

Q&A session on third quarter business results for nine months to May 2007:

July 12, 2007

You can view text of the main questions asked on July 12, 2007 about Fast Retailing results for the nine months to May 2007. Part of the content has been edited for the sake of brevity and clarity.

Q1: You said that operating income from the domestic UNIQLO operation in the third quarter fell slightly below forecast. What was the extent of this shortfall?

A1: Overall net sales for the three months to May 2007 fell short of target by around ¥3.0 billion. Gross profit came in roughly in line with expectations, and we were able to cut SG&A costs by a few hundred million yen thanks to better cost control. As a result, operating income came in just under ¥1.0 billion below target.

Q2: Performance at FR FRANCE appears to have been extremely strong, but how far did the operation exceed target in the third quarter? Given that you haven't changed your forecast figures for the full business year, the forecasts for the fourth quarter now appear extremely conservative. Are we to accept these numerical figures at face value?

A2: FR's French operation marginally exceeded expectations in the three months to May 2007. As far as the fourth quarter through August is concerned, our current thinking is that business will proceed roughly as expected. However, it is possible that performance on the consolidated balance sheet calculated in yen terms could exceed forecast somewhat if the yen continues to weaken against the Euro.

Q3: There is some concern that inventory levels at the domestic UNIQLO operation were somewhat high in the third quarter. Can you go through this again in more detail?

A3: Inventory at the domestic UNIQLO operation stood at ¥37.7 billion at the end of the third quarter (end May), up ¥8.0 billion year on year. Breaking this figure down, (1) ¥2.5 billion was due to a rise in new stores, (2) we had ¥3.0 billion in left over winter stock, (3) ¥2.5 billion was due to a strategic increase in inventory of bottoms such as SKINNY jeans, and innerwear. For instance, our SKINNY jeans don't sell well in hot summer weather. But they do enjoy certain, regular sales once into autumn, so we feel it is possible to market these products from the autumn. If you remove the left over winter inventory which resulted from increased production in the first six months, then inventory at the domestic UNIQLO operation in the third quarter is not at a level to generate particular concern.

Q4: This is a question about gross margin at the domestic UNIQLO operation. You project a significant improvement in the fourth quarter through August compared to the previous year, but is this a realistic figure?

A4: In the fourth quarter of last year we offloaded considerable summer inventory in July and particularly in August, and that led to a significant fall in gross profit. In comparison this year, as explained at the analyst meeting following our interim results, we have strengthened our internal system for controlling gross margins with an extremely detailed weekly flow check. That has proved effective in controlling discounting. In addition, by strengthening our control over manufacture, we have curbed increases in production of summer goods this year, and so we expect to be able to improve the discounting on summer goods compared to last year's performance. Also, we are looking to improve gross margin this year by introducing autumn goods earlier.

Q5: Business costs in the three months to May 2007 rose a significant 17% year on year, so why are you projecting a smaller increase for the fourth quarter?

A5: Advertising and promotion costs rose considerably in the third quarter. This was due to the fact that we had one more sales promotion campaign during the quarter compared to last year. This year we had a Linen Campaign which we didn't conduct last year, and that boosted SG&A costs considerably on a year-on-year basis. Since we are not planning any extra campaigns in the fourth quarter, we are projecting a smaller increase in costs.

Q6: You decided not to revise your forecasts for the domestic UNIQLO operation in the second half. Was that because of the gross profit trend in June or more recent conditions in July?

A6: We have to admit that the forecast for gross profit in the fourth quarter is a little high. However, based on the latest circumstances, we decided that there was no reason to change our predictions significantly at this point.

Q7: You have explained that you will improve gross margin by introducing autumn goods early. Are you simply looking to boost margins by changing the product makeup to include a greater proportion of high margin autumn garment sales?

A7: When selling summer goods in August, you have to keep changing the price and so gross margin generally tends to taper off. By contrast, at the beginning of the autumn/winter season, we do not have to discount so much and so we can boost gross margin by increasing the amount of autumn goods on offer. This is one of the factors why we feel we can expect to see an improvement in gross margin year on year when we compare the fourth quarter 2006 and its hefty offloading of summer inventory with the fourth quarter 2007 during which we expect to increase the proportion of high margin autumn garments.