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# Towards our 2010 one trillion yen sales target

Mr Tadashi Yanai  
FAST RETAILING CO., LTD.  
President, Chairman & CEO

Thank you, my name is Tadashi Yanai and I am the President, Chairman & CEO of FAST RETAILING.

As you have just heard from our Executive Vice President Mr Matsushita, we managed to attain both a rise in revenue and profits during the six months to February 2006 thanks to the favourable performance of our domestic UNIQLO operation and the continued expansion of our group businesses. Interim net sales rose 18.2% year on year to ¥238.6bln, and ordinary income rose 30.2% to ¥47.1bln.

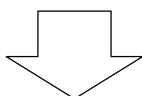
Along with the shift to a holding company structure from November 1, 2005, we have been able to clarify the roles and responsibilities of our new board directors, our operating officers, and our staff. And that in turn has lent an additional sense of speed to the reform and revitalisation of our company.

We are certainly one step closer now to our target of becoming a group with sales of 1 trillion yen and ordinary income of 150 billion yen by 2010.

Today, I would like to talk to you about strategies for our UNIQLO products and store operation and then for the group as a whole including M&A.

# UNIQLO: where it's going

- **new updated basic wear**
- **more fashion in women's wear**



**Express this focus in our  
large-format stores**

First, let me explain about where we see the UNIQLO operation going.

I often field the question, "Will UNIQLO become like H&M or ZARA?". My answer would be in a sense yes and in a sense no.

I would answer yes in terms of the fashion element of the UNIQLO brand, particularly in women's wear. I want to ensure that around two thirds of our women's wear is made up of fashion items as soon as possible.

However, on the other hand, UNIQLO's strength does lie in its adherence to basic clothes. So, on balance then, I would say that our first and foremost priority is to emphasize our new updated basic clothes, and then to increase fashionable items for women.

And I think the way to best realize these two goals is through the large-scale retail format.

# **UNIQLO: large-store strategy**

**Show the world the very latest, most competitive UNIQLO.**

**The future driver of UNIQLO growth.**

I think that the large-format store of between 1650 and 3300 square meters is the best outlet to realize both today's basic clothing and fashion element in women's wear, and then to express the most competitive and the very latest UNIQLO.

UNIQLO currently operates 7 large-format stores having opened 4 new ones over the past six months - the LALA Garden Tsukuba store, the Mina Tenjin store, the Ginza store and the Kasugai store.

These large-format stores are being developed as the future drivers of UNIQLO growth, and already we are beginning to feel we scored a hit.

# Large-format stores – Ginza store

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Monthly  
collection



Service attendant



VMD

(visual merchandising)



This slide shows our Ginza store that was opened last October.

One of the new things that we have done with the Ginza store is to introduce women's fashion items based on a theme that changes every month and we call it our "monthly collection". This has proved very popular with a large number of young female shoppers.

We also suggest new styles of dress through effective visual merchandising.

In addition, we place sales staff or "service attendants" whose sole role is to attend customers on each floor of the Ginza store. This is a level of service over and above that which has been offered to date in our regular UNIQLO stores and it has been very well received.

Going forward we intend to incorporate new ideas into our large-format stores in terms of products, visual merchandising and service. We plan to use these stores to help us best express the most competitive and the very latest of UNIQLO.

# Large-format stores – Kasugai store (Aichi Prefecture)

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Spacious area with 9m ceilings



Main street makes for easy milling around stores



Looking at another type of new development, we opened our first roadside large-format store – our Kasugai store – on December 2, 2005.

The Kasugai store has 9 meter ceilings and offers a most spacious shop floor experience.

The aisles are broad allowing customers to shop with a cart and to enjoy a relaxed shopping experience even with small children along.

I would like to expand this type of roadside large-format store model across the country.

# Large-format store efficiency

**Roughly in line with traditional sized stores**

**= stable custom, stable sales**

**How our 4 suburban large stores stand up**

6 mths to Feb 06(Actual)	Monthly business (JPYmln)	Shop floor (tsubo/3.3 sqm)
<b>4 suburban large stores (avg)</b>	<b>105</b>	<b>500</b>
<b>Total stores (average)</b>	<b>50</b>	<b>180</b>

The average for the 4 suburban large-format stores refers to our Kuzuha Mall, Itoyokado Musashisakai, LALA Garden Tsukuba, and Kasugai stores.

The total store average covers all domestic UNIQLO stores excluding small-format specialty stores.

Next, I would like to explain about the level of efficiency of our large-format stores.

Our large-format stores are currently attaining a level of efficiency in line with our regular stores in terms of stability of custom and sales. And net sales and profit are roughly in line with our total store average also. As you can see from the slide, the average monthly business conducted at our 4 suburban large-format stores totals around ¥100mln. That is double the national UNIQLO average of ¥50mln.

By the year to August 2007, I am planning to open 20 new large-format stores a year.

On UNIQLO's overseas development, you will be hearing later from our Executive Vice President, Stephen Dacus. But I would like to see us build on the success of our flagship Ginza store. I would like to see us develop future flagship stores in New York, London, Shanghai, Paris around which we can then develop brand recognition within those countries.

Already we are scheduled to open a flagship store in New York's Soho with a shop floor of 1,000 tsubo, or 3300 square meters.

I believe that our large-format store strategy will prove the engine of growth for UNIQLO both in Japan and overseas.

# UNIQLO – product development

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Establishing a global product development system

## New York R&D center



We have already begun developing products for the autumn/winter 2006 that will help us move forward with our large-format store strategy.

From Autumn 2005, our global product development system began working in earnest with R&D centers in Tokyo, New York, Paris and Milan.

We decide a particular concept based on information collected to our New York design center. The Tokyo and New York design centers have several meetings to ensure that everyone was on the same page and then final designs would be produced.

The products developed through this new system will revitalize the UNIQLO brand the world over from Autumn 2006.

## **UNIQLO – supply chain**

- **Reduce lead times**
- **Respond speedily to trends, customer needs**

In order to increase the fashion element in women's clothing and to be able to respond speedily to trends and customer needs, it is important not only to set the global product development system in motion but also to reconstruct our supply chain.

The production lead time for our basic UNIQLO garments is around six months. However it is vital to reduce this lead time in the development of fashionable women's items.

We are currently working to reduce lead times at UNIQLO and I want to significantly increase the proportion of women's wear items that can be developed on short-span production.



# **Our new brand by G.U. Ltd.**

**New brand = price-focus**

**UNIQLO = absolute quality**

**Clear distinction between 2  
brands**

Next, I would like to explain about our non-UNIQLO group development.

Recently, we set up G.U. Co., Ltd. to develop a new brand for GMS stores. We plan to open our first stores for the new brand from this Autumn.

I am often asked about the distinction between the new brand and the current UNIQLO. The new brand will be clearly price-focused whereas UNIQLO will be the brand that seeks absolute quality. I believe that we can create a very clear distinction between the two brands.

In the US and UK market Walmart, Target, Matalan, Primark, New Look make up a large share of low priced clothing sales.

I think that in Japan GMS supermarket chains should have sold clothing at that price level but currently it would seem that they are not doing enough.

For that very reason, we are looking to enter this low-priced clothing market with our new brand. I believe that there is certainly sufficient market potential here.

## **M&A**

- **Continue to acquire attractive, suitable firms**
- **When seen from a global perspective, our share is still a mere 0.4%**

Next, I would like to talk about our M&A strategy.

We are told that the Japanese apparel related market scale is around 10 trillion yen. But FAST RETAILING's share is a mere 4% of that with net sales of just 400 billion yen. And if you look at the global apparel market, which is 10 times the size of Japan's market, then our share is an even tinier 0.4%. That is why I want to make positive inroads into that 99.6% of untapped market.

If you have a good brand and good management, then it is definitely possible to experience growth within a relatively short space of time. Right now we are seeing some speedy growth in the global market for the US Theory brand into which we invested and the French COMPTOIR DES COTONNIERS brand that we acquired. I want to continue this sort of action throughout the world.

I think that it is difficult for any UNIQLO overseas operation to grow in a short space of time unless it is partnered with local firms. For instance, if we Japanese just go to New York, it would be difficult to suddenly manage a large-scale company well. If we want to operate a large-scale firm overseas, then we should employ excellent local managers, acquire a local firm or inject capital into a local venture in order to grow together towards success. And that is why I look so eagerly for good M&A opportunities.

# M&A

2005  NELSON FINANCES  
2006  PETIT VEHICULE

**Europe is the world's biggest  
fashion market**

In terms of our progress in M&A activities, in May 2005 we acquired NELSON FINANCES S.A.S., the developer of the COMPTOIR DES COTONNIERS brand in France. And in February 2006, we finalized our purchase of PETIT VEHICULE S.A., the developer of the French lingerie brand Princesse tam.tam.

The reason for buying two French companies in a row was to establish a European bridgehead.

And why did we choose France, choose Europe? Well, Europe is the world's largest fashion market. One of the main factors behind H&M, ZARA's global success was their European bases.

In Europe there are many companies that have a good brand and a good fashion. But they are mainly family businesses.

By tying up with FAST RETAILING, those companies can develop on a much larger scale and even go global. I think that we can offer a significant opportunity for any brand or owner to become a global brand.

**Aiming for group sales of 1 trillion yen and ordinary income of 150 billion yen by 2010.**

I have talked today about the importance of our product, store, group and M&A strategies. But what is the most important of course is to ensure a steady income stream from our current business.

So, I intend to continue to strengthen our UNIQLO operation going forward and to surely expand our group businesses in our quest to become a 1 trillion yen company with ordinary income of 150 billion yen by 2010.

Thank you for your continued support.