

January 14, 2017

Analysts' Meeting Q&A**Business Results for Fiscal 2017 first quarter (September 2016 to November 2016)**

Below are questions from our analyst's meeting concerning business results for the first quarter of fiscal 2017, or the three months from September through November 2016. The answers have been edited to keep them succinct and clear.

Q1: Were you able to keep discounting under control at UNIQLO Japan during the December and January New Year Sales? Also, going back to the first quarter, the gross profit margin improved to a level slightly above your company estimate. Does that mean you were able to offset tighter markups by controlling discounting?

A1: Takeshi Okazaki, Group Executive Vice President & CFO – We believe we have discounting broadly under control. Looking back on the December year-end sale, I was struck by how price-sensitive consumers are right now. UNIQLO's affordable, easily recognizable pricing strategy was designed to reassure customers. As part of that strategy, we did reduce prices on a portion of Fall Winter items but, overall, we kept discounting under control. That being said, to boost sales in this current Japanese consumer environment, you need to apply this type of pricing strategy, hold special sales such as our anniversary sale, or actively create special news and events. Fortunately, we were able to offer special shopping opportunities such as the New Year Sale, and keep discounting under control at the same time. We will push ahead with a similar approach in future. We won't seek to restrict discounting at all costs, but will instead offer discounts when the market requires them, and to ensure a full rundown of inventory by the end of each season. As you rightly point out, markups are being squeezed of late, so we will have to keep discounting in check to ensure a steady gross profit margin.

Q2: Can you tell us more about UNIQLO International business conditions in Mainland China? Looking back, the warm winter weather in the first quarter of fiscal 2016 dampened same-store sales, but sales then rebounded from the second quarter onwards. Same-store sales continued to rise in the first quarter of fiscal 2017, and profitability continued to improve on a better gross profit margin and persistent cost-cutting. Have you made any specific changes to your management approach?

A2: CFO Okazaki – We are pursuing a similar policy in Mainland China as in Japan. In other words, we are restricting the number of weekend limited-period sales, and instead pursuing affordable, easily recognizable pricing that remains the same every day of the week. We successfully boosted sales by launching timely sales promotions to coincide with seasonal events and celebrations. That ability to boost sales without excessive discounting helped improve the gross profit margin. UNIQLO's Mainland China operation has also benefited from local cost-cutting efforts, and a wider drive to transform our global cost structure.

Q3: UNIQLO Japan e-commerce sales seemed to lose steam in the first quarter. I understand you had some problems setting up the new Ariake distribution system, but, looking back, did

you misjudge anything during the process?

A3: CFO Okazaki – It was not a question of misjudging conditions. We were simply experimenting with various methods to confirm the optimal solution. Six months have passed since UNIQLO Japan launched its e-commerce operation and we have been testing various ways to improve productivity. Things have certainly improved now, but back during the very busy Fall Winter sales period, we decided it was best to guarantee a reliable delivery service rather than struggle to cut delivery times. That is why we reluctantly extended the delivery period for customers who had ordered items online. We aim to get the system operating as originally intended by spring. So we don't have a problem controlling delivery of purchases. We are simply working quietly and rationally to ensure we achieve the desired system.

Q4: How much have changes in foreign exchange rates impacted consolidated business profitability?

A4: CFO Okazaki – As I mentioned during my presentation on the latest performance at UNIQLO International, the strengthening of the yen pushed business performance down by approximately 16%. UNIQLO International sales declined by a similar margin in yen terms, but every one of our international operations either met or exceeded sales targets in local-currency terms. Within the Global Brands segment, the US Theory operation was also adversely impacted by the stronger yen.

Q5: You had to temporarily halt next-day delivery of UNIQLO Japan e-commerce items in the first quarter. Do you think you might have to do the same thing this spring or will you have developed better e-commerce services by then?

A5: CFO Okazaki – We are aiming to offer a stable next-day delivery service from this spring. Also, as already announced, we are looking to introduce a stable delivery and pick-up service for online purchases at local Seven Eleven, Family Mart and Lawson convenience stores. After that, we will be looking to offer various additional services in line with customer needs, including fast delivery options.

Q6: You said that distribution costs at UNIQLO Japan rose in the first quarter on “temporary upward pressure relating to the transformation of our distribution system.” What exactly were these costs and do you expect them to continue in the second quarter and beyond?

A6: CFO Okazaki – Distribution costs rose because we had to hire other warehouses for a short period of time while we were overhauling our core distribution system. We might have to continue doing this in the second half of the fiscal year, but I expect to be through that stage by the end of the business year.

Q7: Was the slowing in e-commerce sales at UNIQLO Japan due entirely to the temporary withdrawal of the next-day delivery option, or did you also have problems with inventory or product shortages, etc.?

A7: CFO Okazaki – When we temporarily halted the next-day delivery service, customers who had ordered online suddenly had to contend with a fairly vague delivery time of between three days and one week. It would be understandable if some customers felt that delivery period was too long, and

that would have had an adverse impact on sales. Regarding product shortages, there have been times when orders exceeded expectations so we have to address that issue as well. Overall however, while e-commerce only expanded by 11% year on year in the first quarter, we expect it would have expanded by approximately 30% if we had been able to offer an uninterrupted next-day delivery service.

Q8: You managed to reduce UNIQLO International SG&A considerably in the first quarter. Which areas yielded the greatest savings compared to your initial estimates, and why?

A8: CFO Okazaki – Individual cost savings differed from region to region, but one area where we were able to make universal savings was through the global review of appropriate inventory levels. By eradicating unnecessary inventory, we have not only improved gross profit margins but also greatly improved store operations and reduced in-store personnel costs. We also conducted a global review of purchasing processes and centers. We reduced costs by steadily and quietly reviewing each item individually to eradicate unnecessary expenditure, and by scrutinizing prices and centralizing purchasing. Looking at it from the opposite perspective, in reality, there was considerable room for improvement, and I think there are still further untapped cost savings to be made.