

## Financial Analysts Meeting Q&A

### Financial results for the three months from September through November 2012

Below are excerpts from the analyst meeting held on January 10, 2013. The following text, which was edited for brevity and clarity, includes the main questions analysts asked about the first quarter 2013 results.

**Q1: You mentioned that operating income at UNIQLO Japan exceeded your initial target for the first quarter, but what about UNIQLO International and Global Brands?**

**A1: Takeshi Okazaki, Group Senior Vice President & CFO** – Operating income at UNIQLO International also outstripped our initial estimate in the first quarter, and that is one of the reasons why we have revised up our fiscal 2013 estimates for that segment. The ¥4.0bln upward revision to our full-year estimate for operating income at UNIQLO International incorporates the segment's strong first-quarter performance and also expectations for higher income levels over the rest of the fiscal year through August 2013. The level of operating income generated by the Global Brands segment in the first quarter was roughly in line with our expectations.

**Q2: I understand UNIQLO Japan sales are continuing to outperform in the second quarter from December 2012 through February 2013, but what about the gross profit margin?**

**A2: CFO Okazaki** – The gross profit margin fell short of target in the first quarter owing to a slight increase in the level of discounting, but this did help generate the rise in first-quarter sales. At this stage, it is hard to get a clear idea of how the gross margin will fare in the second quarter. However, while the first quarter generated strong sales, UNIQLO Japan's overall performance has not changed enough for us to revise our estimates for fiscal 2013.

**Q3: At the beginning of the year, Mr. Yanai talked about the “third frontier” of your business, but how does this differ from the second one?**

**A3: CFO Okazaki** – I am not Mr. Yanai, but my understanding is that the second frontier involved testing international markets by opening local UNIQLO operations in individual countries such as China and South Korea. The third frontier is where the Fast Retailing Group ‘sheds its skin’ and develops into a vibrant and driven global company.

**Q4: Did you discount prices at UNIQLO Japan during the year-end holiday sales in the same way as you did for the first quarter as a whole?**

**A4: CFO Okazaki** – We determined in a new policy from late October through the months of November and December to hold four days of limited-period sales, and that worked extremely well. The policy also proved popular with customers, so we plan to continue with it for the time being.

**Q5: In Slide 14, you list a favorable rundown of spring/summer inventory of ¥6.8bln. These favorable inventory conditions must put you in a very good position for the next spring/summer holiday sales period?**

**A5: CFO Okazaki** – We don't have any carryover items in our spring/summer inventory right now, so we can actively introduce new products. This will make it much easier for us to compete in the next round of spring/summer holiday sales.

**Q6: You have revised up your fiscal 2013 estimate for operating income at UNIQLO International as a whole, but how does this reflect the individual operations in China, South Korea and the United States?**

**A6: CFO Okazaki** – Cast your minds back three months ago to our previous announcement of quarterly results. There was a strong focus on difficult diplomatic disputes and many people were predicting a further slowdown in the Chinese and Korean economies, so we issued comparatively conservative estimates for those two countries. Now, fast forward to today when the diplomatic issues have been resolved with little lasting impact on our business. On the economic front, our industry has been impacted by unseasonal weather, but we have not experienced any retrenchment in consumer spending. In China, the weather remained warm through the middle of October, but sales of HEATTECH and Ultra Light Down picked up strongly once the weather turned colder. The risk factors that were so prominent at the beginning of the fiscal year have dissipated, so we have revised up our fiscal 2013 business outlook for UNIQLO International as a whole, and UNIQLO China and UNIQLO South Korea in particular. The strong performances from operations across Asia in the first quarter are also reflected in the upward revisions to our full-year forecasts. As for UNIQLO USA, our full-year forecasts for this operation remain unchanged. That operation is running at a loss right now, but that loss is being gradually reduced.

**Q7: You cut prices last year as the summer season drew to an end. Are you concerned that you might have to do the same with your winter ranges?**

**A7: CFO Okazaki** – Last year, we were concerned about distribution inventory so we discounted some prices of summer stock, and this led to a deterioration in gross margin in the fourth quarter. In fact, the whole industry experienced high levels of distribution stock. However, strong demand for HEATTECH and Ultra Light Down in this 2012 fall/winter season has enabled us to minimize discounting and protect our gross margin. Therefore, at this point in time, we don't expect to see a repeat of last summer's experience.

**Q8: I am looking at the table on Page 12 of the earnings summary, but can you explain the rise in the consolidated adjustment item in the first quarter?**

**A8: Masumi Mizusawa, Director, IR Department** – The consolidated adjustment total is increasing mainly because profits at the holding company, Fast Retailing Co., Ltd., have been rising. Subsidiary firms have paid higher royalties to the holding company as their sales increase.

**Q9: How are the new stores opened in New Jersey and San Francisco in fall 2012 doing?**

**A9: CFO Okazaki** – Our new stores in San Francisco and New Jersey are performing in line with expectations.

**Q10: How is your newly-launched e-commerce business doing in the United States?**

**A10: CFO Okazaki** – The online sales business has only just been launched, but it is going very well so far. However, the total amount is still small, so we are not at a stage where we can give you any figures.

**Q11: You say that the upward revision to your fiscal 2013 forecasts for UNIQLO International was due mainly to a marked improvement in China and South Korea, where you had previously been cautious. What is your outlook on the macro economy? Have you got a strategy in place so that you can continue your plans even in times of economic slowdown?**

**A11: CFO Okazaki** – As I mentioned earlier, as far as China and South Korea are concerned, we do not feel that economic conditions have deteriorated in our industry at least. Sales were sluggish through early October, but this was due more to diplomatic problems in the region in September and the persistently warm weather through the middle of October. However, sales recovered sharply once the weather turned cold, and we feel that the strong performance of our HEATTECH, Ultra Light Down and other ranges proves that the UNIQLO brand has become an integral part of people's lives in China and South Korea. In other words, people will buy HEATTECH when the weather turns cold, even if the economy is not so buoyant. As for our sense of overall conditions in China, the people involved in our business say that the Chinese economy is not faring nearly as badly as is perceived in Japan. I am sure views vary depending on the industry, but that is our view from the apparel industry.

**Q12: You have increased your estimates for new store openings in the United States in fiscal 2013. Where are you planning to open these new stores?**

**A12: CFO Okazaki** – We plan to open two smaller stores with shop floor space of approximately 1300 square meters in suburban New York shopping malls. This is part of our plan to establish chain networks in and around the cities of New York and San Francisco.

**Q13: In your presentation, you mention that same-store sales in South Korea “regained” double-digit growth. Does this mean that sales growth tipped briefly into double-digits within the three-month period? What happened during the quarter to fuel this rise? Was it something to do with the weather, or any hot-selling products?**

**A13: CFO Okazaki** – We used the word “regained” to describe how same store sales growth picked up again in the first quarter from September to November 2012, compared to the fourth

quarter of fiscal 2012 from June to August 2012 when sales growth experienced a temporary slowdown. In other words, the operation generated a double-digit gain in same-store sales for the quarter as a whole. Our HEATTECH range sold so well in South Korea that we were running out of some stock. Fleece items are also selling like hot cakes among young consumers. This proves how consumers in South Korea have embraced UNIQLO products.

**Q14: Do you think that the number of new UNIQLO stores opened in Asia might exceed your target in fiscal 2013? In China, I think you are focusing on opening new stores in shopping centers, but are you being approached by more developers in prime locations and are the terms favorable?**

**A14: CFO Okazaki** – Our plans for new store openings are running smoothly, but it is impossible to say at this early stage whether the total number of new stores opened in Asia in fiscal 2013 will exceed our initial target. The current estimate covers stores that we know we can open, and that is the figure used to formulate our overall estimates for fiscal 2013. In some cases, store openings scheduled for the following fiscal year are brought forward. Our relationship with the developers of shopping centers and department stores in China has deepened over recent years, and so they always approach us when they are planning a shopping mall in a prime location.

**Q15: Have you opened any suburban stores in China, or stores in smaller neighborhood shopping centers?**

**A15: CFO Okazaki** – Our new stores in China are located in large shopping malls and department stores.

**Q16: Your low-priced g.u. casualwear brand performed extremely well in the first quarter, generating same-store sales growth of over 20%, but operating income did not expand to the same extent. Was this due to the cost burden of opening new stores?**

**A16: CFO Okazaki** – The operating income margin for g.u. did not deteriorate in the first quarter.