

A look back over our first half results, and a look ahead to the second half and the year beyond.

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I would like to take you back through a detailed review of our mid-term results, go over the measures planned for the remaining six months of this business year through August, and then talk about our growth strategy starting from the fall.

First half to Feb 05: Parent overview

Revenue up, profit down, gross margin below target

Billions of yen

	6 mths to Feb 04	6 mths to Feb 05	Six months to Feb 2005		
	Actual	Initial est.	Actual	y/y	v. initial est.
Net Sales (to net sales)	180.7 100.0%	205.0 100.0%	199.8 100.0%	+ 10.6%	2.5%
Gross Profit (to net sales)	85.8 47.5%	95.0 46.3%	88.9 44.5%	+ 3.6% 3.0p	6.4%
SG&A Expenses (to net sales)	46.1 25.5%	53.7 26.2%	53.4 26.8%	+ 15.9% +1.2p	0.4%
Operating Income (to net sales)	39.6 22.0%	41.3 20.1%	35.4 17.7%	10.7% 4.2p	14.2%

The figures above are on a parent only basis.

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First of all, as our director Mr Otoma has already explained to you, FAST RETAILING's performance in the first six months was disappointing with revenue rising but profits shrinking.

We were able to post a double digit increase in net sales of 10.6% year on year. However, that represented a shortfall of 2.5% compared to our initial estimate. And the situation on operating income was even more disappointing. Operating income fell 10.7% year on year, a 6.4% shortfall compared to our initial target.

The failure to achieve our target on gross profit margin was also an unfortunate standout feature in these mid-term results.

First half review

(1) Net sales ¥199.8bln (¥5.1bln v. initial estimate)

Unusual weather patterns (prolonged September heat, warm December) hit hard.
Unable to recover lost ground in Jan/Feb even when real demand for winter goods set in.

(2) Gross margin 44.5% (1.8 points v. initial estimate)

Year-end orders dispatched in buoyant conditions mid-October actually backfired.
Poor December sales meant hefty January discounting and large fall in gross margin.

(3) SG&A ¥53.4bln (¥0.3bln v. initial estimate)

Cost expansion in line with our new year “renewed business push” to boost sales.
Sales below target but costs increased as planned. Hence SG&A to sales ratio deteriorated.

I already covered this ground to a certain extent when we announced revisions to our business forecasts back on March 2. However, let me go over briefly the main reasons why we failed to meet our initial estimates for the first half.

Firstly, our net sales reached ¥199.8bln, ¥5.1bln short our of initial estimate. The unusually prolonged hot weather in September and the mild winter through December were the main culprits here and we were unable to make up the difference once into January and February.

Secondly, our first half gross profit margin of 44.5% fell 1.8 points short of our initial estimate. In hindsight, the key problem here was that we determined the size of our production orders for the year-end sales period back in mid-October when conditions were buoyant and sales were favorable. However when it came to it, December sales turned out to be sluggish and that led to a considerable deterioration in our gross margin from January onwards.

Furthermore, we had planned to increase SG&A costs beyond the previous year’s level in line with the year’s “renewed business push”. Indeed, SG&A costs did rise in line with initial estimates to ¥53.4bln. And when the expected expansion in sales failed to reach full potential, we experienced a deterioration in our SG&A costs to net sales ratio.

Achieving our second half targets

Billions of yen

	Year to August 2005	
	2H forecast	y/y
Net Sales (to net sales)	171.9 (100.0%)	+ 10.8%
Gross Profit (to net sales)	80.4 (46.8%)	+ 6.0%
SG&A Costs (to net sales)	53.4 (31.1%)	+ 5.3%
Operating Income (to net sales)	27.0 (15.7%)	+ 7.4%

1. Gross margin and cost control

Work to achieve gross margin target

Control costs in line with sales

Inventory levels

2. Determined product / sales strategy

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Next, let me move onto the second six months of the year to August 2005. We are still forecasting an increase in revenue and profits. Net sales are expected to rise 10.8% on year to ¥171.9bln, our gross profit margin is expected to improve to 46.8% and operating income is seen rising 7.4% year on year to ¥27.0bln.

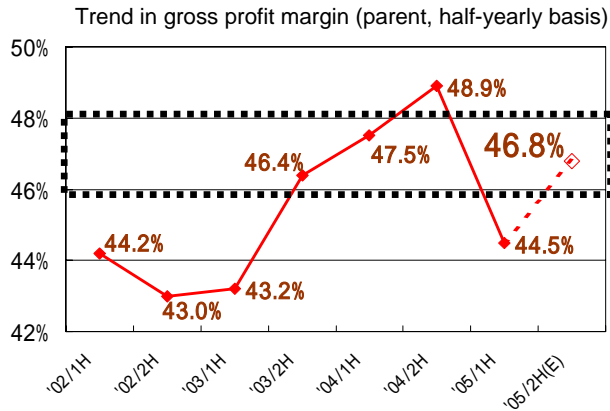
In order to achieve these second half targets, we are introducing a variety of measures to right the errors of judgment made by management in the first six months through February.

We will be looking first and foremost to improve gross margin through stricter cost control. And we will also be making determined efforts to improve our product and sales strategies.

1 . Gross margin & cost control

Working to achieve gross margin target

- Strict management plan
- Adjust June-Aug production by revising orders beyond the May Golden Week holiday



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Now let me explain what we plan to do to achieve our targets on gross profit margin. Sales at existing stores fell 15% in March and that certainly represents a tough start to the second half. However, we are still aiming to achieve our target of 46.8% on gross margin in the second half. The question is of course - how?

Our second half target for existing store sales stands at 4.2%. That might seem very high when compared to the actual performance for March alone and people may be concerned about the risk of incurring more losses through the discounting of any excess inventory. However, we have learned a lesson from our mistaken decision to increase production half way through the first six months, and we plan to take a more cautious approach to production schedules during the final six months.

We will continue to promote our garment lines positively in the run up to the Golden Week May holiday in the hope of recouping the fall off in sales suffered in March. However, we will be taking a very objective and stringent approach to production in the June to August quarter based on a swift and realistic assessment of Golden Week sales performance. Some of our orders for summer goods are still to go in post Golden Week and we can still cut back on production if considered necessary depending on how sales go over the holiday period. Such detailed modifications to our production schedule should minimize any potential losses from discounting and enable us to achieve our gross margin target.

We shall also be reviewing the unit price of some of our summer products and adjusting production accordingly. That should help contribute towards the attainment of our second half target on gross margin.

Our target for gross margin in the second half is 46.8%, 2.1 points lower than the previous year although I think it is fair to say that gross margin in the six months from March to August 2004 was unusually high and in practice almost impossible to maintain over the long-term.

1 . Gross margin & cost control

Controlling costs in line with sales

- Personnel, Advertising & Promotion costs

Billions of yen

	Year to August 2004				Year to August 2005					
	1H		2H		1H			2H		
	Actual	(to net sales)	Actual	(to net sales)	Actual	(to net sales)	(y/y)	Fcst.	(to net sales)	(y/y)
Total SG&A	46.1	25.5%	50.7	32.7%	53.4	26.8%	+ 15.9%	53.4	31.1%	+ 5.3%
Personnel	16.3	9.0%	19.0	12.3%	18.9	9.5%	+ 15.6%	21.4	12.5%	+ 12.5%
Advertising	9.2	5.1%	8.8	5.7%	11.1	5.6%	+ 20.6%	8.5	5.0%	3.2%
Store Rents	11.9	6.6%	12.9	8.3%	12.7	6.4%	+ 6.1%	12.5	7.3%	2.7%
Depreciation	0.8	0.5%	0.9	0.6%	0.8	0.4%	+ 6.6%	0.9	0.5%	1.4%
Other	7.6	4.3%	8.9	5.8%	9.7	4.9%	+ 27.2%	9.9	5.8%	+ 10.7%

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We also plan to instigate more stringent control over SG&A costs in the second half. We will essentially be looking for potential cost reductions in terms of personnel, advertising & promotion, etc. We will be reviewing carefully the cost effectiveness of each and every expenditure we make and whether it is justified by the current sales trend. Although all of this depends largely on how sales fare in the second half, it is possible that we will cut costs (particularly in terms of personnel) if sales do in fact taper off.

1 . Gross margin & cost control

Inventory levels

Large y/y increase but still at comfortable level

**Total inventory at end Feb 05 +¥14.1bln v. end Feb 04,
+¥6.7bln v. end Aug 04**

Factors behind increase in inventory

Impact of our shift towards direct trading

Increased inventory for new stores

Small increase in fall/winter inventory and spring inventory

Billions of yen			
	Yr to end August 2004		Yr to end August 2005
	End feb 04	End Aug 04	End Feb 05
Inventory	20.8	28.2	34.9

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Moving onto an explanation of our inventory position. As of the end of February 2005, our inventory levels were up 70% compared to the previous year's level. In monetary terms, that's an increase of ¥14.1bln. However, we do not feel that there is any cause for concern on inventory at these levels since over half of the total increase, around ¥8.0bln, is a technical result of our shift to a higher proportion of directly traded goods.

Of the remainder, around ¥2.0bln is made up of increased inventory required for our new stores and around ¥1.3bln is due to a rise in inventory of fall and winter goods. That level of excess fall/winter garments is slightly higher than the previous year but not unduly so.

2 . Determined product / sales strategy

- **Focus on garments of superior material and functionality**
 - EXTRA FINE COTTON, European Linen
 - Print T-shirts
 - Summer pants
 - BODY TECH
- **Introduction/expansion of the mass trend products desired by our customers**

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Next, I would like to explain our product and sales strategy for the second half of this year through August 2005.

First of all, let me explain about the garments we are developing to sell over the second half. We are already in April, in the run up to our busiest season during the second half which is the Golden Week May holiday. We have been conducting promotion campaigns for our EXTRA FINE COTTON T-shirts and polo shirts. This year we have increased the range and variety of design and colors on offer and we are using US Supima cotton and Egyptian GIZA45 cotton – both known for their scarcity value.

Our print T-shirts is one other area on which we continue to focus efforts. We have great expectations again for these garments which play a key role in boosting UNIQLO's summer sales. This will be the third year that we have conducted our T-Shirt Project. And this year we have an even more exciting range of artists taking part who are helping to create a full and appealing lineup of T-shirt design content. One new thing we will be adding this year; we will be changing the design theme every month to keep the project fresh throughout the whole summer.

We are also developing and improving our summer pants range. One thing we learnt from last year's summer sales period was that we didn't provide a full enough range of long pants suitable for summer wear and that cost us a proportion of sales. This year we have made sure to strengthen our summer pants line centred on two lines – dry and hemp.

In addition, we are also planning to introduce a new range of goods in time for the peak summer season called BODY TECH. We have created a new line of clothes that can also be worn for sports and that is being promoted as "Sports science clothing". We spent a whole year developing this line and cooperating with third parties to create the perfect material and design shape. What sets these clothes apart from apparel developed by regular sports manufacturers is that they are not developed purely for wearing while exercising. Rather they are casual clothes that should be even more comfortable to wear at any time for any activity precisely because they incorporate a study and adaptation of materials worn when the body is at its most active.

We are preparing all of these attractive products in the run up to the Golden Week holiday period and we sincerely hope our efforts will be justly rewarded through higher sales performance. However rest assured, we will be conducting a careful inspection of sales conditions on a daily, weekly and monthly basis and we stand ready to change course at any time if necessary to ensure higher sales and achieve our second half business targets.

Towards future growth

1 . Strengthen our products

2 . Expand UNIQLO PLUS

3 . Expand non-Japan operations

Next, I'd like to shift the focus to the mid to long-term and talk about our strategy for future corporate growth.

1 . Strengthen our products

Lessons to be learned from March sale strategy

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First, before I launch into the explanation of our efforts to strengthen our future product range, let me just spend some time reflecting on our again poor sales performance during the month of March and what we might learn from that going forward.

We regret to say that net sales at existing stores in March fell an alarming 15.2% compared to the previous year and I would like to explain what we consider the problems were here.

We decided to promote denim goods as the core garments for the early spring season and we did that through our March Denim Campaign. We weren't mistaken in picking denim as the main material for our spring campaign since denim goods are a vital part of UNIQLO's lineup. However, on reflection, we maybe got too tied up in our declaration on global quality made last September and in so doing focused too closely on specific denim material and design such as Shuttle Denim and Ring Denim.

On the one hand, the fact that we offered such denim products in a way only UNIQLO can and sold them as value added products was significant and was successful. That helped boost overall denim goods sales by around 150% compared to the previous year. However, where we fell down was the fact that our focus did not gel perfectly with the mass trend in the market. While we were working towards providing a value-added denim product, customers were looking also for a greater variety of manufactured denims and color variation. So this was a valuable example of a good product, but one which was not completely in tune with customer needs. We have learned a lot from this experience.

Also with hindsight, we know that the start of the spring season is the key time to attract female customers to our stores and it is fair to say that a March campaign focusing on denim was probably not sexy enough.

One final point which warrants reflection involved men's wear. On some of our men's wear garments, we limited the design and silhouette to the extent that we ended up limiting our customer base for these products as well. While we have to make sure we are always improving on our garments, it is also vital to ensure that we always offer basic items of a determined cut and design that our customers always know they can get from us.

The March sales season taught us some valuable lessons therefore and we plan to incorporate those firmly into our future strategy hopefully soon enough to benefit our second half performance.

1 . Strengthen our products

Better product development (including information, personnel)

- **Globally competitive personnel & partners**
- **Launch UNIQLO Design Studio, New York, Inc.**
- **High quality mass production, how to collect the best and most pertinent market information**
- **Creating a production system that appropriately reflects mass trend requirements**

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Now let me move onto our efforts to strengthen our products for the mid to long-term.

First of all, it might go without saying but let me reiterate it here. We are in the business of “making things” and so it is extremely important that we continue to strive to offer value added products through cooperation with materials manufacturers. This is a key business ethic for UNIQLO which has committed to the provision of global quality.

However if there is one thing that the March sales experience taught us, it is that we cannot focus purely on the quality products that we want to offer, but must ensure that our products on offer coincide properly with the demands of the mass trend market. We have to develop the best product possible to respond to the product needs of our customers at any particular time. With this in mind we have been looking to hire quality personnel based at our UNIQLO Design Studio, New York, Inc which was established last December. We have also been improving the level of personnel responsible for product development in Tokyo including designers and merchandising. And we are creating a better framework through which these New York and Tokyo entities can better cooperate.

The ultimate aim here is to use this new framework to help manufacture quality products but on a mass scale, to obtain key information on local markets in a global environment. This will then help us develop a special quality all of our own that will be reflected in our UNIQLO brand clothing throughout the world.

In addition, we also need to provide a more flexible production system with a shorter lead time that will enable us to reflect and better respond to the ever changing mass trends in the clothing market place.

2 . Expand UNIQLO PLUS

1 . Reconfirm the meaning/ aim of UNIQLO PLUS

- **UNIQLO PLUS**
our way to achieve globally-competitive garments & stores

2 . Current issues and solutions

- **Clarify what the “PLUS” bit should be**
- **Design specific garments exclusively for UNIQLO PLUS**
- **Continue to develop new merchandising tools and displays such visual merchandising**

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Next, let me take you through how we plan to develop our UNIQLO PLUS operations.

To reiterate the reason for developing the UNIQLO PLUS store concept, we are aiming to create garment lines and stores that are attractive and competitive anywhere in the global market place.

We are currently experimenting with stores more than twice the size of our average UNIQLO outlet and employing different ways of displaying our products, constructing the product lineups and their display space.

We now have two UNIQLO PLUS stores following the grand opening of our Kuzuha Mall store on April 14th. Our first UNIQLO PLUS flagship store is located in Shinsaibashisuji in Osaka. We plan to gradually open more UNIQLO PLUS stores this year bringing the total to 7 stores by the end of the year. Of course the aim is not to simply expand the number of UNIQLO PLUS stores but rather to ensure that the UNIQLO PLUS operation becomes a highly profitable part of our business.

To explain a little more about the current issues facing us and how we plan to tackle them. Our flagship UNIQLO PLUS store in Shinsaibashisuji in Osaka spans a larger than average store space and we have used this space to experiment with various products exclusive to UNIQLO PLUS. This has helped us to ascertain what exactly the “Plus Alpha” element is in the UNIQLO PLUS name and of course it is vital to ensure that this is fully understood by our customer too.

We have also been able to determine which of the exclusive UNIQLO PLUS garments sit well with our customers and which were perhaps a bit off the mark. And we will be using this experience at our flagship Shinsaibashi store in the future planning and development of product ranges exclusively for UNIQLO PLUS.

Also through a number of trials with such things as visual merchandising and displays, we now have a much better idea on the efficacy of various new display and promotion methods that we have not been able to employ in our typical UNIQLO stores to date. We will continue to work on these and ensure that our existing store network also benefits from the experience.

2 . Expand UNIQLO PLUS

3 . Store opening plans

- To open 7 stores by end December 2005

Type of store	Name of store	Prefecture	Opening date
Urban standalone stores	Shinsaibashisuji store	Osaka	2004/10/9
	Ginza store (temporary name)	Tokyo	Fall 2005 (tentative)
Urban shopping center	Tenjin store (temporary name)	Fukuoka	Fall 2005 (tentative)
Suburban shopping center stores	Kuzuha Mall store	Osaka	2005/4/14
	Itoyokado Musashisakai store (temporary name)	Tokyo	July 2005 (tentative)
	LALA Garden Tsukuba store (temporary name)	Ibaraki	Fall 2005 (tentative)
Roadside stores	Kasugai store (temporary name)	Aichi	Fall 2005 (tentative)

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This table depicts our current schedule on UNIQLO PLUS store openings through the end of December 2005.

The 4 types of stores mirror almost exactly those of our regular UNIQLO outlets namely urban standalone stores, urban shopping centers, shops within suburban shopping centers and roadside stores.

We plan to develop a firm and profitable basis for the UNIQLO PLUS business by conducting various experiments in each type of store and pinpointing any specific issues on product makeup and operations. In addition, we will be able to use the experience and knowledge gained from this UNIQLO PLUS development to further improve the workings of our existing UNIQLO store network.

3 . Expand non-Japan operations

1 . US

- 2 or 3 stores in shopping malls
New Jersey - Fall 2005



2 . South Korea

- 2 or 3 stores in South Korean retailer
Lotte's shopping facilities - Fall 2005



3 . Hong Kong

- 1 store in a shopping facility - Fall 2005



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Another strategy key to our future development is our intention to expand our non-Japan UNIQLO operations so I would like to talk about that for a moment.

First of all, we are currently working towards setting up our first UNIQLO presence in the US with 2 or 3 stores expected to open in shopping centers in New Jersey in the fall of 2005.

Next, in South Korea, we have already announced our joint venture with local retailer Lotte Shopping Co., Ltd and we plan to open 2 or 3 UNIQLO stores in some of Lotte's own shopping premises in the fall of 2005.

And finally in Hong Kong, we are looking to open 1 store in a local shopping facility also in the fall.

As you can see, we are indeed committed to developing a broad UNIQLO presence outside of Japan.

Overview :

- 1 . **Attain second half financial targets**
- 2 . **Revise operations in light of 1H,
March sales struggle**
- 3 . **Strengthen our products and development**
- 4 . **Work towards
a mid/long-term growth strategy**

Finally to summarize, let me reiterate four key areas of management responsibility as I see them in order of importance.

The first is extremely important and that is to attain our second half business forecasts. We can assure you that each and every one of our staff will be working towards that aim.

Second, we are determined to swiftly revise our operations as necessary in accordance with the lessons learnt from our less than satisfactory performance in the first six months and extending into the month of March.

I have talked already at some length about the third and the fourth points, and there, basically, we plan to review each point and problem in turn to ensure a firm and viable mid to long-term corporate strategy. This will involve the implementation of a more speedy and concrete approach to strengthening our products and product development capabilities.

That completes my explanation of how we all plan to pull together to achieve our second half business targets and implement our long-term vision for the future of FAST RETAILING. Thank you.