

July 10, 2014

**Business results for the nine months from September 2013 through May 2014**

Below are excerpts from our analyst meeting held on July 10, 2014. The text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for the third quarter of fiscal 2014, or the nine months from September 2013 through May 2014.

**Q1: You have not made any revisions to your full-year business forecasts for fiscal 2014, but what business performance do you envisage in the fourth quarter of fiscal 2014 from June to August 2014?**

**A1: Takeshi Okazaki, Group Senior Vice President & CFO** - Fundamentally, we would expect to see things continue on the same trend as in the third quarter.

**Q2: Do you intend to maintain the same clear focus on profitability at UNIQLO Japan in fiscal 2015 from September 2014 through August 2015?**

**A2: CFO Okazaki** – Naturally, we will maintain our ongoing emphasis on profitability. We have openly recognized the considerable issue of falling profitability at UNIQLO Japan in the past, and management has worked consistently and committedly to improving that situation. Of course, we plan to ensure continued sales growth, while arresting the recent trend of shrinking profits.

**Q3 : Does emphasizing profitability at UNIQLO Japan mean restricting the number of new stores opened or new products introduced?**

**A3: CFO Okazaki** – No, we do not intend to restrict new stores or products. Having said that, UNIQLO Japan certainly has a considerable number of stores already, so we are focused on further improving the location and size of our store network using our “scrap and build” policy of closing regular-format stores and replacing them with large-format ones. That means the total number of UNIQLO Japan stores is unlikely to increase dramatically. In terms of the items provided in our stores, the one thing we really want to avoid is shortages of any particular item, so our aim is to achieve a firm operational balance which ensures sufficient quantities of product to avoid shortages without accumulating excess inventory.

**Q4 : Inventory levels at UNIQLO Japan swelled by approximately 30% year on year at the end of May 2014. Year-on-year increases in inventory related to the upgrade of store fittings and displays have probably run their course by now, so do you feel inventory is becoming excessive**

**at these current levels? You also mentioned the increase in the number and range of basic items sold year-round as another factor boosting inventory, but wouldn't a larger number of basic items on offer actually exert downward pressure on prices and adversely affect profitability?**

**A4: CFO Okazaki** – Our inventory levels increased because the number of basic items sold all year round increased. In addition, this enhancement of our basic, core ranges has helped generate extremely firm sales. Our strategy is to have enough inventory on hand to ensure against shortages of any items. In addition, the fact that year-round basic items now account for a larger proportion of inventory than last year means that we are not obliged to discount that inventory heavily in order to offload it at the end of any one season. In that sense, we believe that our inventory and its components have improved compared to last year. Finally, as you pointed out, the year-on-year boost to inventory generated by upgrades in store fittings and interiors finished at the end of May 2014.

**Q5 : You mentioned that sales at UNIQLO Southeast Asia fell short of target in the third quarter. Can you explain why the sales environment deteriorated in the third quarter, bearing in mind the operation's previously strong performance through the second quarter of fiscal 2014?**

**A5: CFO Okazaki** – Within Southeast Asia, political instability in Thailand and more frequent demonstrations in Indonesia have dampened sales temporarily in those two countries. The scale of UNIQLO operations in these countries is still relatively small, so the inventory balance was disturbed when sales fell below target, and this impacted on profit levels.

**Q6 : Do you intend to disclose performance figures using International Financial Reporting Standards (IFRS) from the full-year business results for the year ending August 31, 2014? Can you explain how the adoption of IFRS will impact your profit numbers?**

**A6: CFO Okazaki** – We will disclose our fiscal 2014 results for the full-year ending August 31, 2014 on an IFRS basis, but we will also disclose the results according to the original Japanese accounting standards as well. Consolidated operating income is expected to receive an additional boost of approximately ¥4.0 billion in fiscal 2014 on an IFRS basis, due to the impact of removing goodwill amortization, and changing the timing for recording business expenses. From fiscal 2015 onwards, the removal of goodwill amortization will be one factor which is likely to boost profits somewhat on an IFRS basis. Other factors which could influence the profit figures on an IFRS basis could be, for example, the evaluation of foreign-currency-denominated MMF using the market value method, and a swifter realization of business expenses.

**Q7 : It has been reported in the media that you plan to increase prices at UNIQLO Japan and GU by approximately 5% from the fall/winter season. Can you tell us something about your future pricing strategy?**

**A7: CFO Okazaki** – We plan to gradually increase prices at UNIQLO Japan by an average 5%, starting with this year's fall/winter ranges. However, we don't intend to raise prices without offering anything extra. Instead, we plan to raise prices by approximately 5% on items which offer additional design features and increased functionality. The yen has weakened and we are facing sharp increases in the price of raw materials and personnel costs, but we have made sure to limit any price increases to a level which will enable us to generate an appropriate level of steady profit. At GU, we plan to introduce items which reflect the latest fashions and trends even better than before, and which would then warrant slightly higher price tags.

**Q8: You have incorporated some potential impairment losses from J Brand into your full-year forecast for special losses. What has been happening at J brand exactly, and do you think this experience will induce you to alter your M&A strategy at all going forward?**

**A8: CFO Okazaki** – Our J Brand premium denim label has been adversely affected by slumping sales in the comparatively expensive affordable luxury sector. This slump was caused by the slowdown in the US economy which began after we acquired J Brand. In other words, the premium denim industry has been caught in an economic headwind. J Brand's weak performance was also partly due to the label's insufficient response to changing fashion trends for premium denim. Going forward, we want to ensure that J Brand adapts better to changing fashion trends. In addition, we will be looking to boost the brand's performance by fully incorporating Fast Retailing's superior experience in such areas as product development, sales planning and inventory management. We have adopted a conservative approach with our full-year business forecasts because we cannot deny the possibility of impairment losses emerging at J Brand, and that is why we have incorporated an additional special loss into our forecasts at this stage. Impairment losses at J Brand would be unfortunate, but would be unlikely to encourage any fundamental changes in our future M&A strategy.

**Q9: Was there a special reason why you decided to bring forward the opening of some new stores at UNIQLO USA to the third quarter? Are total losses at UNIQLO USA continuing to shrink? Do you expect to be able to generate a profit at that operation in fiscal 2015?**

**A9: CFO Okazaki** – There wasn't any special reason why we decided to bring forward the opening of some new stores in the United States. The store openings had been planned for the upcoming business

year, but preparations were complete by August so we decided to open them early. However, the related pre-opening preparations did nudge business expenses above their targeted level for the third quarter. As for the overall picture at UNIQLO USA, we have continued to reduce operating losses in fiscal 2014. We are now looking to break even in fiscal 2015, and turn a profit in fiscal 2016 at the latest.

**Q10: Can you tell us why the gross profit margin improved so significantly at UNIQLO Japan in the third quarter? Did you instigate any significant operational or organizational changes?**

**A10: CFO Okazaki** – Boosting the gross profit margin has been a long-standing challenge at UNIQLO Japan, and we have been working hard to achieve this for some time now. Specifically in the third quarter, we restricted the number of limited-period discount sales designed to attract more customers. We were also able to restrict the amount of discounting required to offload excess inventory to a greater extent than usual, thanks to recent improvements in our SKU, or Stock Keeping Unit, management. It is possible to be left with a large quantity of unsold items on previously successful products because of simple mismatches in color or size, and this inevitably results in greater discounting. However, improvements in our SKU management have successfully boosted the proportion of products sold without discounts at UNIQLO Japan.

**Q11 : You have indicated that you plan to convert roughly half of UNIQLO Japan's 30,000 store personnel into local store employees. Can you tell us how you are progressing with this plan to encourage more personnel to become permanent staff? Also, how do you think this strategy will impact company performance from fiscal 2015 onwards?**

**A11: CFO Okazaki** – Our plan to increase the number of local store employees has not changed since we last explained three months ago, and we are currently working quietly to achieve this aim. Since we have only just begun hiring these permanent staff, we have not yet reached the stage where we can announce any specific numbers. For the same reason, any impact from this project on fiscal 2014 business performance will be extremely small. Since we are determined to actively increase the number of permanent staff within our stores, the project's impact on business performance will be reflected to some extent in our business estimates from fiscal 2015 onwards. We are likely to experience a short-term increase in personnel costs, but we predict the resultant higher retention rates will help boost the productivity of our stores. The personnel cost to net sales ratio may well increase temporarily, but we expect this strategy will actually help reduce that ratio over the medium term.

**Q12: Do you plan to increase the number of new UNIQLO stores opened outside of Japan even further in fiscal 2015?**

**A12: CFO Okazaki** – Yes, we want to open more UNIQLO International stores in fiscal 2015 than in fiscal 2014. We will be looking to continue the same pace of new store openings in China, South Korea and Taiwan, while accelerating the number of new store openings in the Southeast Asian region. We also want to continuing opening approximately 20 new stores per year in the United States. It is harder to find good prospective locations in Europe, but we would plan to open new stores there whenever a good opportunity presents itself.