

## Analysts' meeting Q&A

FAST RETAILING CO., LTD.

Business results for year ending August 2008

You can view text of the main questions asked on October 9, 2008 about our full year business results for the year to August 2008. Part of the content has been edited for the sake of brevity and clarity.

**Q1: President Yanai mentioned in his address his aim to open 200 large-format stores worldwide. Can you give us any idea of timing for this new store opening system? What kind of action might you be taking in this current business year to facilitate the formation of this network, and how many stores do you plan to open both inside and outside of Japan this year?**

A1: Tadashi Yanai, Chairman & CEO – I want to create a 200 large-format store global network within three years if possible. In order to achieve this, UNIQLO in Japan will have to become more of a UNIQLO business training organization, or FAST RETAILING will have to become more of a global company. In terms of new store openings, probably 70 or 80% of them will be outside of Japan.

**Q2: Regarding reports in the media about FAST RETAILING considering a preferred share issue, I understand that this wasn't actually discussed at today's executive board meeting. However, can you tell me a little bit about your basic capital funding for M&A activities and also if you have any benchmark for M&A investment returns?**

A2: Makoto Yoshitaka, CFO – This may sound rather general, but we employ the funding method that offers the lowest cost and least risk, and which maximizes FAST RETAILING's corporate value.

A2: Tadashi Yanai, Chairman & CEO – I believe that we will opt for funding methods which least affect our shareholders and which maximize our corporate value. That means we have to consider various funding methods and would choose the most appropriate method depending on market conditions at any particular time.

**Q3: Can you tell me why you believe your gross profit margin will slip 0.5 points year on year for the year ending August 2009? Will you be maintaining the same markup rate? Or is it that the 2008 gross profit margin was particularly high and that you feel it is likely to come down somewhat?**

A3: Makoto Yoshitaka, CFO – We estimate that the gross profit margin will hold flat year on year in the first half but will fall by 1.0 percentage point in the second half. The markup rate is the same, however any discounting and the timing of new season launches also impact our gross profit margin. Regarding the year to August 2008, the launch of new season

ranges was extremely well timed in the second half resulting in a high gross profit margin overall. We do feel that this performance was particularly strong and that is why we are estimating a year-on-year fall of 1.0 point in the gross margin for the second half from February through August 2009.

**Q4: You say you are planning to open 20 stores in China in the year through August 2009. I have heard people on the ground in China say that they want to proceed cautiously with new store openings. Is this figure therefore not rather conservative and would you actually be capable of opening 30 or 40 new stores there over the year? Secondly, you estimate you will generate an operating profit at UNIQLO International for the year to August 2009 of ¥1.0bln. How far might this profit expand in the following year through August 2010? If you have any target data, would you share them with us?**

A4: Tadashi Yanai, Chairman & CEO – It won't get as high as 30 or 40 stores. I definitely want to open 20 solid stores and, if at all possible, I would like to open more than 20 stores. We plan to be more aggressive in terms of new store openings overseas going forward and, if possible, I want to try to double the number of stores each year. If we do open such a large number of stores, then profitability is likely to fall. However, that will be for this year only, and then beyond that, if possible, I would like to secure an operating profit ratio similar to our UNIQLO Japan operation – namely 15% or more.

**Q5: This is a question relating to your forecasts for UNIQLO Japan sales. How do you view the consumer environment for clothing products as a whole and how do you envisage fashion trends might change? Economic sentiment is expected to become increasingly bearish, but could this actually prove a good business opportunity for UNIQLO? For instance, do you feel that UNIQLO's basic products are likely to sell well this year?**

A5: Tadashi Yanai, Chairman & CEO – I think that the current economic environment is extremely bad. It is probably one of the worst levels ever experienced since the end of the Second World War. However, I believe that truly attractive products sell in such an environment. I often say this but, in times of economic downturn, not all companies and all products perform badly. Consumers simply become more selective. And I believe truly good products and good companies benefit from such selectivity.

I believe that UNIQLO is in a much stronger, more robust position than other fashion apparel companies in times of recession because UNIQLO products are to some extent daily necessities. Given that we create products that in turn help generate demand, I feel that we will be able to achieve our sales targets. However, economic conditions are indeed poor so we shouldn't be overly optimistic.

**Q6: I think that roughly half of the increased revenue for the year to August 2008 was generated by innerwear. Are you planning to boost women's wear ranges in the year to August 2009?**

A6: Tadashi Yanai, Chairman & CEO - UNIQLO sales of men's and women's wear are roughly equal at present, but, if possible, I would like to expand women's wear sales to roughly double men's wear going forward.

**Q7: Do you feel that changes in fashion trends don't exert affect UNIQLO business unduly?**

A7: Tadashi Yanai, Chairman & CEO – This apparel industry tends to experience constant changes in small trends and can end up losing the large trends. At UNIQLO, we cater to all sorts of people and so we are not really influenced by the small trends in fashion.

**Q8: Looking at the extent of improved revenue and profit at UNIQLO International for the year to August 2009, how do you expect this to be split between Asia and then Europe and the US? What increases in profit are you predicting for each area in the current term?**

A8: Makoto Yoshitaka, CFO – Asia accounts for 60 percent and the US and Europe account for 40% of UNIQLO International sales. The US generated the largest improvement in revenue and profit in the year to August 2008 because the burden of opening costs for the global flagship store had passed. We are predicting an operating income of ¥1.0bln for UNIQLO International in the year to August 2009. For instance, we will see an increase in opening costs for the global flagship store in France, but Asia is likely to continue to grow favorably so we expect an increased profit to be generated there.

**Q9: Mr. Yanai talked about coordinated production and sales in his presentation but could you elaborate on this? What kind of time span are we talking about in order to complete such a coordinated system?**

A9: Tadashi Yanai, Chairman & CEO – Being able to link production and sales is, I believe, one of the greatest strengths of the specialty manufacturer & retailer. Given that we design, manufacture and retail all of our products ourselves, we are able to link customer desires directly with production. However, this carries with it an element of risk. So, if you shoulder the entire risk, you are also at liberty to change any part of the equation be it materials or textile manufacture plant capacity, design, etc.

For instance, if you don't have enough of a particular garment in a certain color, or if you decide that a particular design sells better than another one, you can manufacture that one or make any number of changes.

We are always creating and adjusting our system so it is unlikely to ever be fully completed. By continuing to improve and perfect our system and skills, I believe that we will be able to

further reduce discounting losses and better respond to our customers' needs.

**Q10: You are planning to accelerate store openings in China and South Korea in the year through August 2009, but are you confident about your personnel training and infrastructure provision?**

A10: Tadashi Yanai, Chairman & CEO – We are currently preparing our personnel training and systems, etc. and so they are not fully up to speed yet. However, we feel that the operation is increasingly likely to take off rapidly and so I feel we have to prepare the structures as fast as possible.

**Q11: I believe that “Going Global” is a key phrase in this year’s business strategy. Just what has changed in terms of basic management direction?**

A11: Tadashi Yanai, Chairman & CEO – I think that UNIQLO strategy is to continue with the changes that we are currently making. The domestic retail operation is transforming itself into a global manufacturer & retailer, indeed a Japanese-born global company. To that aim, we are strengthening our women’s wear ranges given the large market for women’s fashion. To that aim, we are expanding our large-format store network. Urban large-format stores, suburban large-format stores, you will see them more and more all over Japan.

Japanese companies such as us may not be global companies, but I also feel that American and European companies are not necessarily global companies either. Therefore, the next stage is to become a true global company as soon as possible, so that we can win in the world market.