We achieved significant gains in both sales and operating income during fiscal 2010. In the first half, UNIQLO Japan performed extremely well due to robust fall and winter season sales and our HEATTECH apparel line proved a hit with consumers. Global recognition of the UNIQLO brand has increased dramatically over the year thanks to the success of our global flagship store in Paris and the strong global reception of our collection, created in conjunction with fashion designer Ms. Jil Sander.

However, the dip in profit at UNIQLO Japan in the second half revealed several underlying issues. In short, we were unable to communicate to consumers the merits of our high-quality, basic apparel, which has traditionally been one of our major strengths because we excessively expanded our product lineup. Reflecting on this contraction in profit, I am keenly and firmly reminded that our greatest strength is our ability to produce the clothing that customers truly desire—well-finished clothing made from high-quality materials.

UNIQLO focused excessively on fashion over the 2010 spring and summer season. The balance between basic clothing and fashion items was skewed with an overemphasis on fashion. Net sales suffered as a result. We failed to maintain sufficient inventories of basic items, leading to unacceptable shortages in certain colors and sizes. Inevitably, this made customers less willing to buy.

We have learned from our mistakes and have emerged with a clearer idea of our future direction. I realize that we must proceed in a completely different way to H&M or Zara, which both tend to pursue fashion trends. At UNIQLO we stress producing well-finished clothes that can function as components of an overall outfit. Our clothes are made to fulfill customer needs and to even change lifestyles. Our task now is to further hone our range of basic clothes. I want us to create clothes of sophisticated design and superior functionality that will inspire our customers to rave about them. We have to convince people around the world that buying clothes means buying UNIQLO.

We will further improve the finish of our clothes by paying even greater attention to materials, overall silhouette and detail. We will meticulously consider the mix of colors and sizes to ensure that shortages do not occur.

In our business, it is difficult to balance the subjective and the objective in apparel design. If designers and merchandisers only use their favorite designs and colors, then we cannot meet customer needs. Even if clothing concepts of designers hit the mark every season, the actual clothes will not sell if the designs are superficial and fail to express these concepts.

Q How would you characterize your business performance in the year ended August 2010?
A The dip in profit in the second half helped us to refocus on the strengths of UNIQLO.

Q What differentiates you from the fast-fashion* of H&M or Zara?
A Our strength is our finely crafted, high-quality basic clothing.

Q How do you plan to evolve your basic apparel products?
A UNIQLO will create more refined products like the collection.

* Fast-fashion, similar to fast food, implies quick service, low prices and a casual atmosphere, and refers to low-priced apparel of reasonably good quality that reflects the latest trends.
UNIQLO’s collection is jointly developed with fashion designer Ms. Jil Sander. Jil’s attitude towards clothing creation is truly incredible. She is particularly masterful when it comes to garment shape and style. She will recreate and refresh her designs until she is completely satisfied—even when it comes to the minutest detail. That is why customers feel so satisfied with the fit of UNIQLO collection clothes the instant they try them on. UNIQLO must embrace this fundamental attitude, as well as the passion and attention to detail that Jil brings to creating clothes.

**Q** What is your strategy for expanding UNIQLO women’s wear?

**A** We will attract new female customers by opening stores in prime urban locations.

We will not develop fashion items simply in pursuit of the latest trends. Instead, we plan to design products that balance the basics and fashion. I think that the right ratio for UNIQLO is apparel that is 70% or 80% basic. In addition to UNIQLO’s traditionally strong T-shirt, sweater and jeans ranges, it can and should develop jackets, skirts and dresses in simple, flattering styles that fit well and suit all women.

The women’s wear market in Japan is two or three times the size of that for men. However, at UNIQLO Japan women’s wear and men’s wear currently account for a similar proportion of total sales. That means there is great potential for growth in women’s wear. Going forward, we plan to aggressively open new large-scale stores in prime department-store and roadside locations in the metropolitan cities of Tokyo, Osaka and Nagoya. I believe this will help us to attract a more affluent female demographic.

**Q** Do you have other hit products in the pipeline that could rival the success of HEATTECH?

**A** There are some potential hit products among our current product ranges.

We certainly need to keep launching new revolutionary products like HEATTECH. Actually, I believe there are some budding hit products among those already on sale. HEATTECH was not an instant success. Instead, it evolved as a product over a period of several years. We gradually nurtured HEATTECH into a hit product by surveying a wide range of customers, making incremental improvements to the material and its functionality, as well as subtly enhancing the shape and style of HEATTECH garments.

HEATTECH was created from a new material jointly developed with synthetic fiber manufacturer Toray Industries, Inc. The Ultra Light Down material, which proved extremely popular in fall and winter 2010, was also the result of joint collaboration with Toray. Toray developed a new material that was light, thin and strong enough to keep the down feathers firmly in place. Using this as the outer material for down jackets, we were able to make them ultra light, weighing a mere 206 grams.

We continue to work with Toray to develop new materials. In July 2010, we embarked on our second five-year plan for this strategic partnership. Both companies have committed a total of 400 billion yen over the next five-year period to develop new materials.

In September 2004, UNIQLO released its Global Quality Proclamation in a full-page newspaper advertisement titled “UNIQLO is no longer just about low prices.” This marked a turning point in corporate strategy under which the brand shifted its focus from low prices to one of high quality. Subsequently, UNIQLO has paid particular attention to the quality of the materials it uses. Please see page 42 and 43 for more detail.
It is important to persuade customers that UNIQLO is where they want to buy clothes. We need to appeal to customers. Our global flagship stores, be they in Shinsaibashi, Paris or Shanghai, all act as showcases for the UNIQLO brand. They are hubs that we can harness to market our brands to the world. We have secured one of the world’s most prime retail locations, which will be home to our global flagship store on New York’s Fifth Avenue when it opens in the fall of 2011. I expect that we will make an international splash when we begin relaying our brand message and our philosophy to the world.

It is important to promote our clothes through marketing, as well as through our corporate stance and by articulating what type of company Fast Retailing is. Creating truly great clothes, and acting as a truly good company—these are the means to building brand power. I want the whole world to know about our new social business in Bangladesh and our All-Product Recycling Initiative in Japan. Also, I want people to know about the Fast Retailing company spirit and that we are a good company that contributes to the world.

UNIQLO International is expanding favorably. We estimate overall net sales will reach 100 billion yen in fiscal 2011. We predict growth will be particularly strong in the Asian region including China, Hong Kong, South Korea, Taiwan, Singapore and Malaysia. We opened our Shanghai global flagship store in May 2010, and business there has been robust. Subsequently, our first store in Taiwan opened in October and our first store launched in Malaysia in November. Both enjoyed unprecedented welcomes from local consumers. The UNIQLO brand is well known in Asia and we are building a highly profitable business there, with new stores generating strong sales from the outset. Going forward, I want to further expand our presence in the region to include Thailand, Vietnam, Indonesia and the Philippines.

Ideally, I would like to open a total of 300 new stores each year: 100 in China, 100 in other parts of Asia and 100 in Japan, including g.u. stores. I am looking to accelerate our current pace of new store launches, and to do this we will have to modify our approach to store openings. Related to this, China, South Korea and Taiwan are seeing increases in automobile ownership and middle-class populations in these markets are expected to swell. In Japan, UNIQLO generated rapid growth by opening roadside stores in previously undeveloped suburban areas, thus transforming them into viable business locations. Until now, UNIQLO International has focused its new store openings on shopping malls and high streets, however, in Asia I want to attempt the large-scale, roadside-store approach that worked in Japan.

Q Have you made any change to your marketing strategy or means of generating buzz?
A We use our global flagship stores as hubs to transmit our message, including our corporate philosophy.

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Q Can you talk about future strategy for UNIQLO International, and potential growth in Asian markets?
A To become number one in our industry in the world, we must attain a dominant position in Asia.

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Multi-colored illumination on the exterior of our new UNIQLO Shinsaibashi global flagship store, which opened in October 2010.
Indeed, staff training is a key issue for our expansion in China. We need talented staff if we are to accelerate the opening of new stores, but so far training hasn’t progressed as well as I had expected. So, in the fall of 2010, we hired approximately 100 university graduates and started putting them through a very focused training program to enable them to succeed internationally. At the same time, I am looking to train managers to function in the global arena by bringing the most promising of our overseas hires to Japan to train, and by dispatching our most talented store managers from Japan to transplant our UNIQLO DNA at overseas locations. I plan to further globalize our Company by transforming our personnel training practices for new employees, our career development system and our compensation system by integrating them into a new uniform global framework.

Q What progress have you made on personnel training, your key to expansion in Asia?

A We are building a global personnel framework and fostering employees who can succeed globally.

Q Please tell us about your strategy for expansion in the U.S. and Europe.

A We will focus on opening global flagship and large-scale stores in major cities.

I am looking to open global flagship stores and large-scale stores in major U.S. and European cities. In the U.S., our New York Soho global flagship store, opened in November 2006, has performed extremely well. Despite being in its third year of operation, the store generated robust year-on-year sales growth of 40% in the business year ended August 2010. Underpinning UNIQLO’s success in New York is the strong reputation of basic items such as sweaters, shirts and fleece in particular. The UNIQLO brand is also steadily establishing a strong position in the local market. I have high expectations that the scheduled fall 2011 opening of our global flagship store on New York’s Fifth Avenue will spark an explosion in demand for UNIQLO products.

In Europe, UNIQLO opened its first store in Russia in April 2010. Now we are looking to open new stores one after the other in major European cities, starting in Germany and Spain.

Q Turning to M&A strategy, are you planning to acquire any companies to secure future UNIQLO expansion?

A We might consider M&A candidates that offer a platform for UNIQLO development.

I am always looking for large M&A opportunities in the U.S. and Europe. I want to open between five and 10 UNIQLO stores in Manhattan. Then I want to open stores in major U.S. cities such as Chicago, Los Angeles and San Francisco. However, if we were to attempt a nationwide U.S. store expansion, then one option would be to acquire a company that could serve as a strong base from which to launch such an expansion, or to enter a joint venture with a potential partner. In any case, when it comes to partnerships I think it is very important to pair up with business people who share a similar corporate philosophy.
The Fast Retailing Way
FR Group Corporate Philosophy


Group Mission
- To create truly great clothing with new and unique value, and to enable people all over the world to experience the joy, happiness and satisfaction of wearing such great clothes
- To enrich people’s lives through our unique corporate activities, and to seek to grow and develop our company in unity with society

Q Among your Group businesses, g.u. is doing extremely well. What are your future plans for the brand?
A We believe that g.u. has great potential because the low-priced casual wear market is growing.

Among Group businesses, our low-priced casual-wear g.u. brand is generating strong sales and profitability is rising. Going forward, we are looking to expand the g.u. network at a rate of between 40 to 50 stores annually, while also opening large-scale stores. I am also considering a possible expansion overseas at some point in the future. In the U.S., companies such as Walmart and Target offer the cheapest clothing and capture the largest market share. That is why I believe g.u. has great potential. In Japan too, people have started to enjoy wearing low-priced clothes and the different looks you can create with them. I expect that demand for lower-priced, fashion-conscious clothing—such as that sold under the g.u. brand—will continue to grow.

Q What does your strategy entail for Theory and Comptoir Des Cotonniers?
A I want to maximize synergies to create global brands.

Our Theory and Comptoir Des Cotonniers brand operations are also strong. Going forward, I want to pursue synergy benefits by linking the operations in Tokyo, New York and Paris. Theory is firmly established in the U.S. and Japan, but I am planning to introduce the brand into China and other Asian markets, and into European markets as well. In contrast, Comptoir Des Cotonniers has its operational base in France and other parts of Europe. I want to open stores for the brand in the U.S. and Asia. When the time comes, we should reap the benefits of various synergies, using established local infrastructure to accelerate the opening of new stores for other Group brands while boosting their recognition.
Tadashi Yanai
Chairman, President and CEO

Joined Fast Retailing in 1972. Chairman, President and CEO of UNIQLO Co., Ltd.; Director of Softbank Corp.; Chairman of Link Theory Japan Co., Ltd.; and Chairman of Gov Retailing Co., Ltd.

Q Can you explain the philosophy behind your Global One and ZEN-IN KEIEI policies as well as any future refinements?

A These mandate that each employee should adopt the mindset of a business manager to make us the best-managed company in the world.

I created the FR Way corporate philosophy because I wanted to make Fast Retailing a truly good company. Our corporate mission is to change clothes, change conventional wisdom and change the world by providing truly great clothes for all, everywhere in the world. We are a Japanese company, and we should respect and nurture the Japanese tradition from which we come. The FR Way is rooted in important Japanese cultural elements, including a passion for fine craftsmanship and an emphasis on superior customer service. The Japanese work ethic and teamwork also form an integral part of the FR Way philosophy.

The FR Way is underpinned by the style of business stemming from Global One and ZEN-IN KEIEI. These require that the Group operate as a single entity. All employees are expected to adopt a business manager mindset and incorporate the best available global practices into their work. Any firm that has achieved success globally by necessity implements the concept of ZEN-IN KEIEI. I want to make our Group a place where all managers and staff are driven by strong ambition, where all members persistently strive to achieve goals while maintaining a strong awareness of the realities around them.

Q What is your view on your returns to shareholders?

A We offer a high dividend linked closely to business performance.

I believe that returning profits to shareholders is one of the most important considerations for management. Our policy is to offer high dividends that closely reflect business performance. Our basic stance is to use profits to fund future business expansion, to retain earnings to ensure healthy finances, and to provide shareholder returns. In fiscal 2010, we paid an annual dividend of 230 yen (consolidated payout ratio 38.0%). That constitutes a 70-yen increase in the annual dividend compared to the previous year.