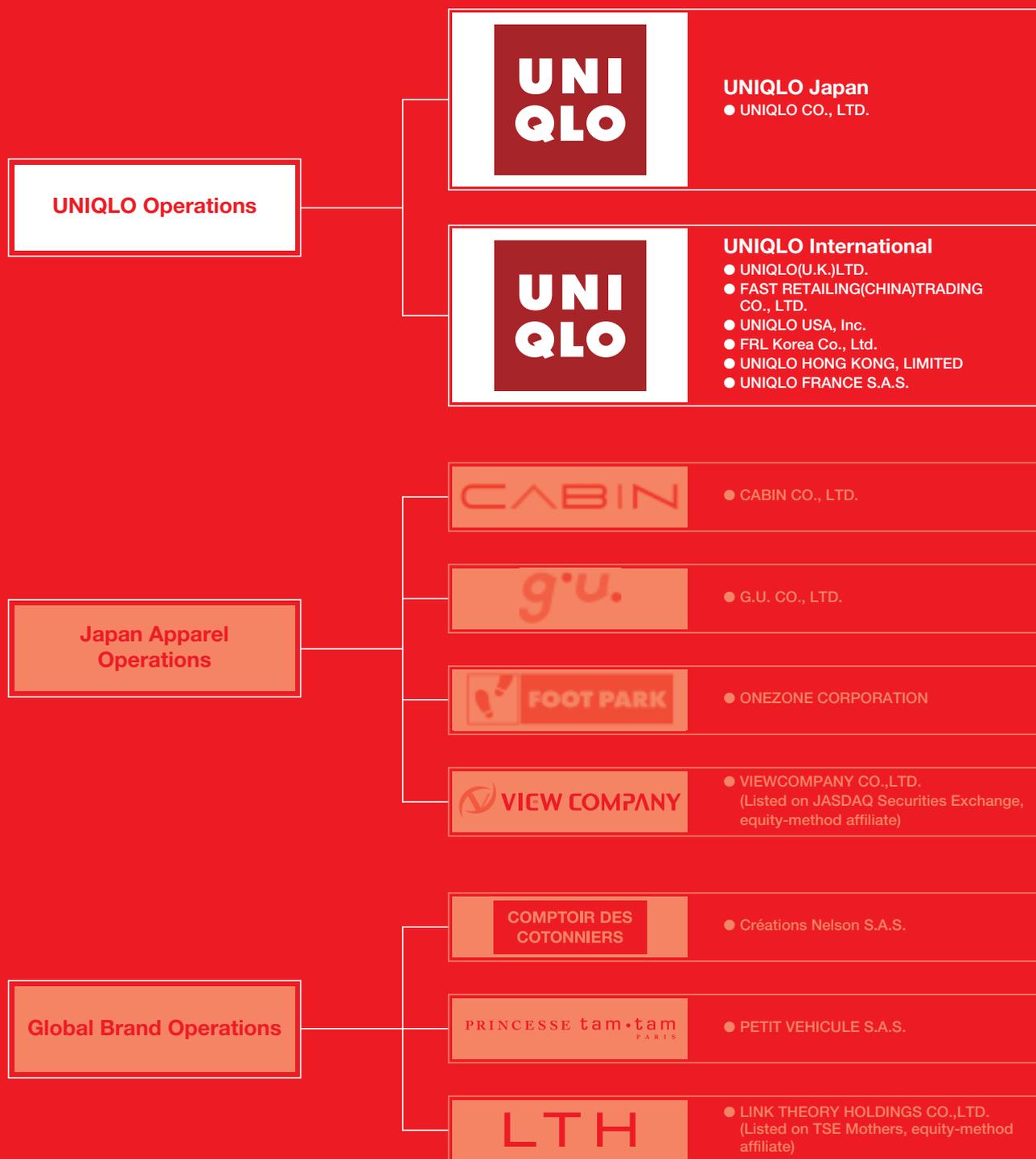


UNIQLO Operations

Fashionable and high-quality clothes that anyone can wear anywhere, any time – that’s what UNIQLO is all about. Our global operating systems weave together all processes from product design to final sales, including global R&D, procurement of world-class quality materials, production focused in China, and the operation of 790 stores around the globe. This seamless system allows UNIQLO to consistently offer its customers high-quality products at reasonable prices.



To a New Stage: “Clothes that Make News”

Most of our customers already have plenty of clothes. For them to purchase new clothes, there must be some new value added in design and/or function; we could call them “clothes with some news value.” To communicate the true value of our products to customers, we have to change all aspects of the shopping experience, including store design, the sales floor, lineup of products, and our service.

Our large-format store strategy is part of this change and a process for taking UNIQLO to a new stage. In our large-format stores, it is important for us to raise the skills of each staff member to provide customer services that enhance the display and raise the level of customer satisfaction. We aim to communicate the features of our products, offer new products each season, and help our customers make their daily lives more comfortable. The growth driver for UNIQLO is to continue to offer that something new that customers are looking for.



Naoki Otoma
Senior Vice President and COO, UNIQLO CO., LTD.

Large-Format Store Strategy on Track

In fiscal 2007, consumer spending was sluggish while competition grew more intense. With the warmest winter on record and unseasonable spring and summer weather, UNIQLO Japan experienced a profit decline.

To continue to grow in this market environment, there are limitations on the strategy we have implemented thus far of selling basic apparel items through standard-format stores in the suburbs with between 700 square meters and 800 square meters of sales floor space. That is why UNIQLO has positioned large-format stores as its growth driver.

Under this large-format strategy, UNIQLO is opening stores in different types of locations, including urban street sides, suburban shopping centers, commercial facilities, and roadsides. At the end of August 2007, we had 28 large-format stores, and, in fiscal 2008, we are picking up the pace of openings of these large-format stores. In fiscal 2007, we opened megastores with about 3,300 square meters of sales floor space in Kobe's Harborland and in Tokyo's Setagaya Chitosedai district. Both of these have drawn strong customer interest.

Looking ahead, we will be working to increase the efficiency of these stores by optimizing the right lineup of products to take the best advantage of the strengths of these larger stores, while standardizing our customer service and store management.

Growth through Responding to Women's Needs

Women's apparel accounts for about 70% of the sales of the fashion apparel industry as a whole, but women's items account for only about 40% of UNIQLO's sales. We believe UNIQLO has considerable potential to increase sales of women's clothing and look to higher growth in sales by responding to women's apparel needs.

In fiscal 2007, we scored with skinny jeans, which became a great success, and were able to expand our share in the women's jeans market. Customers who bought skinny jeans are increasingly coming back to UNIQLO to buy another pair of jeans. We want to take advantage of the visits of new customers to our stores by expanding the lineup of new kinds of products that are more fashionable and not just offering basic items.

Under our large-format store strategy, we have more sales floor space and can put more emphasis on offering coordinated items through improved visual merchandising. We will display new and attractive women's apparel items in ways that are easy for customers to view and purchase. In large-format stores, we can display a wider range of goods and offer customers a much more enjoyable shopping experience.



Advancing to Win in the World's Fashion Capital

UNIQLO products are world class qualitywise. What they need next is just brand power. When the UNIQLO brand becomes widely known around the world, I believe there is a good chance of expanding our share of world markets.

In November 2007, we opened a global flagship store, the 311 Oxford Street store, with sales floor space of about 2,300 square meters, located on London's Oxford Street. At the same time, we opened another store, the 170 Oxford Street store, with about 1,300 square meters of sales floor space. We

chose these locations because this area is the fashion capital for casual wear, where the world's leading brands compete for customer attention. By joining the lineup of fashion brands in Europe's largest shopping area, we aim to increase the awareness of the UNIQLO brand and raise its appeal, its presentation, and its attractiveness. Once anyone tries on UNIQLO clothes, they will understand their value. Making our flagship stores in Europe a success after succeeding with our U.S. flagship store will open the way for UNIQLO to become No.1 in the world in the apparel industry.



Masayuki Nagatake
President, UNIQLO(U.K.)LTD.

Growth in International Operations Accelerates

The world apparel market is said to be about ¥100 trillion in size annually, but UNIQLO's share at present is only 0.4%. Even though the world market is becoming more competitive, we believe that it is an attractive stage for our business, with considerable growth potential.

The lesson we have learned from our entry into overseas markets, which began with the opening of a store in London in September 2001, is that "the basis of brand awareness is the store." That is why we are confident that the most effective strategy is the opening of global flagship stores in major countries.

At present, UNIQLO is developing its overseas activities in the United Kingdom; the United States; mainland China, including Hong Kong; Korea; and France. In fiscal 2007, UNIQLO's overseas sales totaled ¥16.9 billion, about twice the ¥8.7 billion reported in fiscal 2006.

The stages of growth and development vary from country to country and strategies also differ. However, by drawing on the know-how accumulated thus far, we are working to optimize our operations. Going forward, we plan to accelerate the opening of UNIQLO stores overseas and consolidate our foothold as a global brand.

Opening Global Flagship Stores

We opened our first flagship store in November 2006 in New York's Soho district, where the world's top brands have gathered to display their fashions. With sales floor space of about 3,300 square meters, the Soho New York store has raised the awareness of the UNIQLO brand.

In November 2007, we opened another global flagship store in London's Oxford Street area, which is one of Europe's leading shopping areas. Then in December 2007, we opened our first store in France, a concept shop, situated in La Defense, outer Paris. We are also making plans to open a global flagship store in the center of Paris. These stores have the role of communicating UNIQLO's top-level creativity to the fashion centers of the Americas and Europe and to the rest of the world.

In Asia, where demand for apparel is growing at an impressive pace, we opened our first large-format store, with about 2,300 square meters of sales floor space, successfully in China in December 2006—the Shanghai Zengda store. In fiscal 2008, we have plans for further store openings, including a large-format store in Beijing and new stores in Hong Kong.

In Korea, we opened a large-format store, with 2,300 square meters of sales floor space in the Myongdong district of Seoul in December 2007, and we are moving forward with plans for opening additional stores in Seoul.



UNIQLO's Business Model

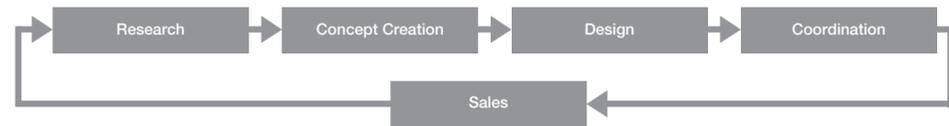
UNIQLO is an SPA (Specialty Store Retailer of Private Label Apparel), meaning its activities are fully integrated from design through production and retailing. To offer high-quality products at low prices, UNIQLO, backed by its sales network of approximately 790 stores worldwide, controls all stages of the supply process—from product design to the procurement of materials, quality control, inventory adjustments, and other aspects—and insists on low-cost management. In addition, UNIQLO takes 100% of the raw materials and inventory risks. This is exactly the reason why UNIQLO can differentiate itself from competitors and generate profits.

R&D Center

R&D Center



UNIQLO's R&D Center has operations in Tokyo, New York, Paris, and Milan and researches world trends in fashion and lifestyles. Based on this information, concepts for each season are decided at meetings held jointly with representatives of UNIQLO's merchandising and marketing departments. Based on these concepts, the R&D Center creates designs simultaneously in these four cities, then makes its selection of products from samples to structure and arranges product lineups for individual countries.



Head Office

Store Development and Design

The store development and design team conducts simulations of sales and profitability and decides on store locations. Stores are designed to suit various retail venues and floor space.

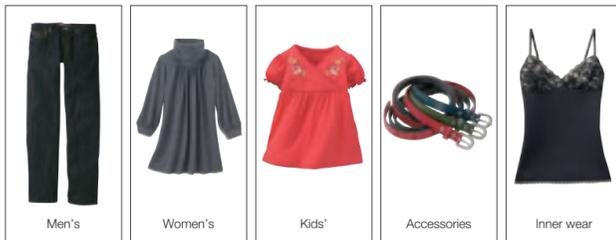
Sales Planning and Production

The merchandising, R&D, and marketing departments work together to prepare numerical plans, develop product mixes to match the concept for the season, and adjust production according to sales volume.

Inventory Control

The inventory control team, working with the merchandising, sales, and production departments, monitors sales activity and inventory levels to minimize inventory risk.

Product Planning (Merchandising) and Marketing (Promotion)



Based on the concept for the season, sales plans and product mixes are prepared by product categories (men's, women's, kids', accessories, and inner wear). The marketing department then advertises campaign products using flyers and TV commercials.

Materials Planning and Procurement



The materials planning team negotiates directly with leading materials manufacturers and procures top-quality materials from around the world. In addition, in cooperation with materials manufacturers, the team works to develop new fabrics.

Production

UNIQLO calls on about 70 partner factories located in China and the rest of Asia for production and provides them with proactive technological support. UNIQLO has formed a team of specialists called *takumis*, each with experience of 30 years or more in Japan's textile industry who are seconded to these factories. The *takumis* are closely involved in all aspects of the production processes from inspection of yarn to the shipment of final goods, and they keep a sharp eye on a wide range of things, including materials and yarn, weave patterns, dyeing, sewing, texture, finish, and safety issues.

UNIQLO's products are manufactured in large lots of about one million at partner factories. To ensure level quality for such a large volume of products, problem-solving capabilities backed by experience are indispensable. That is where the skills of the *takumis* are making a major contribution. For example, in the dyeing process, to ensure that colors produced by tens of vats of dye, with a capacity of one ton each, are uniform, tasks do not stop at the confirmation of the process but must also extend to checking on the humidity and setting conditions accurately.

At present, about 90% of UNIQLO products are manufactured in China. As UNIQLO's retail network is extended around the world, the production network is being extended to other countries in Asia, including Vietnam. Going forward, UNIQLO will insist on quality management in its world-class manufacturing systems.

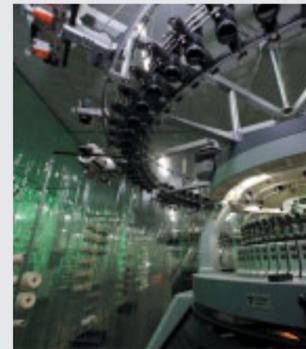
(Photographs: partner factories.)

Spinning



The spinning begins with the unraveling of raw yarn materials. To ensure stable quality, cotton from several areas is blended.

Weaving



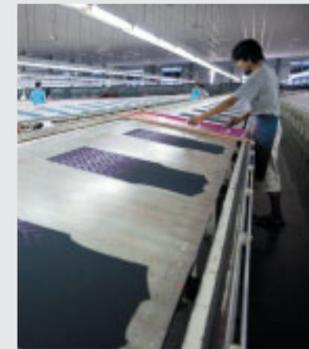
Although weaving processes are automated, texture and quality are measured and assessed by experienced masters.

Dyeing



Strips of cloth joined together are dyed as they pass through the liquid flow dyeing machine.

Processing



Gradations and detailed patterns are finished by hand carefully to create a beautiful finished product.

Sewing and Finishing



The sewing process begins with cutting and machine sewing. Sewing requires attention to detail and patience.



More than 10,000 cones for winding yarn must have the same degree of tension to ensure that yarn production is uniform.



Plant personnel check for flaws in the woven cloth using a translucent light board.



Dyeing solutions prepared by computer are adjusted through artisans' eyes to detect subtle shades.



Large-scale equipment finishes multi-color prints flawlessly and is capable of processing large lots.



Ironing and packing are performed with great care. Quality and safety inspections are conducted several times.

Quality and Production Controls

At UNIQLO's Shanghai office, about 120 members of staff are responsible for quality and production supervision. They maintain close contact between the partner factories and the UNIQLO Head Office to confirm progress toward the completion of production runs as well as identifying and solving problems. The staff visits partner factories three to four days each week to conduct quality and safety checks and confirm manufacturing specifications. As a result of these initiatives, UNIQLO aims to make improvements in product quality and production process yields.



At weekly reporting sessions, UNIQLO staff identifies problems related to materials and issues arising in the sewing and processing stages, and supervisors confirm the deadlines for taking action to address these issues.

* For more about quality and safety control, please see page 39.

UNIQLO's *Takumi* Team

Since 2000, UNIQLO's *takumi* team, comprising veteran personnel trained and seasoned in Japan's textile industry, plays a substantive role in providing technical support to partner factories. These *takumis* have a diverse range of backgrounds and skills, and each of them plays a role in supporting the quality of UNIQLO products while transmitting his knowledge gained in Japan's once highly acclaimed apparel industry to the next generations.



Tadamichi Tokuoka
"The basics are extremely important in nurturing craftsmanship. There are still many things that even I do not know."

A specialist in dyeing woven materials, Tokuoka worked as a dyer for more than 40 years, matching colors and performing finishing in the textile industry.



Michio Ota
"Becoming friends and talking to them on the same level are essential. Another essential is to show successful cases as fast as you can."

Ota is a *takumi* specializing in quality control. He has worked in the dyeing field since the 1950s, when Kyoto's dyeing industry was at its height.



Hidenori Konishi
"I can see our processes getting better and better right before my eyes. Nothing could make me happier!"

In charge of the sewing processes, from cutting to inspection, Konishi has earned a reputation for technical guidance with an eye for detail.

Global R&D

Creating Clothes with Style

To this day, there are still situations where clothes are not something we put on but something that puts us on. UNIQLO's role is to offer clothes customers want to wear now in the way they feel comfortable. In other words, we want to keep offering clothes that all our customers feel they must have in their wardrobes.

In the jeans market, UNIQLO is becoming an established brand. Our goal is to have UNIQLO become an established presence in each apparel category. When customers think of cashmere, they think of UNIQLO, and the same for T-shirts.

I have asked our R&D staff members to develop clothing that takes account of coordination and styling. Our apparel offerings now are predominately items that look attractive when worn, rather than just being appealing when displayed in stores. I believe that, when all of our stores are able to suggest exactly the right styling, UNIQLO's apparel will shine even brighter.



Yukihiko Katsuta
Vice President, UNIQLO CO., LTD.

Developing Clothes through Our Global R&D

There was a time when fashion trends began with European collections originating mainly in Paris and Milan and then gradually spread to the Americas, Japan, and the rest of Asia. However, now, along with the globalization of apparel markets, fashion trends move around the world simultaneously.

At UNIQLO, we inaugurated a global R&D Center in autumn 2005 that links the key fashion cities of Tokyo, New York, Paris, and Milan. At these four fashion centers, we identify worldwide trends and latent needs, decide on season concepts, and then create designs simultaneously in each center. Selecting from these designs, we structure and arrange product lineups suited to different markets, and, beginning with the fall and winter seasons of 2006, we began to offer in earnest apparel that was created through this very global R&D.

One of the representative hit products generated by this approach is skinny jeans that closely fit the wearer's leg line. Based on this idea, provided by our global R&D people, we went to great lengths to create the right silhouette and carefully select the best materials. These efforts were rewarded, because after these skinny jeans went on the market, UNIQLO sold more than four million pairs in fiscal 2007, and skinny jeans became associated with UNIQLO in our customers' minds.

Recognizing UNIQLO'S Core Competency

As we worked to develop our international operations, we recognized that UNIQLO's strengths lie in creating basic casual clothes. Along with the development of products linked to trends and latent customer needs, it is necessary each season to evolve our basic items, which are UNIQLO's core competency. Even with standard items, we insist uncompromisingly on reviewing and evolving materials and details to breathe new life into each and every item.

In addition, to continue to grow in Japan and establish a brand that appeals to customers around the world, standard items are increasingly necessary in each category—including cut-and-sewn, outerwear, knit, and inner wear—to drive sales.

That is why developing merchandise that customers can only find at UNIQLO is important. Thus far, we have drawn on our strengths in materials to develop our fleece, "Heat-Tech", and other original products. In the case of "Heat-Tech" inner wear, we are working with TORAY INDUSTRIES, INC., our strategic partner, and are now marketing our "Heat-Tech Moist" series, which, in addition to having high heat retention properties and stretchability, has improved moisture-retaining properties.

UNIQLO's Business Model

Sales

Japan



UNIQLO has developed a network of about 750 stores, mainly in roadside locations and inside shopping centers. Today, UNIQLO is moving forward with the opening of stores optimally suited to their respective locations, ranging from large-format stores, with about 1,600 square meters of sales floor space, to standard stores, with about 700 to 800 square meters of space.

To continue to offer apparel that can be worn "anytime, anywhere, and by anyone," UNIQLO manages its product composition and volume with the objective of having the optimal number of products in terms of colors and sizes.

UNIQLO conducts campaigns aimed at selling products suited to the season, such as cashmere and fleece. As part of these campaigns, UNIQLO distributes flyers on weekends and aims to attract customers by discounting featured products for limited periods. These limited period discounts are aimed at sales promotion, and after the end of the promotional period, prices go back to their original levels.

UNIQLO's principal expenses include wages, rent, and advertising costs. Wages consist mainly of salaries paid to store personnel, but, as a result of the standardization of work tasks in all stores, these personnel expenditures are used efficiently. The ratio of rent to sales is relatively low because about 60% of UNIQLO stores in Japan are situated on suburban roadside locations. Also, when setting up outlets in shopping centers, UNIQLO prepares simulations in advance and works to minimize rental costs. The principal forms of advertising are the distribution of flyers and TV commercials.



International



170 Oxford Street store, London



The Soho New York store



The Lotte Young Plaza, Seoul



The Miramar Shopping Center store, Hong Kong



Middle Huaihai Road store, Shanghai

UNIQLO began its entry into retail markets overseas in September 2001 with the opening of stores in London. As of August 2007, UNIQLO had 11 stores in the United Kingdom, 13 stores in China (including 4 in Hong Kong), 1 store in the United States, and 14 in Korea. After opening a global flagship store in New York's Soho district in November 2006, UNIQLO opened another global flagship store on London's Oxford Street. We believe that the Chinese and Korean markets also have enormous growth potential and are moving forward aggressively with plans to open more stores in those markets, including large-format stores.

Online Store



UNIQLO offers merchandise at special prices 24 hours a day to customers in Japan via the UNIQLO Online Store.
<http://store.uniqlo.com/jp/>

Customer Service



We forward the opinions and requests that come from customers via telephone, postcard, and e-mail to the proper departments and reflect these in improvements in products, stores, and services.



UNIQLO to Offer “What Everyone Always Wanted”

Topic 1:

World Designers Meet 100% Cashmere

Focusing the World’s Creative Talent on UNIQLO Cashmere

UNIQLO is marking the fifth year since introducing its Cashmere Series. For the autumn and winter seasons of 2007, UNIQLO added some new touches to the luxury feel of its cashmere materials by focusing the world’s creative talent to offer an even more refined cashmere style. UNIQLO brought together the full forces of its global R&D Center designers, then added items created in collaboration with some of the world’s leading designers, including Adam Jones, Lutz and Patmos, and Keita Maruyama, to fully renew the image of the UNIQLO cashmere lineup—and create a buzz heard around the world.

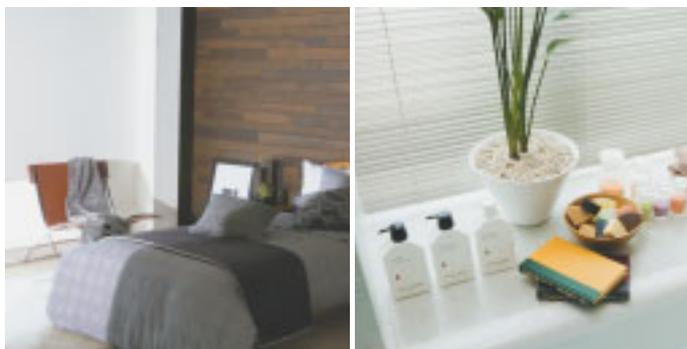


Topic 2:

HOTELS HOMES

A New Brand to Satisfy the Desire for Hotel-Style Amenity at Home

HOTELS HOMES is a new brand of home products, including towels, bedsheets, and shampoo, that only UNIQLO could create because of its unyielding insistence on quality in materials. The theme of the new brand series is “offering hotel quality,” and the HOTELS HOMES ensemble features body-care items made from natural oils without any additives, bedsheets and towels soft and gentle to the touch created from the best-quality materials, and other amenities. As we offer items essential for daily life, we are looking forward to growth of the new brand line.



Topic 3:

stylish white

UNIQLO and TORAY Develop Pants That Captivate Women’s Hearts

Women often say they want “summer bottoms that are comfortable but also discreetly opaque.” UNIQLO has responded by creating its “stylish white” line of women’s pants. The stylish white bottoms, co-developed with TORAY in spring 2007 to respond to womens’ needs, are made of polyester yarn infused with a high-density ceramic material, then woven into fabric using a fine crimping process that yields a material that is virtually opaque and difficult to see through from the outside.

