

Analyst Meeting Q&A

Business results for the six months through February 2011

Below are excerpts from our analyst meeting on April 7, 2011. The following text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for the six months through February 2011, the first half of fiscal 2011.

Q1: In response to the rising cost of raw materials, you talked about your intention to procure a stable supply of materials with a long lead time. Can you elaborate on this?

A1: Tadashi Yanai, President, Chairman & CEO – At UNIQLO manufacture the same or similar products over long periods of time, and we have built up long-term business relationships with the same factories and the same suppliers of raw materials. For those reasons, I feel that we are in a much more favorable position in terms of material supply and product manufacture than other apparel manufacturers. The cost of raw materials is certainly rising, but this is true for everyone in our industry. It is a global phenomenon. What I can tell you is this: if it reached a stage where we at UNIQLO were forced to increase prices, I suspect that other apparel firms would have to raise their prices even more. UNIQLO materials often incorporate very special features, so, wherever possible, I want to forge even closer business relationships with materials manufacturers. We could conceivably invest in material suppliers or jointly produce materials with them.

Q2: What progress have you made during the first half through February 2011 toward achieving your goal of opening 200 new stores in Asia? You say that you feel that the Chinese and South Korean operations have strong potential as independent entities. What makes you to feel that way?

A2: CEO Yanai – I feel this way because we have strong organizations in place in these countries. As I said in my presentation today, we have already shifted much of our R&D operations to Shanghai and have also transferred the majority of store development personnel to Shanghai and South Korea. In addition, I might also ask some of the firms with which we have strong cooperative business relationships, such as Daiwa House Industry, to send personnel overseas to assist with new store development. Following the record sales performance from our first store in Taiwan, we are seeing a greater interest and more offers to open new stores from property developers in China, South Korea, Taiwan and other parts of Asia. This has given us added momentum. We have been establishing a framework, including personnel and a hiring system, which will enable us to undertake mass opening of new stores across Asia.

Q3: You have said that you want to cultivate entirely new retail locations in China, South Korea and Taiwan by opening new roadside stores in strategic locations. How is this idea developing and when do you plan to start opening such roadside stores?

A3: CEO Yanai – We might not be able to do this in all markets, but I do think that we will be in a

position to open roadside stores in some of them in fiscal 2012 or 2013.

Q4: Do you expect to be in a position to open 200 new stores in the Asian region annually from fiscal 2012?

A4: CEO Yanai – In my presentation I noted that we “aim to create a framework to support the opening of 200 new stores a year in Asia.” As stated, this is a target, but I do not expect we will be in a position to open 200 stores annually as early as fiscal 2012.

Q5: Can you explain about your pricing policy for the upcoming fall/winter 2011 season? Will you be increasing prices, or, given the rising cost of materials, are you considering reducing the number of limited-offer sales, for instance?

A5: CEO Yanai – We plan to make every effort not to raise prices. Toward this end, we are working to minimize mistakes leading to excess inventory as well as insufficient production volumes. Given that we don’t expect economic conditions to pick up anytime soon, I feel that it would be impossible to secure strong sales without at least some limited-offer sales.

Q6: Can you tell about your G1 project and mission?

A6: Nobuo Domae, Group Executive Vice President – The G1 project was launched with the aim of changing our computer system infrastructure, but the project’s foremost and highest priority aim is to ensure the best practices are selected and adopted across all FR Group companies. We first introduced the G1 system into personnel and finance management, where it is currently up and running. We are now looking to install the G1 system across all areas of our business, from store operation and inventory control to product planning and design.

Q7: In addition to the New York Fifth Avenue global flagship, you are also planning to open a megastore on New York 34th Street this fall. Have the additional pre-opening costs such as rental obligations on the 34th Street property been incorporated into the fiscal 2011 budget? Also, can you tell us how you arrived at the decision to open two significant new stores in New York at the same time?

A7: Vice President Domae – All of the business expenditures, such as rental obligations, associated with the 34th Street store opening have already been incorporated into our estimates. However, our capital investment for the store is only partially included in the current business year through August 2011 as construction for the store will not be completed by then.

A7: CEO Yanai – The New York Fifth Avenue global flagship store is positioned as a UNIQLO showcase for the world. New York Fifth Avenue is the world’s prime retail location and all of the world’s best brands boast a presence there. In contrast, New York’s 34th Street is like Shinjuku in Tokyo, namely the city’s most lucrative sales generator.

Q8: Mr. Yanai’s presentation contains a graph on page 10 depicting estimated future sales at UNIQLO International. Looking at the graph, you seem to be saying that sales generated from Europe and the United States are expected to total approximately ¥20.0bln in fiscal

2012 and ¥60.0bln in fiscal 2013. Is this expected increase in sales to be generated by opening several new outlets comparable to the New York global flagship stores?

A8: Vice President Domae – We are not rushing to open large numbers of global flagship stores, rather we want to open large-scale stores and megastores with retail space of between 1,600 and 3,300 square meters in major global cities such as Paris, London and New York. Global flagship stores are expensive in terms of investment and business costs, so we are not planning to open many such stores in New York. Instead, we will be looking to open large-scale stores and megastores that can generate strong and solid profits, and enable us to recoup our initial investment in a relatively short period of time.

Q9: Do you expect a megastore could generate annual sales of ¥10.0bln?

A9: Vice President Domae – A typical megastore would have a retail space of approximately 3,300 square meters. UNIQLO generates monthly average sales of between ¥200,000 to ¥300,000 per *tsubo* (1 *tsubo* is approximately 3.3 square meters). You can do additional calculations on your own based on these figures.

A9: CEO Yanai – Given their prime locations, flagship stores tend to generate sales that are double or triple those of average stores. Therefore, naturally, we expect that the New York Fifth Avenue global flagship store will generate considerable sales. If all goes well, we expect we might be able to produce a profit in the first year of business.

Q10: This is a question about your marketing strategy. You have talked about your intended two-pronged marketing strategy going forward, involving product marketing and social marketing. In light of your company's generous support following the devastating March 11 earthquake and tsunami, I think that many customers will have identified with your corporate approach. Bearing that in mind, what kind of TV commercials have you planned for this spring?

A10: CEO Yanai – We haven't really begun our marketing for this season in earnest yet, so we don't have a firm direction. However, many customers have contacted our Customer Center to express their support for our corporate approach. As a company, I don't think we are unique in having stronger sales in eastern Japan than in western Japan. I suspect that the March 11 quake left many people who were directly affected in eastern Japan feeling they had to strive to overcome the disaster.

Q11: How have the March 11 earthquake and tsunami affected your business and most recent sales performance?

A11: Vice President Domae – In the direct aftermath of the March 11 quake, a considerable number of stores were forced to close temporarily, but we worked hard to reopen stores as quickly as possible. Currently, around 10 stores remain closed, but we plan to have all but a few stores operating again by the end of April. Sales suffered immediately after the quake, but have since rebounded strongly across the board, and we believe we will see a year-on-year increase in same-store sales from April.

Q12: I would like to ask Mr. Yanai how you believe the March 11 quake will impact consumer trends going forward?

A12: CEO Yanai – In terms of consumer behavior, I think this will further reinforce the tendency to select carefully before buying, as well as the tendency to buy things that fulfill every day needs. For example, while foodstuffs and everyday goods will likely sell well, goods that are not essential to everyday living might not sell very well. In addition, the recent fears over nuclear safety in Japan have unfortunately driven foreign nationals to leave the country. Recently when I went to Shanghai and Beijing, the flight was full on the way out of Japan, but there were hardly any Chinese on board on the return flight. If such a trend were to continue long term, it could have an adverse impact on consumption.

Q13: To date, UNIQLO has always sold products at low prices, but what about selling luxury quality +J shirts for ¥6,000 for instance? Do you not think such products would sell well?

A13: CEO Yanai – No. Even if we did produce a ¥6,000 +J shirt, I don't think it would sell. The +J experience has taught me that we can sell products that are considered one or two ranks above regular UNIQLO brand items, but products will not sell if the price goes any higher than that. Our business involves selling large volumes of product targeted at a broad range of people, and for that reason I do not intend to sell expensive clothing now or in the future.