

Continuing to Address New Challenges to Become a Truly Global Company

During fiscal 2007, the year ended August 31, 2007, we reported an increase in consolidated net sales but, regrettably, net income declined. Despite this, it was a year when we at FAST RETAILING gained conviction about the future course of our development. To reach the goal we have set of becoming “the world’s No. 1 apparel retailer,” we embarked aggressively on a series of initiatives, including increasing the number of larger UNIQLO stores in Japan, expanding UNIQLO’s operations into overseas markets, and working toward the closer integration of the FAST RETAILING Group of companies. Fiscal 2007 was a year when we as a group of enterprises experienced “labor pains.” Nonetheless, this experience has made all our management and staff not only think even more seriously about making our UNIQLO operations even stronger, but also focus more on entrepreneurial values, group integration, and globalization. I believe, therefore, that fiscal 2007 was a year that gave us new resolve and determination to attain these objectives.

In our UNIQLO operations, which are our core business, we opened a global flagship store in New York in November 2006, and it has been a success. Moreover, sales and earnings in our UNIQLO activities in the rest of Asia, such as China, including Hong Kong, and Korea, expanded, and we are in sight of new opportunities for development.

In proceeding with the expansion of our overseas operations, what has impressed me most is that our customers around the world have so highly appreciated the quality of UNIQLO products. We believe that our efforts to ensure top quality for our cashmere items, merino wool sweaters, printed T-shirts, jeans, and other products are now appreciated by customers not only in Japan but also around the globe. We believe that maintaining quality is precisely what will position us to be able to realize our strengths in overseas markets.

With this renewed awareness, in November 2007, we opened another global flagship store in London. In addition, in December we opened a concept shop in La Defense, outer Paris, marking UNIQLO’s first foray into the French market. Going forward, we plan to step

up our activities to establish stores not only in the European markets but also within the Asian markets, especially in China and Korea.

We reported a strong increase in sales but a decline in profits in our domestic UNIQLO operations for the fiscal year under review; the increases in expenses exceeded the positive benefits of higher sales. While a profit decline is never a welcome thing, it has served as a wake-up call for me and our staff, a reminder that we must return to fast decision making and low-cost management. Furthermore, we were not responsive enough to market nuances, which resulted in lowering gross margins.

During the fiscal year ending August 2008, UNIQLO in Japan is returning to its original concept of low-cost management while also working to rejuvenate its sense of speed and dynamism, which are essential elements of its corporate culture. High on our agenda for this fiscal year are attaining high profit margins by producing the optimal volume of superbly finished basic casual apparel suited to the needs of our customers.

During the fiscal year under review, UNIQLO in Japan began accelerating the opening of its new concept, large-format stores with about 1,600m² of sales space. The key to UNIQLO’s growth in the domestic market going forward will be the success of this large-format store strategy. To make this strategy a success, it is clear that we must address the challenges of developing products for the women’s market, which has a high potential for growth. To this end, we are moving forward to strengthen our global R&D capabilities.

In our Japan Apparel operations, we are still in the process of restructuring the activities of ONEZONE, CABIN, and other subsidiaries and enhancing the performance of G.U., one of our new businesses, but I believe we have not yet delivered satisfactory results. However, we are convinced that there is further potential demand in the markets for shoes, women’s apparel, and low-priced casual apparel. By drawing together the Group’s resources to provide support in management, infrastructure, and personnel, we are committed to putting these operations on the path to growth.



In our Global Brand operations, French casual COMPTOIR DES COTONNIERS and lingerie creator PRINCESSE TAM.TAM are reporting steady gains in performance. We are convinced that these businesses, which feature a clear brand concept, have major potential for growth. Looking ahead, we plan to continue our M&A activities to secure outstanding brands such as these and expand their business operations globally.

My belief is that unless we become a company capable of competing globally, we cannot survive in our domestic market. As the world changes around us hour by hour, the boundaries separating different industries and nations have been disappearing. Within this business environment, how can we survive? One of the answers to this question is that, just as UNIQLO has grown in Japan, we can and must develop UNIQLO's operations in world markets. At the same time, we also believe that FAST RETAILING must become a group of enterprises with several global brands that can expand into world markets. The target I have set of attaining "annual sales of ¥1 trillion" is not

a final goal, but only a milestone along the way to further growth and development.

FAST RETAILING has a clear long-term strategy and is managing its activities to achieve a balanced, efficient business portfolio. We are intent on becoming a world-class enterprise not only in terms of net sales, profitability, and customer satisfaction, but also talents and diversity of our human resources, and our contributions to society. We intend to continue to address and overcome the challenges ahead of us to create and manufacture, then deliver and sell truly excellent apparel to our customers that will enrich the livelihood of the peoples of the world.

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Tadashi Yanai
Chairman, President and CEO