

Press conference

Forming the UNIQLO-Toray strategic partnership

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Participants:

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Ginjiro Ishii, Managing Director, Toray Industries, Inc.

Tadashi Yanai, Chairman & CEO, UNIQLO CO., LTD.

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Introduction

Ginjiro Ishii, Managing Director, Toray Industries, Inc.

Tadashi Yanai, Chairman & CEO of UNIQLO CO., LTD., and Sadayuki Sakakibara, President & CEO of Toray Industries, Inc. first reached an agreement back in March this year to develop a strategic partnership between the two companies. Based on that partnership, we are now proud to announce the signing of an agreement covering mid- and long-term, comprehensive procurement and supply. The FR group is aiming to expand sales to 1 trillion yen by 2010 with the domestic and global UNIQLO business contributing ¥700bln of that total. The Toray group is also aiming for sales of 1.8 trillion yen with its entire fibers & textiles operation contributing ¥600bln. The forming of a strategic partnership will enable our two firms to offer new value products to our customers. In addition, we will be looking to further strengthen our cooperation to incorporate the possible development of new business areas and operations.

1. Setting the direction for mid- and long-term cooperation

UNIQLO and Toray have determined the direction of this mid- and long-term cooperative relationship in order to enable our firms to work closely and enthusiastically on new product development and planning. In challenging the borders between material manufacturer and SPA clothes producer and retailer, our two companies will create a seamless product development system that unifies all the stages from material selection through final product sale. And we will be able to provide our customers with even better clothes to enrich their lives. Under this mid- and long-term business relationship, Toray is expected to supply UNIQLO with materials and products in excess of ¥200bln over the 5-year period through 2010. There are very few deals on this scale in the global textile industry.

2. Developing a new breakthrough material

UNIQLO and Toray will combine forces on R&D, production, sales and marketing to better grasp market needs. We will look to develop a new, groundbreaking material that the market has never even seen before. This will lead to the creation of completely new and inspired products, and will generate fresh customer demand. Following the initial agreement, UNIQLO and Toray

set up a project team back in March called the Next Generation Material Development Project. We have already picked out themes covering 73 areas and are now working on material development. The development is based on the five aspirations, "Healthy beauty", "Supernatural", "Ecology", "Function & comfort", "Innovation". And we ensure that staff working in material development can interact actively.

Sadayuki Sakakibara, President & CEO, Toray Industries, Inc.

My name is Sadayuki Sakakibara of Toray. I am very pleased that we have come so far in our quest that I can sit here today at this news conference with the Chairman of UNIQLO, Mr. Yanai. You have already heard our managing director Mr. Ishii talk about the content of today's press release, but I would also like to add a few words.

As you are well aware, while Japan's textile industry can boast a number of strengths in terms of technical and product development, it also suffers a number of weaknesses. I believe that the most significant weakness today is the inefficiency that arises from the industry's multi-layer distribution structure. Under this multiple strata distribution system, it is also difficult to gauge digestibility at the retail level. This leads to a build up in distribution inventory at each and every stage of the system depending on individual views on demand. That in turn generates increased losses and as a result depletes the strength of the overall industry. So what we have here is a clear vicious cycle. And improving this situation is one of the biggest challenges facing the overall textile industry in Japan. This problem is clearly addressed in our current "Textile Vision". UNIQLO, under Mr. Yanai's direction, has succeeded in improving the old-style textile distribution, and in creating a new and unique product distribution. I am one among many who value greatly the way that Mr. Yanai challenged the industry's old distribution methods. And I am eager to work with him to improve our distribution structure to the benefit of both the Japanese textile industry as a whole and the restructuring of our own textile operations at Toray.

The new business model that UNIQLO and Toray are aiming to achieve has rarely been seen in the world to date. We have agreed a strategic partnership that will aim to introduce maximum improvements in distribution systems. And we are also looking to build the ideal vertical relationship by creating a unified total industry that covers the entire clothing process from materials to finished products, including planning, development, manufacture and distribution.

Next, I would like to talk about the main contents of our agreement signed today and how we came to be in this position. UNIQLO and Toray have been doing business together since 1999. Toray's materials have been favored in the production of many of UNIQLO's hit products such as fleeces, air-tech and heat-tech clothing. In addition, I also had the opportunity to speak about Toray's management strategy at a UNIQLO University management seminar held last November. That was just one more opportunity to talk about and progress the idea of building a strategic partnership between our two companies. Then, in March this year, we signed the basic agreement

for this cooperation. After that, Mr. Yanai gave a speech at the Hokuriku Textile Symposium, sponsored by Toray. It was then that we went together to Fukui to sign the agreement. The actual plan that we signed today is carved from the basic agreement reached back in March and covers the commitment from Toray to deliver products to UNIQLO totaling over ¥200bln during the next five years.

We recognize that this new agreement represents a long-term supply contract on a par in terms of scale with our supply agreement with Boeing for carbon fiber composite materials. In terms of both content and magnitude, we feel that this is a landmark deal and contract for the textile industry rarely seen anywhere else in the world.

Our two companies are aiming to create a revolutionary strategic partnership. We will break away from the traditional relationship of simple buyers or sellers of textile materials or apparel manufacture. Instead our partnership will seek to develop operations with a clear focus and speed covering the entire process of clothing production from development of materials through planning and manufacture to store sales. And we will do this by melding our long-term operational targets, and both companies working closely and always striving to see things through the eyes of our joint customers, namely the consumer.

Our two companies have reached a concrete agreement in order to achieve these targets. We have agreed to set up a structure to facilitate company wide cooperation on product development and also a revolutionary unified system of store information and production management that will enable us to radically reduce manufacturing and distribution costs, and inventory risk. The agreement also covers the regular exchange of staff, some costs and incentive payments, etc. Toray's textile operation has production bases worldwide, in the ASEAN region and also in China. Our comprehensive strength is suited to the development of a global operation spanning thread to textile, to sewn products. In addition, the Toray group can boast 1200 key research and technological development personnel involved directly or indirectly with textiles, or required for basic research through textile development. Given that experience, we believe that, in joining hands with UNIQLO, we will not just be able to produce new versions of existing products, but will be able to produce many more entirely new and inspiring landmark products that will generate fresh demand. In addition, we are looking to make full use of Japanese developed textiles in the quest for highly functional, highly sensitive products. And we are considering cooperation with the "Toray GOUSEN(Synthetics) Cluster," the industrial group formed the year before last in the Hokuriku region.

Finally, I would like to express my gratitude to UNIQLO's chairman, Mr. Yanai for his bold decision and active involvement in bringing about this union. This is the revolutionary business model that I had always strived for. It is a model formed by UNIQLO, the firm that is aiming to become the world's number one casual clothing group, and Toray, the firm that is aiming for the top global position in state of the advanced materials. Thank you.

Mr. Tadashi Yanai, Chairman & CEO, UNIQLO CO., LTD.

I believe, that while Japan's textile industry can boast the world's most advanced technology, it's potential has not flourished. That is a highly regrettable situation. Either the industry has not been able to generate actual products from this top class textile technology or even if products are realized, they are so small in quantity as to fail to win broad notice. Toray Industries works inside that industry and boasts a global operation. I think that there are few other industries in which a Japanese company has such an extensive global operation. Toray set out to build products around the world to sell around the world and its global technology has developed accordingly.

We at UNIQLO have had a relationship with Toray ever since we asked it to provide the raw materials for our fleece products. The reason that we picked Toray back then was because its raw materials were indeed the best in the world. Following on from fleece, we developed new products from Toray's air tech, dry and heat tech materials. I consider it a wonderful thing for UNIQLO going forward to have formed this strategic partnership with Toray as one of the world's top fibers & textiles manufacturers. In particular, as we are looking to expand our global operations, I feel that this partnership will be a valuable weapon in the inevitable battle with other global competitors.

It may appear that the examples of textiles helping to create a new world are few and far between. But there are actually many instances outside of the clothing industry such as the use of carbon fiber composite materials in the production of Boeing planes, or sporting goods. And just as film technology has been used in other industries, so there may be opportunities to use similar technology in the manufacture of clothes. I had asked Toray for a strategic alliance that spanned initial R&D through final sale of goods, and a joint development of raw materials as intimate as if we were one company. Toray consented and that led to this current agreement.

I believe that this single, unified approach covering R&D through product sales is also possible in our own apparel industry. But this has to be conducted on the premise that products are not just to be sold in Japan but throughout the world. I very much hope that, together, we can develop and sell products around the world that can truly please and satisfy the consumer.

QUESTION & ANSWER SESSION

(Most of the questions have been edited or revised in part for the sake of clarity)

Q: I have 3 questions for Mr. Yanai. Is this agreement exclusive in any way? For instance, will you be obliged to source only from Toray, and will Toray only be able to supply to UNIQLO? Is there any numerical merit in the deal for UNIQLO? For instance, we have heard that Toray will supply ¥200bln worth of materials over 5 years to UNIQLO, but are there any numerical targets for UNIQLO such as a specific cost saving target? You say that this will be a strategic alliance covering all stages from R&D through retail, but, conversely, does this suggest that there are

limitations to the SPA (manufacture through retail) model that UNIQLO has used to date?

A: Mr. Yanai, UNIQLO

On the question of whether the alliance is “exclusive” or not, while we are planning to work “as one” with Toray in this alliance, I also think that it is possible to have a similar relationship with a variety of business associates or partners. Having said that however, I think that in order to do this successfully, you have to be similar in scale and ability or share a common vision for the future. Otherwise, it would be difficult to make any great or lasting strides forward together.

On the question of numerical targets for UNIQLO, rather than set any numerical merit at the outset, we expect that numerical achievements will emerge as a result. I really want to develop a product or products that are genuinely considered as groundbreaking the world over.

On the question of any limitations to the SPA format, rather than consider it in terms of limitations, I would rather you consider the potential for enhancing the ability of the SPA model. Many of the SPA firms and fashion industries around the world place a huge focus on superficial design and fashion trends. But, I believe it is necessary to consider more basic things such as just what it is that truly makes comfortable clothes for everyday wear. And I also think that it is important for an industry such as ours to be able to continually supply the comfort goods in large quantities.

A: Mr. Sakakibara, Toray

I would like to comment on the question about “limitations” in the partnership. As Mr. Yanai mentioned, we also feel that the concept of our alliance is not limited. However, since issues of scale, strengths and consciousness are all important in such partnerships, I don’t think it is possible to have a similar relationship with many different partners.

Q: This ¥200bln figure for Toray supply for UNIQLO, how much would that the retail price of such stock be? How much is your current relationship worth? And the fact you want to move forward “as one” with Toray, wouldn’t there be risks for UNIQLO to lose tension and business leverage as a customer?

A: Mr. Sakakibara, Toray

It depends on the year, but the value of our current business with UNIQLO is around ¥20-30bln per year. We supply raw materials and textile products to UNIQLO, and over the past few years the business has totaled around ¥100bln.

A: Mr. Yanai, UNIQLO

I’m not exactly sure how much the ¥200bln would be in retail terms so I can’t give you exact numbers at the moment. The second question on whether UNIQLO would miss tension and lose its business leverage, I’m sure feeling some healthy tension about this announcing a partnership of this magnitude. This is obvious, but if you are going to work at a partnership with another firm, then you can’t do it unless you have that tension. I think you pay even more attention to your dealings

with each other than you might with a regular purchase deal. And other the other hand, you are actually sharing all of the things that you ought to be sharing. Since the idea is to sell on the materials that we buy from Toray as if we were one company, then that means that we will probably have to recreate the whole cycle from the beginning. I shall be looking to discuss this with our partner and decide on how to proceed in a whole variety of areas?

Q: I think that you have had a considerable relationship so far, but just how will the actual development process change from its current state? And how long do you expect it will be before the consumer can actually see the fruits of these changes for themselves?

A: Mr. Sakakibara, Toray

We have done business together now for six years, but as Mr. Yanai just mentioned, from now on we shall be working even more as a single unit, even more as if we were one company. In addition, we shall be sharing information of every kind from store information to planning and development. And the most important of all is to provide the consumer with groundbreaking, inspiring materials or products. And in that vein, we, as the manufacturer, are responsible and have a duty to provide the materials required for the job. We at Toray are experiencing a fresh drive and see this project bringing with it completely different responsibilities and duties than in the past. I feel that this relationship will encourage us to further boost our strengths so that Toray, along with UNIQLO, can deliver new inspiring products to the consumer.

A: Mr. Yanai, UNIQLO

From our point of view, we are planning to put our all into this project, investing the entire company in the process. And I would be asking the same of Toray. Up until now the project was ran by the managers assigned, but going forward I want to create this project as a top priority for the company. I believe that you can't create a good product simply because you have good materials, and I also feel that you can't always sell a good product. I think it is vital to have a coordinated approach that is channeled into the final product and that incorporates initial research, customer needs all the way through to the final store layout and location. I want to realize a new approach that no one else in the industry has yet achieved with success.

Q: You mentioned earlier that the textile industry was poorly structured leading to waste. But just how much can you reduce or rationalize costs with this project? And, how do you plan to deal with product inventory? And finally, when you do develop a wonderful material, will UNIQLO have a monopoly on the material's use?

A: Mr. Ishii, Toray

On the question regarding how much of an impact on cost can be achieved through rationalizing inefficiencies in the industry, there are so many different decisions made regarding product manufacture such as what to make and where. It is therefore difficult to calculate swiftly in

terms of percentage. But, as Mr. Yanai mentioned earlier, if you consider that we will be working in future as if we are one company, then we will be changing the conditions and specs of production or concentrating production of large lot materials for instance. We shall be combining our knowledge and expertise and I feel we can definitely achieve a rationalization of costs.

In terms of our attitude to inventory, we feel that a quick response is important. We feel that we can minimize our inventory by using IT tools to combine our retail and production information. In addition, UNIQLO, as a true SPA firm, has been always implemented at its own risk to consume our inventory at each and every stage from thread to interim to end products. That we feel that is a vital part of our corporate trust.

On the question of monopoly over any material developed, I think this is essentially a question of considering each case on its own. However, if we produce a hit product, in order to produce large amounts of the same quality material, we would have to work our facilities both in Japan and overseas at full operation and it is possible that this could end up as a monopoly.

Q: Having attended today's news conference, I can feel how passionate you both are about this project. However, can you tell me the reason why you have not decided to form any capital link or capital tie-up at this stage?

A: Mr. Sakakibara, Toray

I don't know how things might develop in the future, but currently this does not feature in our relationship. I feel that the mutual trust between Mr. Yanai and myself, and the long years spent building up the trust between our two companies probably carries more weight than a capital tie up.

A: Mr. Yanai, UNIQLO

We do not have a capital relationship at present. I can't say that there is no possibility of this ever happening in the future. However, at this current time, I feel that it is better for us to work together as strategic partners with the new drive and tension that such a relationship will instill.

Thank you.