

Analysts' meeting Q&A

Business results for six months to February 2009

You can view text of the main questions asked on April 9, 2009 about our interim results for the six months to February 2009. Part of the content has been edited for the sake of brevity and clarity.

Q1: Product inventory at UNIQLO Japan had increased nearly 10% at the end of February compared to the previous year. You said this was due to an increase in store inventory of core spring/summer items, but can you tell us why you chose this particular timing to increase such inventory?

A1: Toshihisa Tokunaga, Head of Business Management - Basically we are building up in-store inventory. Because we are very keen to launch our new seasonal ranges early, we are bringing the spring and summer products into the stores early to be able to impress customers with an instant, full line up of the new products. We are building up in-store inventory because we don't want to run short of any core products.

Q2: We understand that UNIQLO International is operating favorably mainly in Asia. Does this mean that you are expecting to accelerate the number of store openings next business year compared to the current period? Do you have a prediction for new store numbers for the upcoming business year?

A2: Toshihisa Tokunaga, Head of Business Management – We cannot say in any concrete terms what the number of new stores openings is likely to be for the upcoming business year. However, we do want to increase the number compared to this year, particularly in the Asian region.

Q3: You have completed your take over bid and have successfully made LINK THEORY HOLDINGS an FR subsidiary. However, the firm's recent business results and immediate sales performance are reported to be extremely tough. Do you have any concrete measures for turning LINK THEORY's performance around having now made it an FR subsidiary?

A3: Tadashi Yanai, President, Chairman & CEO – LINK THEORY HOLDINGS is facing an extremely tough time due to the current downturn in the apparel industry and to some poor investment decisions. However, I still believe that LINK THEORY maintains extremely good value as a brand, with excellent personnel. I am hoping to generate synergy benefits as a group through the French brands COMPTOIR DES COTONNIERS and PRINCESSE TAM.TAM, and through future acquisitions of companies that can nurture affordable luxury brands. I am also looking to boost LINK THEORY profitability by doing various things in conjunction with UNIQLO and by strengthening infrastructure. In addition, I think it was an extremely good investment particularly in terms of acquiring a European and US base upon which to found UNIQLO's own

global development.

Q4: Do you intend to increase production of summer goods at UNIQLO Japan over May and June?

A4: Toshihisa Tokunaga, Head of Business Management – We will decide whether to increase production or not depending on the sales figures up until the Golden Week holiday. So basically this decision will depend on immediate sales trends at the time.

Q5: By how much do you expect to increase production of HEATTECH products for the next autumn/winter season?

A5: Toshihisa Tokunaga, Head of Business Management – We cannot give you exact figures at this stage. However, we do intend to produce more HEATTECH products than we did for the current business year, and we are currently finalizing those totals.

Q6: You have stated the reasons for the slight downward revision in gross profit estimates for UNIQLO Japan in the second half through August 2009 as the downturn in consumption and growing price competition. Does this mean that you are expecting to have to discount prices to a greater extent?

A6: Toshihisa Tokunaga, Head of Business Management – It is not to say that the current state of our gross profit rate is poor or that we are discounting prices at present, but simply that there is a possibility that other competitors might introduce early bargain sales or other forms of price competition after the Golden Week holiday through the summer, and that we would want to respond flexibly if this possibility becomes a reality. That is why we revised down the gross profit margin for the six months to August.

Q7: Mr Yanai mentioned the group's plan to spend between ¥300 and ¥400 billion yen on M&A strategy. Does this mean that you might acquire a firm on a similar scale to FAST RETAILING itself?

A7: Tadashi Yanai, President, Chairman & CEO – ¥300 or ¥400 billion is probably the maximum sum that we could devote to M&A without inconveniencing our shareholders or FAST RETAILING itself. Given our current profitability and debt position, we could acquire M&A targets to the tune of ¥300 to ¥400 billion without any great difficulty. And indeed, I would like to be able to acquire a company on a similar scale to FAST RETAILING in Europe and the US, to be able to create a platform for development of UNIQLO and the rest of the FAST RETAILING group.

Q8: Will your product range change from this autumn season given that you have signed a design consulting agreement with fashion designer Ms. Jil Sander? And, given that ONWARD holds the Jil Sander trademark rights, can you tell us how any new ranges will be promoted, etc.?

A8: Tadashi Yanai, President, Chairman & CEO – As you are all aware, Ms. Jil Sander is one of

the world's top clothes designers. After her temporary retirement, everyone in the fashion industry was keen to know when she would return. Her comeback probably had a greater impact in Europe and the US than it did in Japan. When creating clothes with Jil, I have been extremely impressed with her detailed attention to the clothes and their fabric, and to creating the ultimate silhouette. I think we will receive some very effective consulting.

Since the Jil Sander brand is owned by ONWARD, we cannot use the brand itself. However, I do think that she will prove a positive influence on UNIQLO clothing, and that we can create collections designed by Jil Sander as an individual. These are the things I would like to pursue here.

Q9: In holding two brands UNIQLO and GU with two different price lines, are you looking to edge up UNIQLO's price bracket?

A9: Tadashi Yanai, President, Chairman & CEO – I am not thinking of trying to nudge up UNIQLO on the price front. UNIQLO is currently winning support for its good products and good value. And what is more, I don't think we could consider trying to boost prices in this current consumer environment.

Q10: Mr. Yanai, how do you feel about the business environment overall for the second half through August? UNIQLO sales have continued extremely strong as people pursue value in these times of recession, but some people are of the view that the economy will start to bottom out over the next six months. What is your view?

A10: Tadashi Yanai, President, Chairman & CEO – I think the actual impact of the recession is still to come. This current recession cannot be conquered easily. What I mean by that is that it would be very difficult to resolve this in Japan alone, and you could even say that Japan is being harder hit than other countries. Japan's export industry itself is being impacted, and although those firms are strong enough to take things in their stride and are unlikely to deteriorate rapidly financially, the true impact of the current recession is likely to emerge over the next 12 months.

Q11: This question is about your views on M&A. I feel that the ¥14.5bn goodwill generated by the recent LINK THEORY takeover bid is quite high. Could I confirm your view of the firm's valuation, and the basic valuation upon which you judged this to be a fair price?

A11: Tadashi Yanai, President, Chairman & CEO – As far as LINK THEORY is concerned, as I mentioned earlier, it is not simply a question of financial valuations, but also the fact that we expect to benefit from the existing bases that LINK has established in other countries, particularly in New York, and how we can capitalize on this in terms of UNIQLO's own development in those countries. LINK THEORY's theory brand is one of the most popular particularly in New York's contemporary market. For instance, we now own outright the network of relationships in department stores, the brand's visibility and support in New York, etc, and we can join with those business managers to pursue future synergies. I believe that we can attain

synergy benefits as a group by creating a group portfolio of affordable luxury brands and opening stores on high streets and in department stores around the world. I believe that such considerations form part of the valuation.

Q12: What kind of system do you have in place to ensure that you can create further unique functional products such as fleece and HEATTECH?

A12: Tadashi Yanai, President, Chairman & CEO – UNIQLO is both a retailer and a manufacturer. I don't think other retailers enjoy such a strong manufacturer's viewpoint as we do. If we want a certain product, we can write the specifications ourselves, and we can change whatever we like by ourselves from the material, to the layout of the factory, to the method of distribution. But now, the competitors we currently face are retailers. They are selecting products from among those already made up. UNIQLO on the other hand is creating new products. That is the difference.

Q13: Existing store sales at UNIQLO in the UK have risen by as much as 10%. Is this because UNIQLO has become more established as a global brand? Or is it because the behavior patterns of European and American consumers have changed to such an extent to make UNIQLO's position more advantageous?

A13: Tadashi Yanai, President, Chairman & CEO – I think the biggest factor behind this increase in sales is the impact of our flagship stores in New York and London. Up until now, in new stores in the UK, we had not offered the very best of UNIQLO as a global brand. But through our flagship stores, we have finally been able to show customers UNIQLO's true value. In addition, the world is beginning to formulate a kind of brand position for UNIQLO. I feel that people in the world of apparel retail are beginning to appreciate UNIQLO. And that is because we are being considered as a retail player with unique perspective.

Q14: Will the cost of Chinese production come down further thanks to additional refunds on extended value taxes? And if so, do you still intend to increase production outside of China?

A14: Tadashi Yanai, President, Chairman & CEO – There is no doubt that China is being impacted by this global recession and is moving to revitalize its export industries by announcing preferential measures. And that should be welcomed. We are not thinking of taking production away from China to other countries. We will be increasing production in China in the future, but we will also be increasing production in other countries too. Producing 90% of your goods in China is too concentrated a strategy in terms of diversification of risk. For that reason, we would like to diversify around one third of our production in countries other than China as soon as possible. Another point to make here is that, we are looking to sell our products around the world, and there are some countries where customs duties are extremely high if you do not manufacture in the region. Therefore, I feel that we cannot truly move out into the world if we don't also manufacture our products in countries where we actually sell our goods.