

# The breakthrough business challenge

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I would like to focus my speech on what I call “the breakthrough business challenge”. I will describe what we have done so far to bring about a recovery for our company and how we are planning to build on that going forward.

# Six months to Feb 04: Overview

## Increased both sales and profits

Billions of yen

	Initial Estimate		Actual	
			y/y	v.estimate
Net Sales (to net sales)	176.5 100.0%	180.7 100.0%	+ 11.6%	+ 2.4%
Gross Profit (to net sales)	81.8 46.3%	85.8 47.5%	+ 22.6% +4.3p	+ 4.9%
SG&A Expenses (to net sales)	46.1 26.1%	46.1 25.5%	+ 5.2% 1.6p	+ 0.1%
Operating Income (to net sales)	35.7 20.2%	39.6 22.0%	+ 51.9% +5.9p	+ 11.1%
Ordinary Income (to net sales)	35.9 20.3%	39.6 22.0%	+ 50.5% +5.7p	+ 10.5%

Parent company results for six months to February 2004

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First to give an overview of our interim results for the six months to February 2004. We enjoyed increases in net sales, operating income and ordinary income year on year and all of these elements met or exceeded our initial forecasts.

# Six months to Feb 04: Overview

Recovery in existing store sales: 2.3% y/y

Strengthening women's wear : now comprises 34.9% of total product base (up 6.3 points y/y)

women's wear component includes undergarment sales

Improved gross profit margin: 47.5% (up 4.3 points y/y)

Significant increase in profits: ordinary income ¥39.6bln  
(+50.5% y/y)

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I'd like to highlight four main features of our interim business results.

First is the clear recovery trend in net sales. Net sales at existing stores rose 2.3% year on year in the six months to February 2004.

Second, our efforts to strengthen our women's wear products over the past two years are now gradually beginning to show through in our stores and renewed product lines. As a result women's wear (including undergarments), as a share of overall product sales, has now reached 34.9% - a favorable trend given that women's wear is an important engine of growth for both sales and profits.

The third point is the improvement in gross profit margin. Our gross profit margin improved 4.3 points in the six months to February reaching 47.5%. Underlying contributing factors here were our above-target sales performance and our successful management of inventory.

These three factors taken together led to a significant 50.5% increase in ordinary income year-on-year.

# Recovery in existing store sales



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This graph shows a clear recovery trend in existing store sales over the past two years. We feel that net sales are now firmly on a recovery track.

# The UNIQLO challenge

Product power : expand women's wear market share

Product power : expand men's wear design system

Product power : new materials, new areas

Selling power : implement G 4 review, encourage employee franchises

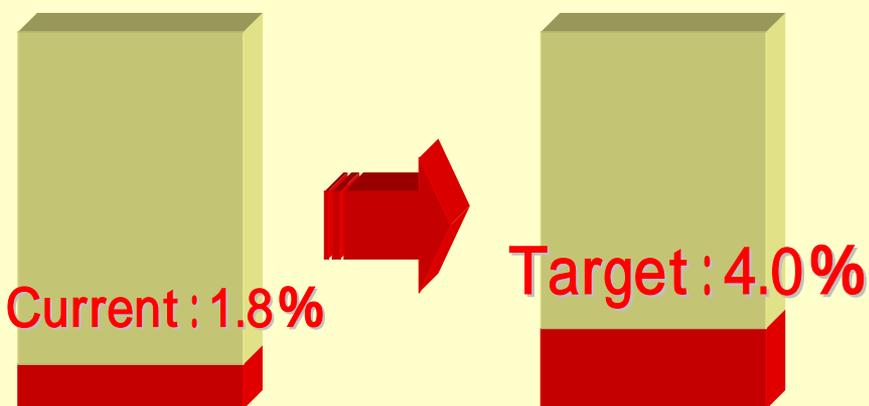
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We are working on a variety of different ideas and concepts in order to successfully expand our business going forward. Let me share just four of them with you today.

## Expand women's wear market share

Targeting 4% market share near-term



Estimated by Fast Retailing

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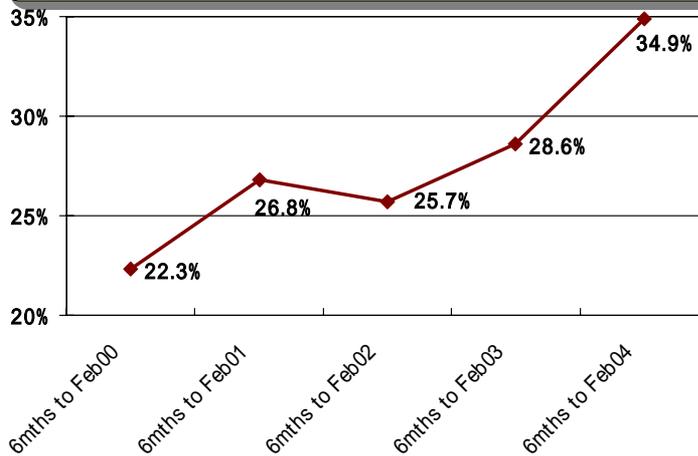


First of all, let us look at our efforts to strength our women's wear collection. The total women's wear market is estimated at around six trillion yen and UNIQLO's current share is a mere 1.8%. We feel that given our national network of 630 stores, a 1.8% market share is very small and we are determined to expand that market share to at least 4% as soon as possible.

# Women's wear as a component of overall sales

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Six months to Feb 2004 : 34.9 %  
~ up 12.6 points in 4 years



Women's wear (including undergarments) as a percentage of total parent sales

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This graph shows women's wear (including undergarments) as a percentage of total overall sales. As you can see, the women's wear component has expanded rapidly - a 12.6 point increase from 22.3% four years ago to 34.9% in the six months to February. I expect that this component will continue to rise enabling us to further expand overall net sales.

# Expand women's wear market share

## “Establish UNIQLO WOMEN” brand

- continue to introduce new improved garment lines
- balance standard core and seasonal fashion items
- expand relax fit styles and high quality casuals
- offer headline-grabbing, socially conscious clothes

2004 spring/summer ranges

Stretch bootleg pants, trench coats, extra fine cotton T-shirts

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I would now like to highlight four areas that illustrate how we are going about strengthening our women's wear lines. Firstly, we are continuing to introduce a steady stream of new improved garment lines. For instance, even on our basic items such as stretch pants, knitwear and cut and sew goods, we are ensuring that this season's lines display some obvious improvement or attractions over the previous season.

Secondly, we continue to seek the perfect balance between standard core items and seasonal fashion items. On the basic items, we have to ensure that we have a strong range of garments and a steady flow of different sizes on offer in each store. That also means ensuring that we have ample stock on hand but don't end up amassing excess inventory. Ensuring such a high level of customer satisfaction while maintaining efficient inventory control is tricky but vital. And in addition to the added variety on our regular core items, we also strive to complement this with just the right amount and fresh, appealing seasonal fashion items.

Thirdly, while our mainstay customer range is parents in their twenties and early thirties. But we are now trying to develop products that also appeal to the slightly elder female customer. For instance, we expanded the size pattern on two of our pants ranges this spring introducing a relax fit style. Our women's pants to date have fit up to a size 73 cm waist but we have expanded this fit waists of 76 cm and 79 cm. The pants have proved very popular and we ran out of stock in several cases. We are also working to develop more high-quality casuals since these are particularly popular among elder customers.

Fourthly, is our effort to launch more headline-grabbing, socially conscious clothes that allow the wearer to make his/her own subtle statement. We are determined to launch new lines every season that grab the attention of the media and our customers looking for something just that little bit different.

# Expand men's wear design system

## Further pursuit of the ultimate basic wear

- fundamental review of product lineup
- offer attractive, high quality casuals
- offer headline-grabbing, socially conscious clothes
- further strengthen UNIQLO's design research team
- work together with top designers in the industry

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We are also working to further develop our men's wear design range. We are looking first and foremost to perfect our core basic item mix which means a constant vigorous review of the product lineup. As with women's wear, we are also developing new high quality casuals to appeal to a broader range of male customers.

Our UNIQLO Design Studio currently boasts 60 members. We are proud of the team and have worked hard to attract really strong and innovative design talent over the past two years. But we are not going to stop there. While we are convinced that our internal designers will produce the goods, we are also looking to tie up with reputed external creative designers on individual projects and develop new, interesting products.

# Develop new materials, challenge new areas

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- **Develop new materials ~ Strategic Materials Section**
  - ~ Heatec plus, extra fine cotton, comfolite
- **Joint development with top global suppliers**
  - ~ Toray (undergarments etc), Kaihara (denim), Kurabo (stretch materials)
  - ~ Europe's major spinning manufacturers (cotton cloth) ...
  - ~ Asia's major textile manufacturers (synthetic outerwear)
- ...
- **Challenge new areas**
  - ~ "Body Science" undergarments, casual swimwear

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One other important area that we haven't yet talked about is the development of new materials. The type and quality of material used for our basic garment ranges has always been vital to UNIQLO's reputation and success.

Our Strategic Materials Section is looking to develop new materials. We are working with domestic firms such as top-class global supplier Toray Industries, Kaihara that is famous for the quality of its denim and Kurabo. We are also working with a variety of major European and Asian textile manufacturers.

One example of this cooperation is the "UNIQLO shapely leg stretch pants" that we developed using Kurabo's new stretch materials. To date our stretch pants have been made entirely of stretch material manufactured in China. But this time we were able to develop pants of particular quality stretch material thanks to our cooperation with Kurabo. Pants of a comparable stretch material would retail at other outlets for between ¥10,000 and ¥15,000 but we were able to offer them for just ¥2,900 at UNIQLO. A strong illustration of our recent success in developing new, attractive products. FAST RETAILING now has between 50 and 80 materials suppliers with sales of over ¥10bln. Thanks to these strong established relationships, we are in the perfect position to jointly develop new materials and offer them to our customers each season.

On the challenge into new areas, we developed a new type of undergarment for women and launched it this spring as our "Body Science" undergarment range. We only began selling the line in April but already sales have proved favorable. We will also begin to sell swimwear for the first time in April.

We at FAST RETAILING are very excited about this challenge into new areas and we will do everything in our power to create value added products that our customers instinctively appreciate and enjoy.

# Selling power, employee franchises

## • Selling power ~ enhanced G 4 review

- determined improvement in individual store sales skills
- better solidarity between store and production site

## • Employee franchise system

- independent, motivated managers create collective store strength
- second round of franchisee stores in fall 04

Next let me mention two points about selling power.

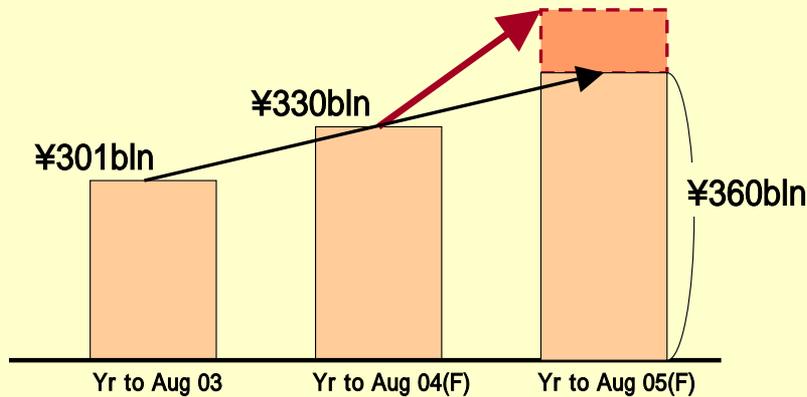
We are currently undergoing a review of our overall corporate structure and infrastructure that we call the G4 project. We have worked on this for two years and now we have begun putting the new structure to the test. We are shifting from a domestic retail operation to a global manufacturing and retailing business.

Based on this new structure, we feel it is vital to improve commercial skills at our individual stores. Essentially that means that our factories and our stores should share the same information and that each store manager should use that information to devise a sales and inventory strategy best suited to his/her individual store. That should in turn help ensure optimum sales for the group as a whole.

Leading on from that, we are making progress on our employee franchise system that encourages able store managers to truly self-manage their stores as employee franchisees. We hope our franchisee system will inspire managers at all of our 630 stores to aim higher and further develop their skills. We for our part will continue to educate and nurture as many strong store managers as possible.

# The breakthrough business challenge

## Ensure net sales base of ¥360bln



Actual and projected net sales at parent company

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This graph illustrates our thinking on sales through August 2005. We are not ready to disclose exact forecasts for sales in the year to August 2005, but this gives you an idea of where we see things going.

As you see, we have written the figure of ¥360bln beside the block representing net sales in the year to August 2005. This extrapolates the current pace of favorable sales and store expansion. The ¥360bln sales figure should be achievable in the coming business year but it is important to ensure that we also have a suitable cost structure in place.

I believe that the year to August 2005 will be a crucial one for FAST RETAILING. Internally we call this the breakthrough business challenge. The main aim here is to return sales to their 2001 levels above ¥400bln as soon as possible. As I just mentioned, current projections alone would take sales to ¥360bln next year. That still leaves a gap of ¥40mln. Our product, store expansion and sales strategies are focused on bridging that ¥40mln gap and beyond.

# The FR group challenge

## • New businesses

- Link Holdings : affiliated under equity method
- National Standard: consolidated subsidiary
- FR Foods : disbandment

## • Overseas businesses

- UK operation : in the black in 6 mths to Feb 04
- China operation : targeting a profit in 2005

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The development of new businesses is a core part of our group strategy and we have invested in Link Holdings with its development of the Theory brand and in National Standard which boasts Keiji Wakabayashi as its chief designer. We have unfortunately had to decide to disband our vegetable subsidiary FR Foods. However we will be considering positively any possible capital tie ups or M&A opportunities that might help usefully expand and enhance the apparel-centered pillars within the FAST RETAILING group.

In addition, our overseas expansion in the UK has been an eventful one. We expanded quickly at first to 21 stores and then had to scale back to 5 in our effort to bring the business firmly into the black. We did manage to produce a profit in the six months to February and now we plan to move forward cautiously. We'll be looking first to confirm that the business can generate a stable income and then to ensure a proper future growth for the UK operation.

We are also continuing slowly but surely with our operation in China. We now have six stores there and are working tirelessly in order to break even in 2005.

# From recovery to new horizons Self renovation

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These past two years have been spent consolidating and confirming our position. Now we are reaping the benefits of those efforts. Now we are shifting to a more positive stance with all the staff working to return annual sales to the ¥400bln level. We are instilling a new more aggressive mood into the company – no longer simply ensuring recovery but challenging new horizons.

It is also important for us to continue to renovate and rejuvenate ourselves. Our staff are at the very core of our operation and are vital players in both its support and its development. I and other management, our store managers, our head office staff are all looking to grow. Educating our staff and providing them with the opportunity to flourish is a key and central aim of our breakthrough challenge.

Thank you.