legal, finance, and other administrative departments during the fiscal year ended August 31, 2006 to bolster the Group's corporate governance, making headway in the construction of a management foundation for the Group.

Thinking About What Is Good for Society

FAST RETAILING is committed to being a responsible corporate citizen and has placed careful consideration of "what is good for society" at the heart of corporate social responsibility (CSR) initiatives throughout the Group. We want customers to enjoy their shopping experiences at our stores and to be satisfied with our products. We want our business partners to see their earnings rise. We want our employees and everyone else involved in our operations to be happy. We aspire to become a company that can achieve all these things.



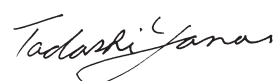
Environmental initiatives are among our CSR activities. In September 2006, we conducted a one-month experiment at UNIQLO stores throughout Japan promoting the recycling of UNIQLO products. The recovered products were used as relief clothing and recycled for use as thermal insulation and fuel. We will continue to engage in similar environmental activities as part of efforts to fulfill our social responsibilities as a corporation.

To Our Shareholders

FAST RETAILING recognizes the importance of returning profits to shareholders. For the fiscal year ended August 31, 2006, the Company paid an annual cash dividend of ¥130 per share, which represents a dividend payout ratio of 32.7%. It is our duty to maximize our corporate value while maintaining a balance between shareholder dividends, internal reserves for stable growth, M&A investments for growth in Group businesses, and investments and financing to strengthen Group companies' operating bases.

FAST RETAILING intends to remain a group of apparel retailers that embraces innovation and takes on new challenges to create design and produce truly great clothes to enrich the lives of people around the world and to get our message across to customers.

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Chairman, President & CEO, Tadashi Yanai