

Analyst Meeting Q&A

Business results for the three months from September through November 2011

Below are excerpts from our analyst meeting held on January 12, 2012. The following text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for the first quarter of fiscal 2012, or the three months from September to November 2011.

Q1: You explained how UNIQLO International is progressing to plan on both sales and operating income, but the segment's operating income margin actually deteriorated year on year in the first quarter. Was this because you opened a number of flagship stores over the quarter?

A1: Nobuo Domae, Group Executive Vice President – Promotion expenses did increase with the opening of three global flagship stores in the first quarter and that is why the operating income margin deteriorated. However, overall, UNIQLO International performed to plan.

Q2: You have changed your estimates for UNIQLO Japan for the second quarter (December 2011 to February 2012), but have you incorporated the sharp rebound in sales in December and the latest sales figures through January 10, 2012?

A2: Executive Vice President Domae – The new estimate reflects the strong sales figures for December and some relatively conservative estimates for sales in January and February. Our new forecast for sales from March onwards is also more conservative. In our initial estimate, we predicted same-store sales would expand by 5.0% year on year in both the first and the second half of fiscal 2012. However, cumulative same-store sales from September through December show a 1.4% increase year on year and so we decided the initial second-half forecast of 5.0% growth in same-store sales was too aggressive. Looking at the second half from March to August, we do expect same-store sales to post strong growth in March compared to last year when sales fell in the wake of the March 2011 earthquake and tsunami. However, we then expect same-store sales to hover around the previous year's level. If sales do prove more buoyant in the second half then we are always poised to increase production. I feel it is better to operate according to a firm, more conservative sales forecast and make adjustments mid-term rather than overspend on business costs just to match a higher sales forecast.

Q3: Regarding inventory levels in the first quarter, you said that inventory at UNIQLO International increased ¥13.4bln year on year. Is this roughly double the previous year's level? No doubt the opening of new global flagship stores and other new stores was a key factor here, but is there is a problem with inventory levels at UNIQLO International?

A3: Executive Vice President Domae – This is an appropriate level of inventory—neither too high nor too low. New store openings at UNIQLO International are proceeding to plan with roughly 60 new stores planned in China this year. Same-store sales are also growing at an extremely fast pace in China so naturally the inventory level has increased compared to last year.

Q4: You predict that UNIQLO International will open 108 new stores in fiscal 2012. You opened 42 new stores in the first quarter. Is this to plan or are you likely to exceed that initial target? I understand you are now penetrating new areas, particularly in China, but how are these stores performing in terms of sales?

A4: Executive Vice President Domae – New store openings at UNIQLO International are proceeding to plan. In addition, existing stores in nearly all areas across China are beginning to see their sales grow. Stores in previously untested areas of China are also enjoying favorable sales.

Q5: You have revised down your estimate for new store openings at UNIQLO Japan for the six months to August 2012. You have also revised your store plans for g.u., with fewer new stores and more store closures now planned. Can you tell us the background to these revisions?

A5: Executive Vice President Domae – The reduced number of planned store openings in Japan is a direct result of a weak sales drive, or an insufficient effort on the part of our internal store development team. I intend to increase the focus and drive within the company to ensure a more aggressive effort in this area.

Q6: Could the reduction in the number of new UNIQLO Japan stores planned be due to a lack of potential locations or a deterioration in negotiating conditions, for example?

A6: Executive Vice President Domae – The majority of stores that we open nowadays are large-scale stores and so we no longer tend to get involved in competing with other retailers for space when a new location becomes somewhere. Instead, our sales people seek to pioneer new retail property developments through repeated discussions with landowners and developers. Therefore, the number of new stores is partly determined by the sales power of our internal teams and the number of times they meet and negotiate with landowners and developers. The problem this time was the insufficient effort on the part of our sales team rather than any other factor.

Q7: How did you manage to generate same-store sales growth at g.u. in the first quarter of more than 20% year on year? Was the considerable rise in operating income at g.u. responsible for the large rise in operating income for the Global Brands segment as a whole? In other words, which brand contributed most to the increase in first-quarter profit at Global Brands?

A7: Executive Vice President Domae – Our low-priced g.u. casualwear brand achieved significant gains in both sales and operating income in the first quarter. The opening of two flagship stores and the positive effect from TV commercials over the past year have both served to propel the g.u. brand into the spotlight, and same-stores sales are currently expanding at an extremely fast pace. We don't disclose a breakdown of profit contribution for the Global Brands segment, but operating income levels are also increasing greatly at the Theory operation thanks to strong same-store sales growth.

Q8: Have you been able to further fine tune the accuracy of production adjustments? What exactly has improved here?

A8: Executive Vice President Domae – Our ability to adjust production accurately depends heavily on

the extent of advance preparations. We have been improving the accuracy of our sales and production planning over the past year and this has facilitated production adjustments. We have created a process for determining when to increase or decrease production and, by implementing the process over the 2011 fall/winter season, we were able to make considerable adjustments to production volumes successfully. In many cases, production volumes were revised down and we were able to implement these changes smoothly.

Q9: Regarding new store openings in China, has the power of developers been weakened by the recent decline in land prices and tougher financial conditions? In other words, how is UNIQLO able to proceed with new store openings as planned despite the stricter environment?

A9: Executive Vice President Domae – This is probably because UNIQLO enjoys higher sales than other competitors and so conditions for new UNIQLO store openings are often more favorable. It is a virtuous cycle with increased brand visibility boosting same-store sales and so on.

Q10: Recent media reports have cited Mr. Yanai as saying that UNIQLO's inter-season women's wear clothing is not particularly strong and that he wants to create more fashionable, trendy items. How do you plan to achieve this and could it involve any organizational changes?

A10: Executive Vice President Domae – In the most recent inter-season period of August and September, I felt that we needed more clothes that could potentially lead mass trends for the upcoming season or provide news value. On reflection, our recent focus on core products undoubtedly contributed to sales in November and December, but we should have prepared the product range more carefully at the start of the season. This does not mean we have to overhaul our organization. We can make ample improvements within existing teams.

Q11: It seems to me that it would be extremely difficult to increase the fashionable and trendy element of your clothes with the current number of items?

A11: Executive Vice President Domae – You don't create newsworthy clothing each season by having a huge number of product items, so I don't think that is a problem.

Q12: Can you tell us more about why sales at the New York 34th Street store fell short of target in the first quarter? Again in first quarter, it appears that performance in the United States and Europe has not been nearly so impressive as in Asia where a strong sales trend has continued. Does this mean you will continue to focus new store openings in Asia, and might you tone down plans for new store development in the U.S.?

A12: Executive Vice President Domae – First, I sense that the customer base at the New York 34th Street mega store is different than our Soho or Fifth Avenue flagship stores. The New York 34th Street is selling more of the cheaper items and we are currently adjusting the product lineup accordingly. It is not as if the 34th Street store is performing badly. Indeed, in UNIQLO's global rankings, the store ranks near the top in terms of sales. The store failed to fulfill our initial target on sales but there are various adjustments we can make to improve this going forward. In terms of performance, the UK operation

continues to be sluggish, but this is not the case in the United States with the established New York Soho store maintaining a high level of sales. In terms of store planning, Asia offers great opportunity and we will likely continue to focus new store openings in that region going forward. Both China and South Korea harbor great potential right now but it's a first-come, first-served situation so we are looking to open new stores aggressively there. In Europe, we will continue our strategy of opening new stores focused on Paris. In the United States, we will continue our plans to focus new store openings in New York.

Q13: Can you update us on sales at the New York Fifth Avenue store?

A13: Executive Vice President Domae – Since the opening, the Fifth Avenue store has consistently fulfilled our sales plans.

Q14: Since the opening, the New York Soho store has managed to expand sales favorably on an annual basis. Are you looking for a similar sales trend at the Fifth Avenue store?

A14: Executive Vice President Domae – It is difficult to make any predictions as it is only a few months since the store opened. What I can say is that the store is situated in a prime location and sales volumes are extremely high. With stories on the store's opening splashed across the local media, the global flagship has certainly served to boost awareness of the UNIQLO brand dramatically in the U.S. and, in that sense, it has already proven to be a great success.

Q15: In China, are you currently opening more new stores in shopping malls or department stores?

A15: Executive Vice President Domae – We are opening stores in both shopping centers and department stores. For us, one option is not necessarily preferable to the other. Rather, we are looking to open stores in the best available locations. We have not yet been able to develop the type of stand-alone roadside stores that we have in Japan. I don't know the exact ratio between shopping center and department store outlets, but it is not something that we focus on especially in our planning of new stores.