

Corporate Governance

UNITED ARROWS LTD. recognizes that a fully functioning corporate governance system will ensure that the organization conducts itself in a fair and stable manner, while placing the utmost emphasis on sound as well as transparent management. Based on this fundamental stance, the Company has adopted a corporate auditor system and is working steadily to promote increased awareness and understanding of a governance system that encompasses a swift decision-making process and the timely execution of business activities, efforts to strengthen the supervisory and oversight functions, and the development of stringent internal control.

The corporate governance framework

As a corporate entity, UNITED ARROWS LTD. conducts shareholders' meetings and has established a Board of Directors and Board of Corporate Auditors. To allow directors to focus on decision-making with respect to important matters as well as supervise and oversee the execution of business activities, UNITED ARROWS LTD. has adopted an executive officer system. Under this system, executive officers are appointed to assume responsibility for the executive function.

As a company that has adopted a corporate auditor system, corporate auditors are appointed to ensure management transparency and to supervise and audit the Company as a whole.

The board of directors

The Board of Directors consists of six directors and in principle meets once a month. Extraordinary meetings of the Board of Directors are held as and when required. In addition to deliberating and determining important matters relating to business operations stipulated under laws, regulations, and the rules of the Board of Directors, the Board is

also responsible for the supervision and oversight of the status of business activity execution.

The board of corporate auditors

With a premium on independence and autonomy, the Board of Corporate Auditors is comprised of three externally appointed corporate auditors. In principle, the Board of Corporate Auditors meets once a month to determine auditing policies in accordance with the regulations of the Board of Corporate Auditors. The Board serves as a forum to which reports prepared by corporate auditors, directors, and the accounting auditor are submitted. Drawing from these reports, the Board of Corporate Auditors compiles audit reports. Each corporate auditor attends meetings of the Board of Directors as well as all other important meetings. Corporate auditors also collaborate closely with the Internal Auditing Office, which reports directly to the president, placing particular emphasis on ensuring business process efficiency and the integrity of the Company's risk management. Corporate auditors serve as the conduit that facilitates the common sharing of audit results between stores, divisions, and Group companies. In this manner, every effort is made to enhance awareness and understanding of all issues.

The management committee

In order to ensure that meetings of the Board of Directors are conducted in a manner that is conducive to smooth and swift decision-making, the Management Committee, which is comprised of directors and the heads of each division, meets weekly to deliberate fully on matters to be presented before the Board of Directors.

The executive officer system

UNITED ARROWS LTD. adopted an executive officer system in July 2008. To allow the Board of Directors to concentrate on decision-making with respect to important matters relating to business operations and to supervise and oversee the execution of business activities, executive officers are appointed to assume responsibility for the executive function. Substantial authority is delegated by the Board of Directors to allow executive officers to carry out their duties in a timely fashion. At the same time, steps are being taken to bolster the decision-making and supervisory functions of the Board of Directors.

Status of the development of an internal control system

UNITED ARROWS LTD. is fully aware of the importance of nurturing a corporate culture in which all employees are encouraged to offer their opinions irrespective of individual responsibilities and roles. It is equally vital that these opinions be reflected in the Company's activities as appropriate. With this in mind, every effort is made to provide all directors and employees with the positive motivation to go about their assigned tasks and duties with ambition and pride.

From a compliance perspective, UNITED ARROWS LTD. has established a Code of Conduct for all Company employees to follow. At the same time, a set of rules has been put in place encompassing risk management. Chaired by the president, the Company has established the Risk Management and Compliance Committee. This Committee is charged with the responsibility of deliberating on the wide-ranging risks and important compliance issues confronted by the Company and to consider appropriate countermeasures based on information compiled by the Administration & Legal Department on the status of activities of each division.

In carrying out assigned tasks, a system has been put in place to clarify the scope of responsibility and settlement authority for each department and duty. This also entails appropriate supervision and requirements regarding reporting. In addition, the Internal Auditing Office, comprised of four members reporting directly to the president, regularly conducts internal audits of each store and department. These audits are designed to confirm the status of compliance with statutory and regulatory requirements as well as the Company's Articles of Incorporation and business activity execution based on internal Company rules.

Measures to prevent hostile takeovers

UNITED ARROWS LTD. has adopted measures to prevent hostile takeovers for the dual purpose of protecting and enhancing corporate value as well as returns to shareholders. Under the plan adopted, entities seeking to acquire 20% or more of the

Company's issued and outstanding stock are required to provide certain information in advance and to follow a defined set of prerequisite procedures to ensure the protection outlined above. After completing all appropriate and necessary steps, the entity seeking to acquire the Company's shares may proceed only when the Company's Board of Directors decides not to invoke the plan. To avoid the possibility of an arbitrary decision by the Board of Directors to put in place countermeasures to prevent an entity from acquiring the Company's shares, an Independent Committee, comprised solely of external corporate auditors and other independent parties, is established to examine the decision from an objective perspective.

The purpose and role of this Independent Committee is not to impair profits attributable to shareholders or to protect the status and standing of directors. Its sole function is to ensure the fairness and integrity of decisions and by extension to protect the Company's corporate value and returns to shareholders.

Strengthening group company governance

UNITED ARROWS LTD. has put in place a basic policy and system based on its affiliated company management rules outlining the necessary settlement and reporting procedures for business operations applicable to Group companies. This framework ensures proper control and management of the Group. Complementing this initiative, related departments and divisions collaborate as and when required to provide appropriate instruction and support. Furthermore, by conducting internal audits of affiliated companies, the Internal Auditing Office confirms the status of compliance with statutory and regulatory requirements as well as each company's articles of incorporation and business activity execution based on internal Company rules.

Disclosure

UNITED ARROWS LTD.'s basic policy on disclosure places the utmost emphasis on the continuous and voluntary provision of candid and equitable information in a timely manner. In specific terms, the Company holds regular and irregular briefing sessions for investors including analysts as well as institutional and individual investors. UNITED ARROWS LTD. engages in investor relations (IR) activities in a forthright manner, providing wide-ranging notifications including monthly sales reports and the electronic distribution of timely disclosure information. The Company proactively upgrades and expands its IR website, promptly posting announcements, news releases, and related data. UNITED ARROWS LTD.'s IR website: <http://www.united-arrows.co.jp/en/ir/>

Corporate governance framework
as of June 23, 2011

