

FAST RETAILING CO., LTD. interim results for six months to February 2007 – Analysts' meeting Q&A

You can view text of the main questions asked on April 12, 2007 about our interim business results for the six months to February 2007. Part of the content has been edited for the sake of brevity and clarity.

Q1: On the point about strengthening control over future discounting following your interim performance, Mr. Yanai, you talked about production adjustments and measures to control gross margin. Could you tell us about these measures in a little more detail?

A1: Tadashi Yanai – I feel that the biggest problem emerging from the interim performance was the drop in gross margins. As I mentioned earlier, I feel this could have been due to a temporary lack of attention to our core basic products and our core business, as well as some inexperience on the management front. In addition, we had initially planned to hold inventory and sell winter garments right through January this year following the shortages we experienced during the particularly cold season last year. This plan backfired. I think that we will have better control over gross margins from this spring/summer season now that we have strengthened our planning section in the second half and implemented changes to our company's organizational structure.

Q2: Over the past few years, gross margins have tended to be quite volatile. However, on a full year basis when sales are favorable, what kind of profit margin would you consider appropriate for the domestic UNIQLO operation?

A2: Tadashi Yanai – I think that the appropriate profit margin is between 46 and 48%. That means that the margin in the first half was about 1.5 to 2.0 points below what we would ideally like to have seen.

Q3: If you look at the pattern for gross profit margins in the past, the rate was often similar in the first and second halves of any business year. You are now predicting an increase in gross margin in the second half. Could you tell us upon what you base this expected increase?

A3: Tadashi Yanai – We have introduced various internal measures to increase gross margins, and we feel that the impact of those measures will begin to show through from the six months to August 2007. Our estimated gross margin for the second half incorporates these points. And we feel that is an appropriate level for our gross margin.

Q4: You just mentioned that you had strengthened the planning section and significantly changed the organization. Could you tell us in more detail just how you have revised the divisional responsibilities?

A4: Tadashi Yanai – In our division organization, the merchandising section was the boss of the show. The product departments had become too powerful and didn't always control product volume objectively or adjust production volumes as severely as they should have done. So we changed to a system with a stronger planning section. We strengthened the independent supervisory function of the planning segments. For instance, we are improving the accuracy of our weekly production adjustments by considering the two viewpoints each week, the subjective sales and production figures from merchandising and the objective figures from the numerical planners.

Q5: When you launched the new division organization around a year ago we received a chart. I thought that chart showed separate operational sections for merchandising, marketing, production and design. Has that organizational form changed then?

A5: Tadashi Yanai – I separated the planning section structure for products and production plans from the operational segments. By so doing, we are able to make weekly adjustments based also on a more severe view of demand provided by the planning team.

Q6: I believe that you are aiming to expand the number of fashion garments for women. Have you cut back on those plans?

A6: Tadashi Yanai – In the past I had thought that I would like to increase the proportion of fashion garments for women to roughly two thirds. However, I now feel that the more appropriate proportion is about 50:50. What I have learned from our participation in overseas markets and the development of fashion garments over the autumn/winter season is that UNIQLO product position is "basic clothes that reflect fashion trends".

Q7: Mr. Yanai, you have said that other competitors in the global markets have gross margins nearer 60% and that UNIQLO will have to increase its margins to similar levels if it is to compete in New York and other world markets. Are you still intending then to increase your gross margin level?

A7: Tadashi Yanai – I do feel that we will have to boost our gross margin to 55% ~ 60% in the future. If you want to open stores in the really top-notch global locations, it just wouldn't be possible to open a store and make a good profit without such margins. I do feel that, as we compete directly with other stores in Europe and the US, we would not be able to beat the competition unless we have a comparable level of gross margin.

Q8: I understand that the new development of large UNIQLO stores in Japan is progressing favorably but do you feel that you have found the right formula? And is there any change to your plans to open 40 new large stores in the coming business year?

A8: Tadashi Yanai – I do feel that we have found the right formula with our large format stores. And, as planned, we are looking to open over 20 new large stores this year and to double that to 40 in the coming business year. We are on track to achieve that target. I feel that we can expect to attract a broader range of customers by displaying products in the large stores that we hadn't been able to offer in our regular stores to date. I believe that we have to make a firm success of our large store strategy if we are going to make UNIQLO into a future global brand or big name brand. What UNIQLO is aiming for is to transform from its original suburban chain to a large store focused, big name brand.

Q9: What percentage increase in existing store sales are you predicting at UNIQLO Japan in the second half to August?

A9: Masa Matsushita – In the second half alone 3.9%, for the full business year 3.3%.

Q10: You revised down your forecast for interim gross profit margin when you announced the first quarter results back in early January. But why did gross margin fall yet further in January and February?

A10: Masa Matsushita – When we revised down our gross margin forecast in January, we had incorporated the process of offloading winter inventory. However, when the launch of spring garments was delayed, our gross margins in January and February ended up falling below even the revised estimates.

Q11: On second half sales, you have mentioned increased revenue on an existing store basis. If that is the case, are you already looking to move ahead a little faster? Are you looking to aggressively build more stock as well?

A11: Tadashi Yanai – Since we are planning to boost sales, then we do want to have a slightly thicker cushion on inventory. However, I want to do this in such a way as to minimize risk by keeping larger stocks at the raw material stage for instance. Since sales are progressing more favorably recently in March, this current situation would lead us to believe that we can achieve our second half projections on sales and profit.

Q12: I think that performance on pants has been better than other stores in March. However, I think the skinny denim trend is now fairly saturated. Have you noted any change in denim sales?

A12: Tadashi Yanai – It is true that denim sales are extremely successful. However, denim sales at UNIQLO are still only a small percentage of total sales. For instance, if you look at European and American chains, denim sales tend to account for 20 – 30% of overall sales. In the case of UNIQLO, the denim proportion of overall sales is only about half that. And so I believe it would be possible to expand those sales by about 1.5 times for instance. And at the

same time, we are improving the quality of our UNIQLO products all the time and so I feel that we can increase our share in the Japanese market. I really want to use this opportunity to greatly boost our share of the denim market here. Of course this will depend on what jeans we can offer to succeed our skinny jeans. And we are planning various products. We want to make sure that we stay as far ahead as other competitors as possible and be the first to launch new products that capture the fashion trends of the moment.

Q13: On the spring denim campaign, I think that you increased your target sales even beyond last year's level, but how are actual sales going?

A13: Tadashi Yanai – We achieved our targets smoothly on our seasonal sales, and although the campaign is already over, we continue to enjoy similar favorable sales conditions.

Q14: On your consolidated subsidiaries, with the exception of FR FRANCE, you have revised down performance at nearly all other companies. What are you doing to improve the accuracy of your business forecasts at each of the subsidiary companies?

A14: Masa Matsushita – It is true that there has been some variation on performance at our subsidiaries. However, in this respect, we are strengthening our management in a variety of forms, and implementing various measures across the entire group including internal control. As the holding company, we are working to strengthen communication with our subsidiaries, so that we can provide you with the most appropriate business forecasts possible.