

October 12, 2011

## Analyst Meeting Q&A

### Business results for the year to end August 2011

Below are excerpts from our analyst meeting held on October 12, 2011. The following text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for fiscal 2011, the year to end August 2011.

**Q1: You are predicting same-store sales growth of 5% for UNIQLO Japan in the year to end August 2012, but I feel that this is a ambitious forecast. Recently, when you look at UNIQLO stores, you can see that you have reduced the number of items to focus on certain styles and the displays look clean and purposeful. But, on the other hand, you don't have any new hit products and there just seems to be something lacking. Can you tell me how you arrived at this 5% year-on-year growth forecast for same-store sales?**

A1: Nobuo Domae, Group Executive Vice President – We suffered shortages in top selling products in the first half of fiscal 2011 from September 2010 through February 2011. We lost considerable potential sales when shortages emerged in the top 30 selling products in the latter part of the season, and same-store sales fell nearly 10% year on year. For the year through August 2012, we have restricted the number of different designs on sale to try and resolve this issue. Therefore we expect sales to improve year on year and are predicting same-store sales will rise 5% year on year in the first half of fiscal 2012 from September 2011 through February 2012.

Moving onto second-half performance, in fiscal 2011 from March through August 2011, the product mix continued a little erratic through spring 2011 and so we feel shortages of some items dampened sales to some extent. Again, by addressing this issue in the second half of fiscal 2012 from March through August 2012, we expect same-store sales will post growth of 5% year on year. Admittedly, the same-store sales figures for September 2011 were not very good, but that was due to the prolonged heat wave. Sales actually turned up in the final week of September when the weather cooled and sales have continued strong into October. Therefore, we believe we can amply achieve the 5% growth in same-store sales for the full year as well.

**Q2: In your explanation of inventory levels at the end of August 2011, you mentioned an early accumulation of winter inventory amounting to ¥7.1bln and a reduction in spring and fall inventory of ¥4.5bln. Why have you increased winter inventory but reduced spring and fall inventory?**

A2: Vice President Domae – Our business performance in the second half of fiscal 2010 (March through August 2010) was not very good because we continued to sell off stock of spring/summer garments right through the end of the season. Compare that performance to the second half of fiscal 2011 (March through August 2011) when we planned and implemented a favorable liquidation of spring/summer inventory and a swift, early launch of fall/winter season items.

**Q3: You explained that sales and income from UNIQLO International in the year ending August 2011 fell slightly short of target due to the impact of the stronger yen. However, if you look at figures for the fourth quarter alone from June to August 2011, profit actually contracted year on year. Was this also due to the impact of a stronger yen or maybe to a greater number of new store openings in China?**

A3: Vice President Domae – Income fell at UNIQLO International in the fourth quarter from June to August 2011 due to rental obligations on the New York global flagship store building and higher promotion costs, which expected, as we accelerated advertising activities prior to the opening of the New York Fifth Avenue store. Elsewhere, business in China continued to be extremely strong in the fourth quarter generating double-digit gains in both sales and income.

**Q4: The positive impact on sales in fiscal 2011 from Super Cool Biz-related clothing must have been a welcome boost for the UNIQLO Japan business, but is UNIQLO not losing out on sales? When you look at stores, the stock is very clean and displays are focused on core products but the novelty seems to have worn off.**

A4: Tadashi Yanai, President, Chairman & CEO – In my opinion, we had a good 2011 spring/summer season. When you think that approximately 150 UNIQLO stores had to temporarily suspend business following the March 11 earthquake and tsunami, I think the subsequent recovery in sales showed a solid performance. In addition, in terms of our product mix, we had paid a little too much attention to fashion elements in the past but now we have refocused attention primarily on our core products. In terms of new products, our Ultra Light Down items, for instance, are selling extremely well. In fact, Ultra Light Down clothing is selling so well, it could well become a second HEATTECH in terms of hit products. It might well be that stores seem to lack novelty, but we expect our products to sell well once temperatures begin to fall in late September.

**Q5: You are predicting a 5% increase in same-store sales for UNIQLO Japan in fiscal 2012 but business costs are also expected to increase in proportion. In the past, when same-store sales have increased, I think you have managed to cap increases in business costs to sales at a lower level. Does this higher forecast for business costs have anything to do with the cost of opening flagship stores or any other special costs?**

A5: Vice President Domae – We estimate the business cost ratio will hold flat at the previous year's level in the year through August 2012. Naturally, we would like to reduce costs further if at all possible. The costs associated with the opening of the Ginza flagship store are not likely to have that great an impact on the overall total so we are not recognizing any particular special cost.

**Q6: In Mr. Yanai's presentation, the slide where you explain your target to open 200-300 stores each year shows a table with the ideal number of store openings in each region. Regarding these prospective new stores, are you already discussing with developers in Asia, Europe and the United States? Also, do you want to open a steady 200-300 new stores every year from now on?**

A6: CEO Yanai – Within a year or two, I want us to be opening at least 200 new stores and, if possible, as many as 300 stores per year. I would like to keep this pace of new store opening constant each year. I feel that Asian markets offer particularly great potential. I think we are now on track to develop a chain of UNIQLO stores in China, South Korea and Taiwan and so I think we can easily open between 200 and 300 new stores each year.

**Q7: In Mr. Yanai's presentation, you mention a target of 15% operating income ratio for UNIQLO International. Are you planning to increase this ratio gradually going forward?**

A7: CEO Yanai – I think we will definitely be able to achieve a gradual rise to this level with profitability increasing even faster in areas where we are developing a chain of stores. In China, South Korea and other Asian nations, profitability will increase as we form firm operational bases in each country. I think now is the breakthrough period for us in these areas in particular.

**Q8: You are forecasting same-store sales growth of 5% year on year at UNIQLO Japan, but does this incorporate the dip in sales in September?**

A8: Vice President Domae – Yes it does.

**Q9: You have said that discounting is likely to decrease at UNIQLO Japan in the year ending August 2012, but by how much?**

A9: Vice President Domae – In fiscal 2011 we incurred considerable losses on discounting of fall and spring inventory. Our actual inventory levels now are favorable and I believe that we can return discounting to normal levels this year.

**Q10: You say that strong sales from flagship stores overseas will have a positive impact on sales at UNIQLO Japan, but, for instance, how much do you think the opening of the New York Fifth Avenue flagship store will impact UNIQLO Japan sales?**

A10: CEO Yanai – Frankly speaking, I think that our stores outside of Japan are right now more advanced than our domestic stores in Japan. I am proud to say that our store on New York Fifth Avenue and our flagship store in Paris are better stores than our stores in Tokyo. I would like to apply some elements from these overseas global flagship stores and their marketing methods in Tokyo. UNIQLO's reputation overseas is probably higher than in Japan. In Japan, UNIQLO started out as a chain of roadside stores widely known for discount clothing. It has been hard to break free from that image even when we did something new or transformed ourselves as a retailer. In fact there are still many areas in Japan with only small or regular-sized UNIQLO stores and so of course it is difficult to get the message across. If we are successful overseas and this recognition of UNIQLO as a global brand filters through the Japanese market, then I think this will impact positively on Japanese sales as well.

**Q11: So what you are saying is that by becoming a global brand you will be able to increase your competitiveness in the Japanese market as well?**

A11: CEO Yanai – Yes, that is right.

**Q12: In addition to Ginza, you talk about plans to open global flagship stores in other areas of Tokyo such as Shibuya and Harajuku but do you not already have a large number of stores in Japan?**

A12: CEO Yanai – I think we have to become the overwhelming leading brand in our own national market. The heart of Japanese consumption is in Tokyo, isn't it? Indeed, you could go even further and say the capital's busy shopping and entertainment districts such as Ginza, Harajuku and Shibuya. If we cannot carve a dominant presence in these areas, then there is no future for us.

**Q13: You talk about making Asia into a supply base for global personnel, but what exactly do you mean by this?**

A13: CEO Yanai – When we were setting up operations in Taiwan, Singapore and other Asian nations, I was struck by how talented the young people in these countries were and by their language proficiency. For instance, Taiwanese people can understand Chinese, Japanese and English. Furthermore, the people possess an understanding of each culture too. In addition, they are full of hope for the future and want to make a success of their lives. I felt that these positive, global-minded young people were the type of people I wanted alongside me as we go out into the world, and I feel that these countries can offer a rich source of appropriate personnel.

**Q14: You said that same-store sales are likely to continue to generate double-digit growth for UNIQLO International in China and South Korea, but are you actually forecasting double-digit growth in same-store sales from South Korea and China for this business year through end August 2012 too?**

A14: Vice President Domae – Yes, we expect same-store sales in China and South Korea to generate double-digit growth in fiscal 2012.