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Financial results for year to August 2004 and forecasts for year to August 2005

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My name is Masatoshi Morita and I am the Managing Director and CFO of FAST RETAILING CO., LTD.

My job today is to take you through the main points of our financial results for the year to August 2004 and forecasts for the year to August 2005.

【Parent】 PL for yr to Aug 2004

Full yr results：sales and profit both rise for first time in 3 years

Billions of yen

	Yr to Aug 03 Actual	Yr to Aug 04 Forecast	Yr to Aug 04 Actual	y/y	v. initial fcst
Net Sales	301.7	334.0	**335.8**	+11.3%	+0.6%
(to net sales)	100.0%	100.0%	**100.0%**		
Gross Profit	134.7	158.0	**161.7**	+20.0%	+2.4%
(to net sales)	44.7%	47.3%	**48.1%**	+3.4p	
SG&A Expenses	88.2	95.3	**96.8**	+9.7%	+1.7%
(to net sales)	29.3%	28.5%	**28.8%**	▲0.5p	
Operating Income	46.4	62.7	**64.8**	+39.5%	+3.5%
(to net sales)	15.4%	18.8%	**19.3%**	+3.9p	
Ordinary Income	46.9	63.0	**65.0**	+38.5%	+3.2%
(to net sales)	15.6%	18.9%	**19.4%**	+3.8p	
Net Income	18.6	33.0	**35.4**	+89.6%	+7.3%
(to net sales)	6.2%	9.9%	**10.5%**	+4.3p	

First of all I would like to explain the main features of our parent results for the year to August 2004.

Net sales rose 11.3% year on year to ¥335.8bln, operating income rose 39.5% year on year to ¥64.8bln and ordinary income rose 38.5% year on year to ¥65.0bln.

Net sales came in ¥1.8bln above our initial forecasts and ordinary income exceeded initial estimates by ¥2.0bln.

【Parent】 Net sales

Net sales：¥335.8bln （+11.3% y/y）

●Existing store sales: **+2.5% y/y**

- ･**customer numbers +3.5% y/y ･･･strong women's collections, successful promotion campaigns**
- ･**average purchase per customer ▲1.0% y/y ･･･slight fall due to implementation of new rules on sales tax inclusive price displays**

●New store openings **net increase of 45 stores y/y**

（81 new stores opened, 36 closed）

Year on year change		Yr to Aug 2004		
		1H	2H	Full year
Directlly managed stores	Net sales	+8.8%	+10.1%	+9.4%
	Customer nos	+9.3%	+11.7%	+10.5%
	Av purchase	▲0.5%	▲1.5%	▲1.0%
Existing stores	Net sales	+2.3%	+2.7%	+2.5%
	Customer nos	+2.9%	+4.2%	+3.5%
	Av purchase	▲0.6%	▲1.4%	▲1.0%

Looking first at the situation surrounding our net sales position.

Sales at existing stores rose 2.5% year on year for the first time in three years. Average purchase per customer fell slightly however by 1.0% year on year due to the implementation of new rules on sales tax inclusive price displays which in effect generated a slight fall in prices at our stores. At the same time, we enjoyed an increase in customer numbers, up 3.5% year on year, thanks to a strengthening of our women's wear collection.

During the year we opened 81 new stores and closed 36 others. That generated a total net increase of 45 stores at the end of August 2004 and a total number of 626 directly-managed stores.

【Parent】 Gross profit margin

Gross profit margin：48.1%(＋3.4p y/y)

- **Above forecast net sales trend**
- **Efficiently boosted production of strong selling goods (core goods)**

	Yr to Aug 03	Yr to Aug 04	
			y/y
Full year	44.7%	48.1%	＋3.4p
1H	43.2%	47.5%	＋4.3p
2H	46.4%	48.9%	＋2.5p

Our gross profit margin gained 3.4 points on year to 48.1%. This was due in the main to net sales coming in above forecast and an efficient response to increased production needs for our strong selling mainly core goods.

We at FAST RETAILING feel that an appropriate gross profit margin should fall between 46 and 48% and you could say that this year, at 48.1%, we have even gone overboard!

【Parent】 SG&A：Cost control

SG&A：¥96.8bln ～SG&A to net sales down 0.5p y/y
personnel, advertising/promotion costs capped to plan

Billions of yen

	Yr to Aug 2003	(to net sales)	Yr to Aug 2004	(to net sales)	Change	(to net sales)
SG&A	88.2	**29.3%**	96.8	**28.8%**	+9.7%	**▲0.5p**
Personnel costs	31.6	**10.5%**	35.3	**10.5%**	+11.8%	**+0.0p**
Advertising/promotion	18.2	**6.1%**	18.1	**5.4%**	▲0.6%	**▲0.7p**
Rent	22.4	**7.4%**	24.9	**7.4%**	+11.0%	**▲0.0p**

SG&A expenses came in at ¥96.8bln up 9.7% on the previous year's level. However the SG&A to net sales ratio fell 0.5 points year on year to 28.8%. We feel that we maintained good control over business costs throughout the year.

【Parent】 BS at end Aug 2004

Billions of yen

	Yr to Aug 03	Yr to Aug 04	Change
Total Assets	219.7	246.0	26.3
Current Assets	169.6	179.0	9.3
Fixed Assets	50.0	67.0	16.9
Liabilities	77.5	78.9	1.3
Shareholder Equity	142.1	167.1	24.9

Next onto the parent balance sheet at the end of August 2004.

Compared to the end of August 2003, current assets rose by ¥9.3bln and fixed assets rose by ¥16.9bln generating an increase in total assets of ¥26.3bln to ¥246.0bln.

I feel that there are four salient points to mention regarding our current balance sheet position.

【Parent】 Balance sheet-main points

Main points - compared with end Aug 2003

① Increase in cash, cash equivalents and marketable securities: +¥12.6bln (\123.0bln ⇒ \135.6bln)
∵increased operating cash flow

② Increase in inventory at end Aug: +¥8.4bln (¥19.8bln ⇒ ¥28.2bln)
∵ due to increased sales and store numbers, early transfer to warehouses, and higher direct trading ratio

③ Increase in key money/guarantees, construction funding as stores numbers rise: ＋¥3.1bln (¥38.6bln ⇒ ¥41.8bln)
∵investment related to new store expansion with 81 new store openings and net store increase of 45

④ Increase in related company stock holdings:＋¥3.3bln (¥0.9bln ⇒¥4.2bln)
Increase in long-term loans to related firms:＋¥3.7bln (¥0.0bln ⇒¥3.7bln)
∵Investment in Link Holdings, incorporating National Standard as subsidiary

The first point relates to cash, cash equivalents and marketable securities. These totaled ¥135.6bln at the end of August 2004, a rise of ¥12.6bln over the previous year. A main contributing factor here was the increase in operating cash flow as operating income rose to ¥64.8bln.

The next point relates to inventories. Our inventory level increased by ¥8.4bln compared to the end of August 2003 to ¥28.2bln. There were several factors that contributed here; an rise in inventory related to increased sales and store numbers over the year (an increase of 45 directly managed stores over the full year), an early transfer of goods to our warehouses to avoid losses from shortages of popular garments in the stores, a higher proportion of directly traded goods and the earlier transfer of stock that that entails. While the value of inventory has increased on paper, you can see that there are specific reasons for this. Strip those out and we feel that actual inventory levels do not pose a problem and are being controlled at an appropriate level.

The third feature of our balance sheet is an increase of ¥3.1bn generated by an increase in buildings, key money/guarantees, and construction fees. This is a natural consequence of our store expansion program with 81 new stores openings during the year (net increase of 45 stores).

The fourth point I want to make covers an increase of ¥7.0bln in stock holdings and long-term fixed loans to related firms. Specifically I can name our decision to invest in Link Holdings, now an equity method affiliated firm, and our decision to transform National Standard into a full subsidiary company.

【Group】 PL at end August 2004

Full year：large rise in both sales and profit

Billions of yen

	Yr to Aug 03	Yr to Aug 04			
	Actual	Forecast	Actual	y/y	v. initial fcst
Net Sales	309.7	338.2	**339.9**	＋9.8%	＋0.5%
(to net sales)	100.0%	100.0%	**100.0%**		
Gross Profit	137.0	159.6	**163.1**	＋19.1%	＋2.3%
(to net sales)	44.2%	47.2%	**48.0%**	＋3.8p	＋0.8p
SG&A Expenses	95.7	97.9	**99.2**	＋3.6%	＋1.4%
(to net sales)	30.9%	28.9%	**29.2%**	▲1.7p	＋0.3p
Operating Income	41.3	61.7	**63.9**	＋54.8%	＋3.7%
(to net sales)	13.3%	18.2%	**18.8%**	＋5.5p	＋0.6p
Ordinary Income	41.5	62.6	**64.1**	＋54.4%	＋2.5%
(to net sales)	13.4%	18.5%	**18.9%**	＋5.5p	＋0.4p
Net Income	20.9	29.5	**31.3**	＋49.8%	＋6.3%
(to net sales)	6.8%	8.7%	**9.2%**	＋2.4p	＋0.5p

Moving onto our group results for the year to August 2004.

Net sales rose 9.8% year on year to ¥339.9bln, operating income rose 54.8% year on year to ¥63.9bln and ordinary income rose an impressive 54.4% year on year to ¥64.1bln.

Net sales exceeded our initial forecasts by ¥1.7bln and ordinary income by ¥1.5bln.

【Group】 Yr to Aug 04 by subsidiary

UK operation turns a profit

Billions of yen

	Group					
		Parent	UNIQLO(UK) (UK)	FRJS (China)	National Standard	FR FOODS
		03/9～04/8	03/9～04/8	03/7～04/6	03/12～04/5	03/7～04/6
Net sales	339.9	335.8	1.72	1.00	0.35	1.04
Ordinary income	64.1	65.0	0.06	▲0.05	▲0.11	▲0.84
Special gain/loss	▲7.7	4.5	▲0.04	▲0.06	▲0.00	▲0.80
Net income	31.3	35.4	0.01	▲0.11	▲0.11	▲1.64

※National Standard treatment as group company from second half only (03/12～04/5) .

※ Including a non-operating profit of ¥140mln generated by Link Holdings between March and August 2004 and accounted as investment income under the equity method.

FAST RETAILING CO.,LTD.

Breaking down the group results by subsidiary, our group subsidiaries totaled four as of the end of August 2004. The group incorporate our operation in the UK called UNIQLO(UK), our FRJS operation in China, our foods-related business FR FOODS and National Standard, newly incorporated into the FAST RETAILING group this year.

Now into its third year of operation, our UK subsidiary shifted into the black generating a net profit of ¥10mln. In addition, the net loss at our China operation shrank to ¥100mln. The net loss at our FR FOODS subsidiary, now being disbanded, totaled ¥1.6bln and the net loss generated at National Standard came in slightly below expectations at ¥110mln.

We also accounted a non-operating income of ¥140mln generated by Link Holdings affiliated under the equity method.

【Group】 ¥7.7bln extraordinary loss

Yr to Aug 2004	FAST RETAILING CO., LTD (parent) (=①+②)	①FR FOODS related	②Other	Disbandment of FR FOODS (③)	Amortization of goodwill (④)	Other (⑤)	Group Billions of ye (=②+③+④+⑤)
Full year	▲4.5	▲2.8	▲1.7	▲1.0	▲4.7	▲0.2	▲7.7

① Parent extraordinary loss on FR FOODS ¥2.8bln

This was accounted as an evaluation loss under investment items from FR parent to FR FOODS. The impact on the consolidated P&L statement is incorporated in the \1.7bln (item②).

②Other parent extraordinary losses ¥1.7bln

Losses related to store closures, Cancellation of leases etc.

④ Group extraordinary loss (amortization of goodwill) ¥4.7bln

Single amortization related to Link Holdings right of operation. It does not detract from investment items in parent accounts and has no impact on parent P&L.

③ Group extraordinary loss on FR FOODS ¥1.0bln

This loss relates to the disbandment of FR FOODS and is included in the parent company's extraordinary loss of \2.8bln (item ①).

We announced extraordinary losses at a parent level of ¥4.5bln and ¥7.7bln at a group level. However the majority of that group loss was the result of FR FOODS related losses and amortization of goodwill both of which have already been accounted for in our mid-term results.

The ¥4.5bln loss at the parent level includes a loss of ¥2.8bln related to the disbandment of FR FOODS and a loss of ¥1.6bln related to store closures and systems depreciation.

The special loss related to FR FOODS totaled ¥2.8bln and presents a single write down of FAST RETAILING parent's investment in the food company. But at a group level, we have already written down operating losses at FR FOODS and so the net special loss generated totaled just ¥1.0bln.

We accounted a ¥4.7bln special group loss as amortization of operation rights. However that refers to the single amortization of goodwill related to Link Holdings right of operation, conducted and completed in the first half.

The final group extraordinary loss therefore totals ¥7.7bln. Breaking down that total again as shown in the slide; Other parent losses of ¥1.7bln, the group impact of the FR FOODS disbandment of ¥1.0bln and the amortization of goodwill total of ¥4.7bln.

【Our dividend】

Dividend at end of Aug 2004 - 65 yen
(115 yen for full year)
Annual payout ratio ＝ 33.4%

	Yr to Aug 04			Yr to Aug 2003
		mid term	Year end	
Dividend per share	115 yen	50 yen	65 yen	55 yen
Payout ratio	33.4%			30.0%

Onto our dividend for the year to August 2004. We achieved a mid-term dividend of 50 yen per share. We had planned a second half dividend also of 50 yen but have since increased that to 65 yen. That will generate a full year dividend of 115 yen which we expect to be able to deliver after agreement is attained at our shareholders meeting.

The payout ratio on a parent only basis for the year to August 2004 should be 33.4%. That works out at roughly one third of our net profit.

【Parent】 Forecasts for yr to Aug 2005

Billions of yen

		Yr to Aug 2004 Actual	Year to August 2005 Forecast (y/y)
Net Sales		335.8	380.0 (+13.1%)
	Existing stores	+2.5%	+3.6%
	New stores [Net increase]	81 stores [45 stores]	73 stores [53 stores]
Gross Profit		161.7	178.0 (+10.0%)
	(to net sales)	48.1%	46.8% (▲1.3p)
SG&A Expenses		96.8	106.4 (+9.8%)
	(to net sales)	28.8%	28.0% (▲0.8p)
Operating Income		64.8	71.6 (+10.4%)
	(to net sales)	19.3%	18.8% (▲0.5p)
Ordinary Income		65.0	72.0 (+10.7%)
	(to net sales)	19.4%	18.9% (▲0.5p)
Extraordinary Loss		▲4.5	▲1.0 (−)
	(to net sales)	▲1.4%	▲0.3% (−)
Net Income		35.4	40.0 (+13.0%)
	(to net sales)	10.5%	10.5% (▲0.0p)

※Yr to Aug 05 Full year dividend forecast around 130 yen per share.
(payout ratio of 33.1%)

Next on our forecasts for the year to August 2005.

First of all looking at the parent only basis; we expect net sales to rise 13.1% year on year to ¥380bln, ordinary income to rise 10.7% year on year to ¥72.0bln and net profit to rise 13.0% year on year to ¥40.0bln.

We plan to open 73 new stores during the year, a net increase of 53 stores and we expect net sales at existing stores to rise 3.6% compared to the year just past.

We expect our gross profit margin for the full year to fall slightly to around 46.8% with a forecast of 46.3% in the first half. We see the impact from the new rules on sales-tax inclusive price displays continuing to dampen profit margins during the first half. We also plan to expand our number of new garment lines as we aim to create goods of global quality this fall and winter. The challenge of new fabrics and new designs is likely to impact our first half profit margin somewhat. However such temporary factors should ease in the second half and so we forecast gross profit margin will pick up once again to around 47.4%.

【Group】 Forecasts for yr to Aug 2005

Billions of yen

	Yr to Aug 2004 Actual	Yr to Aug 2005 Forecast (y/y)
Net Sales	**339.9**	**384.8** (+13.2%)
Gross Profit	**163.1**	**180.3** (+10.5%)
(to net sales)	48.0%	46.9% (▲1.1p)
SG&A Expenses	**99.2**	**108.7** (+9.5%)
(to net sales)	29.2%	28.2% (▲1.0p)
Operating Income	**63.9**	**71.6** (+12.0%)
(to net sales)	18.8%	18.6% (▲0.2p)
Ordinary Income	**64.1**	**72.8** (+13.4%)
(to net sales)	18.9%	18.9% (+0.0p)
Extraordinary Loss	**▲7.7**	**▲1.0** (−)
(to net sales)	▲2.3%	▲0.3% (−)
Net Income	**31.3**	**40.8** (+30.1%)
(to net sales)	9.2%	10.6% (+1.4p)

Our business forecasts for the group in the year to August 2005 stand as follows:

We see net sales up 13.2% year on year at ¥384.8bln, ordinary income up 13.4% year on year at ¥72.8bln. We also expect a large increase in net income to ¥40.8bln, up 30.1% compared to FY2004 when large extraordinary losses were booked.

【Group】 Forecasts for yr to Aug 2005

Billions of yen

	Consolidated	Parent	UNIQLO(U.K.) (UK)	FRJS (China)	National Standard
		04/9～05/8	04/9～05/8	04/7～05/6	04/7～05/6
Net Sales	384.8	380.0	2.90	0.11	0.86
Ordinary Income	72.8	72.0	0.16	0.03	▲0.13
Extraordinary Loss	▲1.0	▲10.0	0.00	0.00	0.00
Net Income	40.8	40.0	0.16	0.03	▲0.13
New store openings	77 stores	73 stores	3 stores	1 store	0 stores

※We expect a non-operating profit of ¥750mln to be generated by Link Holdings (04/9～05/8) to be accounted as investment income under the equity method.

Breaking down our group forecasts by subsidiary, first of all we expect our UK operation to generate a net profit of ¥160mln. We forecast improved management efficiency should help tip our China operation into the black this year to the tune of ¥30mln.

We expect losses at National Standard to total ¥130mln and our foods business FR FOODS will be removed from consolidated accounts in the current period. We also expect a non-operating income of ¥750mln from Link Holdings, affiliated through the equity method.

These figures form the basis for our consolidated net sales forecast for the year of ¥384.8bln and net income of ¥72.8bln.