

FY2016 First Half Review and Future Business Outlook

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Fast Retailing Co., Ltd.

Chairman, President & CEO

I am Tadashi Yanai, the chairman, president and CEO of Fast Retailing.

Today, I would like to talk through our business performance for the first half of fiscal 2016, or the six months from September 2015 through February 2016, and also tell you about our future business outlook and strategy.

FY2016 1H Group Performance

Year to August 31, 2016 1H Performance

Revenue	¥1.0116trln (+6.5% y/y)
Operating profit	¥ 99.3bln (-33.8% y/y)
Profit attributable to owners of the parent	¥ 47.0bln (-55.1% y/y)

■ Key performance points

- Consolidated results below plan, sharp decline in profit
- UNIQLO Japan profit down. Challenges: fall in gross profit margin and cost controls
- UNIQLO Intl. profit also down. Profit down in Greater China, S. Korea and U.S. Slowdown in Chinese economy impacting performance in Taiwan and Hong Kong rather than mainland China.
- GU reports significant gains in revenue and profit

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The Fast Retailing Group reported revenue of ¥1.0116 trillion, operating profit of ¥99.3 billion and profit attributable to owners of the parent of ¥47.0 billion in the first half of fiscal 2106.

Singling out some main components, the overall performance and the reporting of a sharp decline in consolidated profit was below plan.

Following the decline in profit at UNIQLO Japan, we are keenly aware of the need to address the fall in the gross margin and also press ahead with cost controls.

UNIQLO International also reported a fall in profit on the back of declining profits from operations in Greater China, South Korea and the United States. The slowdown in the Chinese economy seemed to affect performance in Taiwan and Hong Kong more than in mainland China.

On the positive side, our low-priced GU fashion casualwear label reported significant gains in revenue and profit.

FY2016 first-half was an artificially inflated growth

In a nutshell, the story in the first half of fiscal 2016 was not about true, sustainable growth, but about bloated operations.

Ultimate low-cost management

- **Deep-rooted cost-cutting drive**
 - **Scrutinize all expenses, cut costs that don't contribute to profit growth, overhaul cost structures.**
 - **Each department to responsibly establish a corporate culture focused on cost-efficiency in all areas of business.**
- **A simple, snappy organization**
 - **Eliminate organizational hierarchies and barriers between departments to create a simple, flexible organization.**
 - **Quick judgements, sharp decisions, swift implementation.**
- **Review how we work**
 - **Change work methods to better suit our digital transformation.**
 - **Fully digitize operations, generate success from a focused, select workforce.**

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So, our first priority strategy going forward will be to pursue ultimate low-cost management.

To that aim, I want us to scrutinize all expenses, and overhaul our cost structures by cutting costs that don't contribute directly to profit growth. Each department will be responsible for instilling a corporate culture that is focused on cost-efficiency in all areas of business.

Next, I want us to become a simpler, more streamlined and snappy organization. That means eliminating organizational hierarchies and barriers between departments to create a simple and flexible organization.

Finally, we will be reviewing how we work, and changing our working methods and approach to better suit our digital transformation. That will involve fully digitizing operations, and generating success from a focused, select workforce.

UNIQLO Challenges and Future Direction

Reclaim fashion leadership and price leadership

- **Further enhance the quality, comfort, fashion sense and news value of UNIQLO LifeWear, with a particular focus on womenswear.**
- **Conduct thorough review of pricing to suit everyday customer needs. Return to simple price lines such as ¥1,990, ¥2,990.**
- **Ensure UNIQLO clothes are attractive and affordable for anyone, anywhere, anytime.**
- **To this aim, rethink product design, lead time.**

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On key challenge for UNIQLO going forward will be to reclaim fashion leadership and price leadership.

We need to further enhance the quality, comfort, fashion sense and news value of UNIQLO LifeWear. To do that, we need to revolutionize our womenswear in particular.

We also need to conduct a thorough review of our pricing structure to ensure it suits our customers' everyday needs. The best way to achieve that is to return to more simple price lines such as ¥1,990, ¥2,990.

I want to ensure that UNIQLO clothes are attractive and affordable for anyone, anywhere, anytime.

To this aim, I believe we need to rethink our product design, as well as a product lead times.

**Globalization.
Digitalization.
The keys to future
growth.**

Looking ahead to our future growth strategy, the key focuses will be globalization and digitalization.

Globalization

- **Further enhance global product development**
Hire talented staff to achieve high-grade product development in R&D centers in NY, Tokyo, Shanghai, Paris, London and Los Angeles.
- **Expand UNIQLO globally as ultimate LifeWear**
- **Continue expansion strategy in Greater China, South Korea, Southeast Asia and Oceania by opening multiple new stores**
- **Pursue aggressive restructuring of UNIQLO USA**
- **Plan to open first store in Canada in fall 2016**
- **Use the reopening of the newly refurbished global flagship store in London to build UNIQLO brand in Europe**
- **Plan to open first store in Spain after Belgium**

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Taking globalization first. The first thing we have to do is to further enhance our global product development.

We have been hiring talented staff who can help guarantee high-grade product development in our R&D centers in NY, Tokyo, Shanghai, and now we intend to do the same in our R&D centers in Paris, London and Los Angeles.

I also want to expand the UNIQLO brand globally as the ultimate LifeWear.

To that aim, we will continue to pursue our expansion strategy in Greater China, South Korea, Southeast Asia and Oceania by opening multiple new stores.

We will continue with our restructuring of UNIQLO USA.

We also plan to open our first store in Canada in fall 2016

In Europe, we will use the reopening of our newly refurbished global flagship store in London to build UNIQLO's brand image and visibility in the region. We are already opening our first few stores in Belgium, and will be looking to open stores in Spain next.

Globalization

Use strong growth of international operations to make UNIQLO the world's No.1 brand

- UNIQLO Intl. store network surpassed UNIQLO Japan for first time in Nov. 2015
- UNIQLO Intl. sales likely to surpass UNIQLO Japan in FY2017 or FY2018

Envisaged sales trends for UNIQLO Japan and UNIQLO International

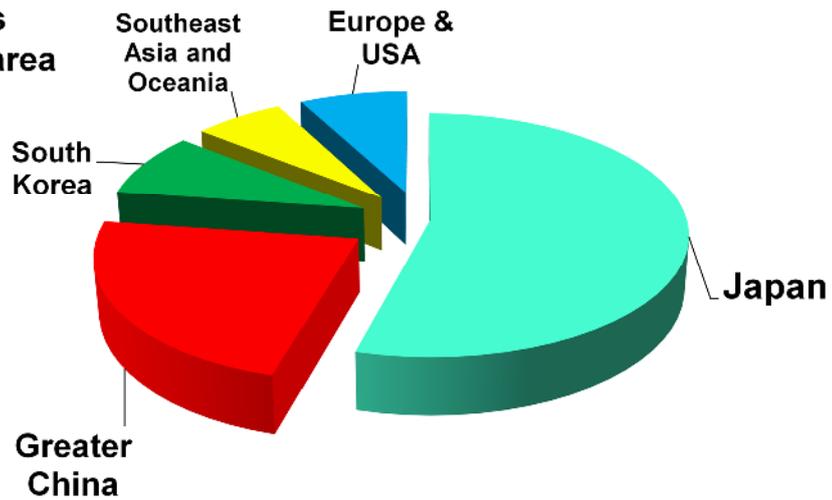


A part of our globalization strategy involves capitalizing on the strong growth of our international operations to make UNIQLO a No.1 world brand.

The size of the UNIQLO International store network already surpassed that of UNIQLO Japan in November 2015, and now we expect UNIQLO International sales will likely surpass UNIQLO Japan in fiscal 2017 or fiscal 2018.

Continue multiple store openings in these regions as drivers of UNIQLO Intl. growth

UNIQLO sales contribution by area



Greater China, Southeast Asia and Oceania are proving the drivers of UNIQLO International growth and so we plan to continue opening multiple new stores in these regions.

Rebuild management, vigorous strategy

- **Build UNIQLO brand in US by closing less profitable stores and opening flagship or large-scale stores in prime urban locations. Grow e-commerce.**

Chicago global flagship store, opened October 2015, received “Business Impact of the Year’ Award” from local association.

- **Transform operation by thoroughly reviewing product mix, improving store operations and conducting effective advertising mainly in the digital space.**

- **Scheduled to enter Canadian market in fall 2016 by opening two stores in Toronto.**



Michigan Avenue global flagship store,
Chicago

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In the United States, we have been rebuilding management and pursuing a more vigorous business strategy.

That strategy involves building the UNIQLO brand in the United States by closing less profitable stores and opening flagship or large-scale stores in prime urban locations. We are also focused on growing e-commerce sales at the same time.

The photo on this slide shows our prestigious Michigan Avenue global flagship store in Chicago, which won the “Business Impact of the Year” award from a local association.

We have been looking to revitalize our UNIQLO operation in the United States by thoroughly reviewing our product mix, improving store operations and conducting effective advertising mainly in the digital space.

Looking further afield, we have also scheduled our entry into the Canadian market in fall 2016 with the opening of two stores in Toronto.

UNIQLO Europe

Open stores in major European cities and expand e-commerce

- Use the newly refurbished global flagship store in London to build UNIQLO brand in Europe



311 Oxford Street global flagship store, London

The glass roof on the top floor of this historic London building creates an abundant sense of freedom and openness. The UNIQLO WearHouse, a special theme space on the top two floors, will not only display the best of UNIQLO, but also feature collections of general items and books representing English culture, and house various seasonal events throughout the year. We want the store to be a beacon for new London culture.

UNIQLO
WearHouse
LONDON



- Two Belgium stores, Antwerp in October 2015 and March 2016, both a success
- Plan to open first store in Spain in FY2017

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Moving onto Europe, we are opening new stores in major European cities and also working hard to expand e-commerce.

We are planning to use our newly refurbished 311 Oxford Street global flagship store in London to build UNIQLO's brand image and visibility in Europe. In my opinion, this is currently our best store worldwide.

We are developing operations in Belgium with the opening of our first two stores in Antwerp in October 2015 and then in March 2016.

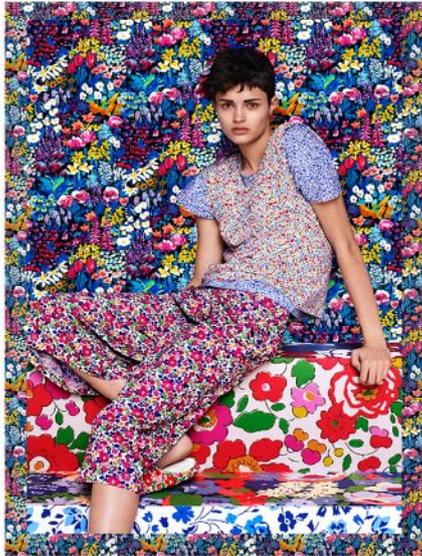
We are planning to open our first store in Spain in fiscal 2017.

Global Collaborations

LIBERTY

LONDON

FOR



UNIQLO's collaboration with Liberty London, an iconic London department store with more than 140-year history, was launched in middle March 2016. This fun collection's colorful Liberty print T-shirts, RELACO pants and blouses are popular with customers.

UNIQLO AND LEMAIRE



This collaboration features choice fabrics and delicate detail designs. The collaboration's timeless elegance ensures you feel comfortable in your clothes, and comfortable in your skin.



INES DE LA FRESSANGE
PARIS



The perfect Parisian-chic wardrobe for women who want to be themselves, feel good and look beautiful.

Looking next at our global collections, we launched joint collections with Liberty, Lemaire and Ines de la Fressange for Spring 2016 .

The Liberty collection has been designed jointly with the long-established, historical English department store, and the collection has been displayed in the main Liberty store on London's Regent Street.

The UNIQLO and LEMAIRE collection is successfully attracting new customers by offering fashionable garments for young people.

I believe that the Ines de la Fressange collection offers a great touch of Paris esprit.

Digitalization

**Create a new industry by
merging physical and virtual
spheres.**

Moving onto the second prong of our future growth strategy, namely digitalization. For us, that means creating an entirely new industry by merging our physical and virtual business spheres.

Digitalization

Linking all processes via the internet will transform the SPA business model that progresses systematically from planning to production to retail, and upon which we have built the UNIQLO brand of today.

Create an entirely new business model

Transform our way of working

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The internet has pervaded the entire industrial sphere and, as the Internet of Things (IoT) clearly demonstrates, people along with every type of object can now be linked to the internet.

We have built the UNIQLO brand of today using an SPA business model that encompasses the entire clothes-making process from planning through manufacture and retail. Now, thanks to the internet, we can link all of that together instantaneously and remotely around the world.

I want to create an entirely new business model by radically transforming our current work practices.

Our Current SPA Business Model

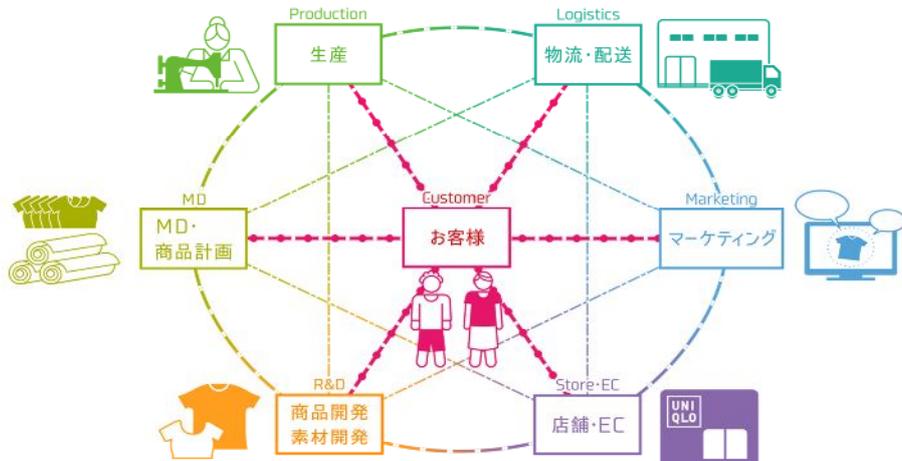


- **Not able to sufficiently respond to latest customer demand due to vertical processes of planning, production, marketing and retail, and product-oriented approach to both garment and information creation.**
- **Not able to provide specific information tailored to the needs of individual customers due to reliance on mass media advertising such as fliers and TV ads.**

Our current SPA business model is a type of relay, with the baton passing swiftly and systematically from planning to manufacture, distribution, marketing and finally stores. However, due to inherent time lags and lead times, this system cannot respond sufficiently to customers' most recent demands.

Neither can the system provide specific information tailored to the needs of individual customers, due to its reliance on mass media advertising such as fliers and TV ads.

Digitalization Business Model



- **Customer-focused processes for product and information creation can be pursued simultaneously all over the world.**
- **Through direct two-way communication with customers, UNIQLO can build a new supply chain to create and commercialize the exact products customers want almost instantly.**

Instead, I want to use digitalization to create a new business model, which will enable us to drive customer-focused processes for product and information creation simultaneously all over the world.

I also want to build a new supply chain that utilizes direct two-way communication with customers to create and commercialize the exact products customers want almost instantly.

THE ARIAKE PROJECT

Complete next-generation distribution center in Ariake, Tokyo in April

Planning approx. 10 new distribution centers worldwide in Japan (Sapporo, Sendai, Nagoya, Osaka, Kobe), China, Europe and North America



Envisaged impact of fully operational next-generation distribution center

- Frequent deliveries to stores will reduce in-store stock shortages.
- Lower backroom inventory levels to boost efficiency of store operations.
- Expand e-commerce service area for same-day or next-day delivery.

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Our Ariake Project is a perfect example of this.

We will complete our next-generation distribution center in Ariake, Tokyo in April.

I also want to build approximately ten new distribution centers worldwide in Japan (Sapporo, Sendai, Nagoya, Osaka, Kobe), as well as in China, Europe and North America.

We envisage this next-generation distribution center will have a far-reaching impact once fully operational. Frequent deliveries to stores will reduce in-store stock shortages, lower backroom inventory levels will boost the efficiency of store operations, and it will also help expand e-commerce service coverage for same-day or next-day delivery.

Facilitate various new services with the opening of the world's largest virtual "digital flagship store" in fall 2016.

**Ariake Digital Development HQ
Product and information creation team all together in a 16,529m² floor space to encourage swift, simultaneous, worldwide work processes.**

The Ariake Project also features the opening of the world's largest virtual "digital flagship store" in fall 2016, facilitating various new services.

As part of the plan, we are shifting our digital development headquarters to the top floor of the Ariake distribution center. From this single-floor 16,529m² office space, the product and information creation team will be able to encourage swift, simultaneous, worldwide work processes.

E-commerce medium-term sales target

Expand e-commerce business worldwide towards initial target of 30% of total sales

Current contribution

5%

Future contribution target

30%



Approximate e-commerce sales contribution by area

Japan	5%
Greater China	10%
S. Korea	5%
USA	20%
Europe	10%
SE Asia and Oceania	≤5%



We also aim to expand our worldwide e-commerce business, with an initial target of 30% of total sales.

Consistent strong growth

- **FY2016 1H: Significant gains in revenue, profit**
- **Establish R&D center in London to further boost product development skills**
- **Accelerate new stores openings in Asia (Mainland China, Taiwan, etc.)**
Eight GU stores outside Japan at end February 2016
- **Medium-term targets: Sales ¥300bln, operating profit ¥40bln**



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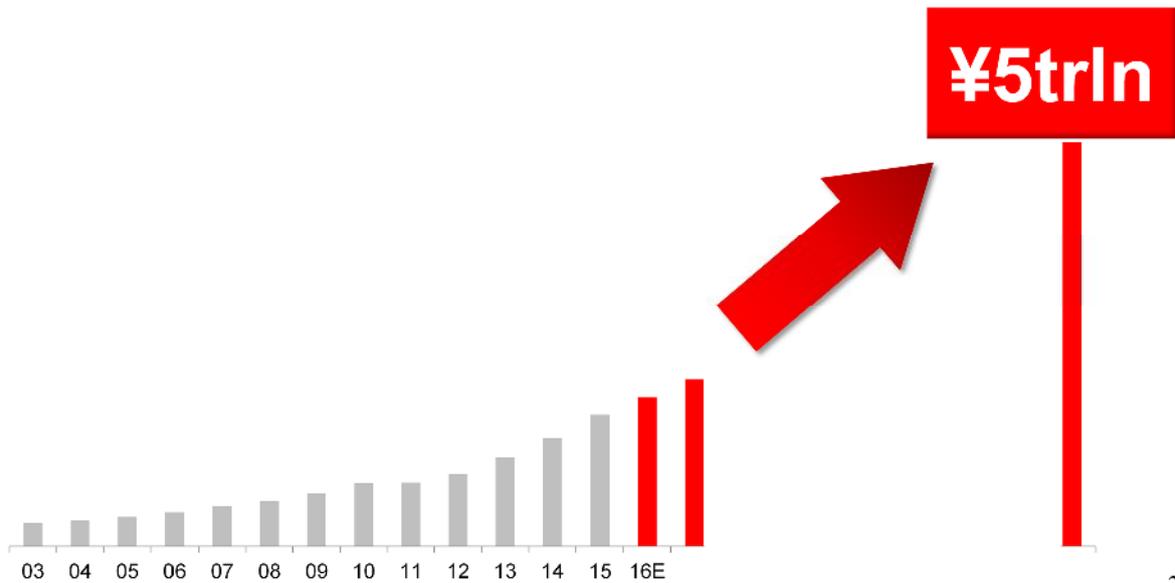
Moving onto our GU brand, this operation generated strong gains in both revenue and profit in the first half of fiscal 2016.

We aim to further boost our GU's product development skills by establishing an R&D center in London. We also plan to speed up the opening of new GU stores in mainland China, Taiwan and then other parts of Asia. We have medium-term targets for GU revenue of ¥300 billion and operating profit of ¥40 billion.



Fast Retailing Medium-term Targets

**Become world's No. 1 brand
with revenue ¥5trln, OP ¥1trln**



Fast Retailing remains determined to become the world's No. 1 brand with a medium-term revenue target of ¥5 trillion and operating profit target of ¥1 trillion.

CSR Activities



Today, we are witnessing unprecedented numbers of refugees around the world.

Next, I would like to talk a little about our company's CSR activities. We instigate and participate in various CSR projects around the globe, but I believe the most urgent problem facing the world today is the refugee issue.

**Thanks for participating in our fall
2015 “10 Million Ways to HELP”
all-product recycling project!**

**8.60 million items
collected already**

(As of April 3, 2016)

Great cooperation from customers and staff.

As part of our All-Product Recycling Initiative, we launched the “10 Million Ways to HELP” project in September 2015.

Thanks to the great cooperation from both customers and staff, we have already been able to collect 8.60 million items as of April 3, 2016.

And I don’t think it will be long now before we hit our target for 10 million items.

Japan's first community-supported TSURUMI hospice for children

The TSURUMI Children's Hospice in Osaka, built jointly by UNIQLO, the Children's Hospice Project (CHP) and the Nippon Foundation, was opened on April 1, 2016.

The project aims to connect private, public and regional communities to support children with life-threatening conditions, and their families.



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In addition, Japan's first community-supported TSURUMI hospice for children was opened in April.

The TSURUMI Children's Hospice in Osaka was built jointly by UNIQLO, the Children's Hospice Project and the Nippon Foundation with the primary aim of supporting children with life-threatening conditions and their families. The project was also designed to encourage private, public and regional communities to offer collective support. In that sense, the project is the first of its kind in Japan.

Fast Retailing's CSR activities focus on using the "power of clothing" to enrich our society and improve people's lives.

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Fast Retailing's Corporate Mission

**Changing Clothes.
Changing Conventional Wisdom.
Change the World.**

I would like to leave you this with reminder of Fast Retailing's corporate mission.

Changing Clothes. Changing Conventional Wisdom. Change the world.

Thank you.