Building a Strong Portfolio and Aiming for Group Net Sales of ¥1 Trillion and Ordinary Income of ¥150 Billion in 2010

Market Environment

Growth in the world's apparel and fashion industries in recent years has been driven by the countries and regions of Europe, North America, Japan, and other developed countries in the fashion industry. In 2007, however, there were not conspicuous megatrends in the industry, and the business environment has become more challenging. Along with these, growth in the European, North American, and Japanese markets has slowed. In addition, economic conditions produced uncertainty due to the emergence of the subprime loan issues originating in the United States, and we believe this is gradually beginning to have an adverse impact on consumer attitudes toward apparel and other expenditures.

On the other hand, in emerging economies, such as China and Russia, that are experiencing rapid economic growth, consumer spending on apparel and fashion items is continuing to increase, propelled by the strong demand among the expanding middle-income classes. Yet, even in these emerging markets, demand is strong for global brands that are popular in the world's principal fashion centers, such as New York, Paris, Milan, London, and Tokyo.

Amid this market environment, most of the top SPA (Specialty Store Retailer of Private Label Apparel) players with a global presence are reporting rapid growth and expansion in market share based on their financial and development capabilities that derive from economies of scale. As markets become increasingly global, to survive in today's torrent, companies in the apparel and fashion industries are confronted with the need to develop product offerings that differentiate them from competitors and establish brands that appeal to consumers throughout the world.

Group Strategy

For FAST RETAILING to compete among the world's top players, we believe it is essential, at a minimum, for it to expand its portfolio of Group businesses that have world-class capabilities and attain net sales of ¥1 trillion. That is why we have set a goal of becoming "a Group with annual net sales of ¥1 trillion and ordinary income of ¥150 billion."

First, the Group's core UNIQLO operations have established a position as a top player among SPA enterprises that are integrated from manufacturing through retail sales. UNIQLO is moving ahead with the development of even more competitive materials and products by drawing on the economies of scale of its operations and partnerships with leading partners. In addition, to establish its position as a global brand, UNIQLO is implementing a flagship store strategy in the principal fashion cities in Europe and North America. In parallel with this strategy, in the fast-growing markets of Asia, UNIQLO is accelerating the opening of stores in China (including Hong Kong) and Korea.

In Japan Apparel operations, we see growth potential in the footwear business of ONEZONE and VIEWCOMPANY, the women's apparel chain store business of CABIN, and the low-price apparel business of G.U.

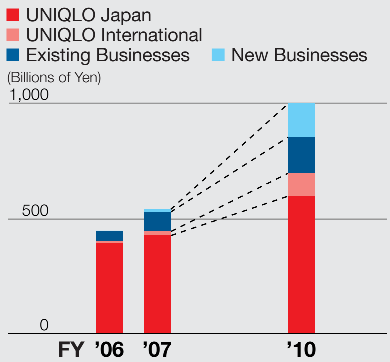
In Global Brand operations, COMPTOIR DES COTONNIERS, PRINCESSE TAM.TAM, and Theory are fully capable of competing in global markets. We plan to further develop and grow these brands in world markets and add strong brands to our portfolio through M&A.

Worldwide Apparel Specialty Stores

Company Name (Flagship Brand)	Country	End of Fiscal Year	Sales* (¥ Billions)	Change (%) (local base)
Gap Inc.	U.S.	Jan. 2007	1,850	-0.5
Inditex, S.A. (ZARA)	Spain	Jan. 2007	1,299	+21.6
Limited Brands, Inc.	U.S.	Jan. 2007	1,238	+10.0
Hennes & Mauritz AB (H & M)	Sweden	Nov. 2006	1,155	+11.7
NEXT PLC	U.K.	Jan. 2007	767	+5.7
Liz Claiborne Inc.	U.S.	Dec. 2006	579	+3.0
FAST RETAILING	Japan	Aug. 2007	525	+17.0
Polo Ralph Lauren Corporation	U.S.	Mar. 2007	498	+14.6
Esprit Holdings Limited	China	June 2007	441	+26.9
Abercrombie & Fitch Co.	U.S.	Jan. 2007	385	+19.2

Source: Compiled from the annual reports of the companies listed above.
* Figures calculated based on foreign exchange rates as of August 31, 2007.

Group Sales Scenario



Note: Net sales do not include companies accounted for under the equity method (such as LINK THEORY HOLDINGS CO.,LTD., and VIEWCOMPANY CO.,LTD.).

M&A Strategy

■ Objectives of M&A

We have two objectives in our M&A activities. The first is to acquire businesses in new areas to strengthen our business portfolio. The second is to gain access to new business platforms for greatly expanding overseas activities of UNIQLO and other Group businesses.

In strengthening our portfolio, we aim to develop our global brand businesses, by purchasing competitive brands capable of global expansion in the affordable luxury market, such as COMPTOIR DES COTONNIERS. Among the world's fashion apparel markets, the affordable luxury market has the highest growth potential, and we believe that in this market, too, an SPA enterprise—integrated from product design through manufacturing, marketing, and sales—will be able to prove its mettle.

Regarding the second objective of gaining access to new platforms, we believe that securing business bases through investments in and acquisitions of existing local enterprises overseas is the best possible way to accelerate the growth of UNIQLO and other Group brands in overseas markets.

Through M&A, FAST RETAILING aims to secure talented professionals who bring a global view to their work, and, at the same time, hopes to remain a dynamic and innovative group of enterprises by offering opportunities to employees who share the Group's vision.

■ Investment Criteria and Decision-Making Process

The two criteria in selecting M&A deals are growth potential and profitability. The key condition related to growth potential is whether the acquiree has a good brand that has the potential to develop globally. COMPTOIR DES COTONNIERS and lingerie brand PRINCESSE TAM.TAM are good examples of such brands. If the acquiree has a good brand with a solid underlying brand concept, we will actively share our infrastructure—the financial resources of the FAST RETAILING Group, our know-how in store operations, sales planning, inventory management, production systems in China, and information systems—to realize high growth and profitability.

When making investment decisions, M&A proposals are prepared by a specialized unit and then assessed by related departments and officers and directors. Thereafter, the proposals are subjected to careful examination by the Board of Directors, which includes three external directors. Examination of proposed M&A deals includes the valuation of assets to be acquired, the projected return on investment, and the analysis of synergies with other Group businesses.

Going forward, FAST RETAILING will consider acquiring enterprises with the potential for global development that are capable of attaining annual net sales of ¥100 billion or more and a ratio of ordinary income to net sales of 15% or more. We intend to actively pursue our Group and M&A strategy, invest between ¥300 billion and ¥400 billion in acquisitions, as well as aim to achieve high and sustained growth of the Group.

Group Net Sales by Business in Fiscal 2007

FAST RETAILING
¥525.2 billion

UNIQLO Japan	UNIQLO International	Japan Apparel Operations	Global Brand Operations
UNIQLO	U.K. China / Hong Kong Korea U.S. France	CABIN g.u. FOOT PARK VIEW COMPANY	COMPTOIR DES COTONNIERS PRINCESSE tam.tam LTH
¥424.7 billion	¥16.9 billion	¥46.0 billion	¥36.7 billion

Note: Net sales do not include companies accounted for under the equity method (such as LINK THEORY HOLDINGS CO.,LTD., and VIEWCOMPANY CO.,LTD.).

Strategic Milestones of the FAST RETAILING Group

2004	January	■ Acquired an equity stake in Link International Co., Ltd., developer of the THEORY brand
2005	March	■ Acquired ONEZONE CORPORATION
	May	■ Obtained management control of NELSON FINANCE S.A.S., developer of the COMPTOIR DES COTONNIERS brand
2006	February	■ Acquired PETIT VEHICULE S.A., developer of the PRINCESSE TAM.TAM brand
	March	■ Established G.U. CO., LTD.
	April	■ Invested in CABIN and concluded an operating alliance
	November	■ Invested in VIEWCOMPANY CO.,LTD.
2007	August	■ Made CABIN into a wholly owned subsidiary through a takeover bid