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Reinventing our product development process, introducing specific business segments.

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My name is Tetsuro Nakashima and I am the Vice President of product management at FAST RETAILING CO., LTD.

I would like to illustrate the two major changes we are instigating at FAST RETAILING in our quest to become a 3rd generation SPA, in other words, an information oriented, concept-driven manufacturer and retailer of clothes. They include a reinvention of our product development process and the introduction of specific business segments.

Reinvent product development

To become a 3rd Gen SPA or 'information driven visionary'

R&D centers

Mission: to gather even more information, carve strong concepts and convert that concept into actual clothing.

Business segments

To vertically integrate operations from product development through manufacture, distribution, promotion, strategic advertising, VMD, end sales.

FAST RETAILING
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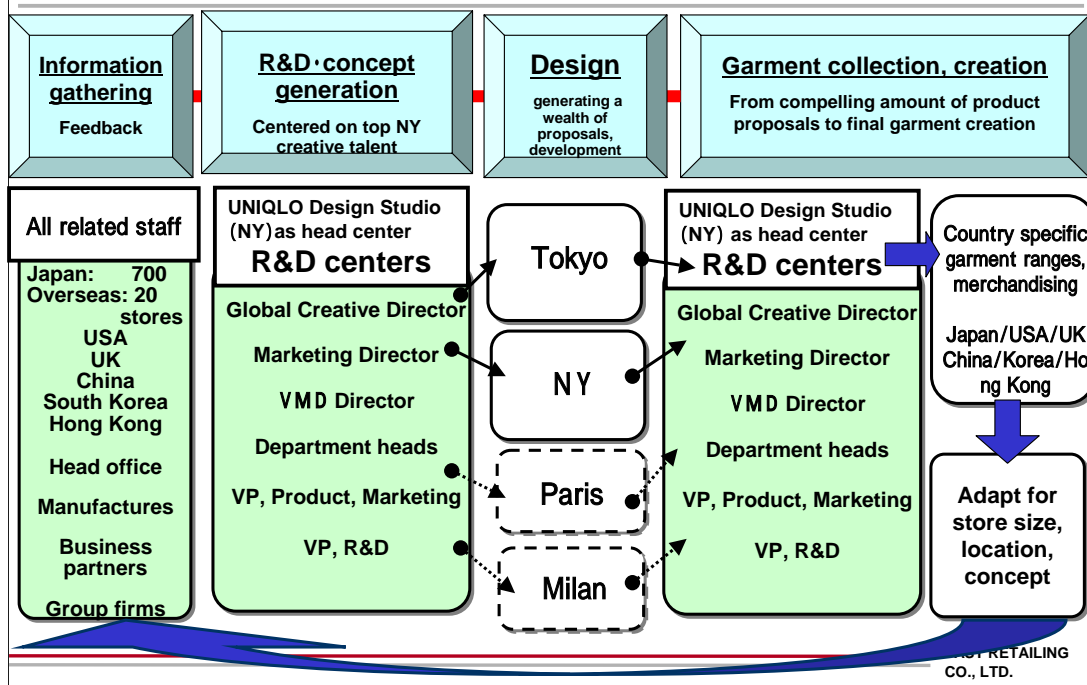
In order to become a 3rd generation SPA - again that is an information oriented, concept-driven manufacturer and retailer of clothes – we are establishing two new operational structures.

The first involves the establishment of R&D centers. The process of developing garments suitable for a third generation SPA will involve gathering even more information, carving strong concepts, and using those concepts to create actual clothing for sale.

The second operational change concerns the establishment of a new framework of segment specific departments. Be it the independent department responsible for men's wear, women's wear or kid's wear, the aim is to vertically integrate operations from product development right through manufacture, distribution, promotion, strategic advertising, VMD, end sales.

The next slide will give you a more detailed breakdown first of just how the new product development process will work in practice.

World-class product development



When establishing a world-class system for product development, I feel that the most important factor is just how well you can incorporate a winning global concept that permeates and dominates the entire process.

Our Chairman Mr Yanai has already explained what we mean by 'concept'. Indeed, the 'concept' is the culmination of a variety of functions and factors. First, the collecting together of a broad range of competitive information from the market and shop floor including customer reactions, hints on latent demand, etc. is key. Then our staff, led by our global creative directors, combine this with world class information on global trends, needs, lifestyles, etc to mold them both into an applicable concept.

The most important point to grasp here is that, through this new system and the products that it generates, we can establish a clear concept; i.e. a clear idea of what constitutes 'product value', what it is that sparks the desire to buy a particular product, and what spurs us to sell it. To clarify, let me go through this flow chart regarding our new product development process. First of all comes the collection of key information conducted mainly at our R&D centers dotted around the globe and relating to world trends, needs, lifestyles, fabrics, functionality, etc. Our staff will also be collecting information that helps discover latent needs by finding out what their customers and markets are really looking for. Such data is likely to consist mainly of customer reactions, information on markets and the competitive environment. In practical terms, this will involve creating a system that facilitates the flow of information from our UNIQLO store network that consists of around 700 stores in Japan and 20 stores overseas. This is a most important part of the process, and I would like to have the basic framework in place during the first half of this 2006 business year.

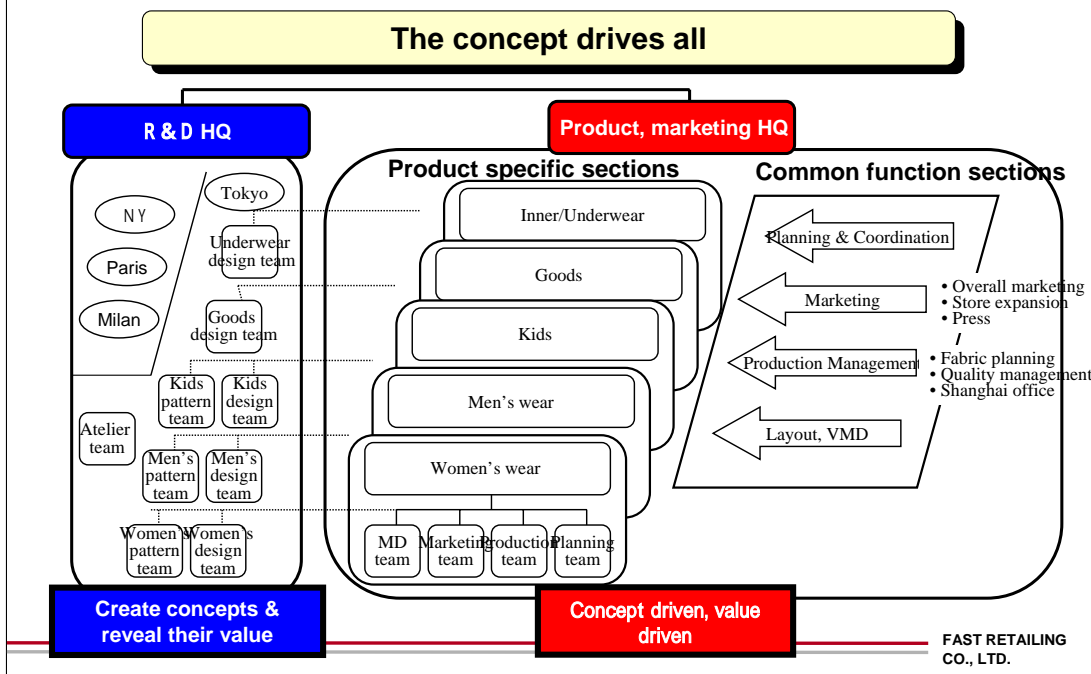
Once we have that framework in place, the next step will be concept generation. We will meet and decide our corporate specific concepts based on the new information collected. Personnel involved in this decision-making process will be the global creative directors of each R&D center starting with the NY Design Studio, the heads of each of the men's, women's, and kids wear sections, our marketing director, our VMD director, myself as the person responsible for product management, and Mr. Yukihiro Katsuta as the vice president responsible for R&D.

Then, our design centers in Tokyo, New York, and centers coming on line soon in Paris and Milan, will generate a wealth of design proposals and conduct development activities. The R&D centers will be broadly responsible then for choosing a range from the variety of creative designs on offer. We have people responsible for merchandising not only in Japan markets but also in the USA, UK, China, South Korea and Hong Kong and they will play a part according to local markets. For the Japanese market, we can choose appropriate product lineups depending on whether they are intended for one of our more traditional stores of around 660 square meters, for one of the new type of specialized small-format outlets that we are keen to develop with shop floors of around 33 to 165 square meters ('BODY by UNIQLO', 'uniqlo KIDS', or future dedicated women's wear outlets) or for large-format stores of 1650 to 3300 square meters. Collections will be compiled based on both regional and urban store locations also.

This is an overview of what I basically mean by generating a world-class system for product development.

To tell you just where we are on this right now, we already had our first concept generation meeting in Tokyo at the end of September looking ahead to the 2006 fall/winter collections. We are now in the design stages in both New York and Tokyo.

Introduce specific business sections



Next, I would like to explain our decision to introduce specific business sections.

First of all, our Product Management and Marketing Division encompasses the five business segments covering men's, women's, kids, goods and inner/underwear.

Our original structure did not have separate departments for each type of clothing, rather we had a large organization all under the UNIQLO brand split into the merchandising, marketing, production and planning departments. Now going forward, each operational segment will be responsible for its own merchandising, marketing, production and planning.

We feel that we have now created the optimum framework that encourages integration of business processes from product strategy to development, sales planning, manufacture, distribution, in-store display, VMD, promotion, and final sales management.

The crucial point here in a nutshell is to realize several strong and complete collections under one roof be it men's, women's, kids, goods or inner/undergarments. If we are to be successful at becoming a third generation, information-oriented, concept-driven clothing company, then generating value as we have done in the past for the UNIQLO brand as a whole will no longer be sufficient. Instead, we must generate value that best meets the commercial conditions of each and every clothing segment.

That's the significance of introducing this framework of product specific segments.

Put another way, the driving concepts and product value will be different depending on the different underlying commercial factors in the men's, women's, kid's segments, etc.

Personally, I feel this type of organization is the only way to ensure that operations are firmly concept driven, and vertically integrated from strategy to planning, production, distribution, strategic PR, in-store display, and promotion.

On top of that, it is the key mission of the Product Management and Marketing Department to ensure that each of these concepts is properly realized in our store network and makeup.

That completes this brief explanation of our new product development system.
Thank you.