UNITED ARROWS LTD.
First Half Fiscal 2015 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on November 6, 2014 and November 7, 2014. Details of principal questions received and answers given by category during each session are presented as follows. Certain details have been expanded or modified to provide readers with a deeper understanding of the UNITED ARROWS Group's performance and activities.

An Overview of Performance in the First Half (April 1, 2014 to September 30, 2014) of Fiscal 2015 (April 1, 2014 to March 31, 2015)

Q. What is the current status of inventories and what measures are in place to reduce inventories going forward?
A. From the fiscal year under review to the next fiscal year, plans are in place to reduce inventories by around ¥2.0 billion. Approximately 20% of this total will take place during FY15 and around 80% during FY16. We are considering a variety of steps aimed at reducing inventories including sales through outlet stores, the use of outlet online stores, and sales events.

Q. Sales in the 1H were weak leading to an increase in inventories. Sales at the start of the 2H and in October are also weak. Is there a chance that results in the 2H will mirror those of the 1H? Reflecting on the 1H, will you be able to adjust inventories in line with the status of sales?
A. In order to boost sales during the clearance sales periods of spring and summer, we introduced additional clearance sales products during the period. Despite this endeavor, cutbacks in inventories stalled due mainly to changes in customers' attitudes toward clearance sales. This led to an increase in inventories. This fall and winter, we will look to improve the amount of final inventories by limiting the introduction of additional clearance sales products. Owing to weak sales in October, we are taking steps to shift poorly performing products to outlet stores at an early stage and are striving to reduce the level of inventories.

Q. Turning to non-consolidated gross margins in the 1H, please provide us with your analysis of factors that have contributed to business unit deterioration?
A. Our analysis shows that four broad factors have contributed to a downturn in business unit gross margins: (1) the product cost of goods purchased ratio excluding CHROME HEARTS; (2) the cost of goods purchased ratio for CHROME HEARTS products; (3) changes in the sales composition of private label brands and purchased products, and; (4) mark downs. The gross margin for business units declined 0.5 of a percentage point compared with the previous year on a 1H cumulative basis. In specific terms, increases in the cost to sales ratios of products excluding CHROME HEARTS, CHROME HEARTS products, and an increase in the composition of purchased products as a proportion of total sales pushed the gross margin down by 0.3, 0.2, and 0.1 of a percentage point, respectively, while mark down losses had little or no effect. By quarter, the increase in the cost to sales ratio of products excluding CHROME HEARTS had a negative impact of 0.4 of a percentage point for the 1Q. In the 2Q, this negative impact narrowed to 0.1 of a percentage point. The increase in the cost of sales to sales ratio of CHROME HEARTS products also drove down the gross margin by 0.4 of a percentage point in the 1Q. Due mainly to a revision of prices in July, this effect was virtually zero in the 2Q. The increase in the share of purchased products to total sales had a negative effect of 0.1 of a percentage point in both the 1Q and 2Q. While mark down losses had a positive impact of 0.3 of a percentage point in the 1Q, this effect was reversed in the 2Q leading to a 0.2 of a percentage point downturn owing mainly to the priority placed on reducing inventories.

* Analysis data is for reference purposes only and includes estimated data.

Q. Taking into consideration current conditions, what are your estimates for 2H sales and gross profit?
A. Accounting for the downturn in October, we anticipate sales to decline around ¥1.5 to ¥2.0 billion in the 2H compared with plans and gross profit to fall around ¥1.0 to ¥1.5 billion.

Q. What is your outlook for the gross margin in the 2H?
A. We initially forecast a 2H gross margin of 53.5%. Taking into consideration such factors as robust sales of high-cost purchased products, continued weakness in the value of the yen, and efforts to pursue a reduction in inventories, we are expecting the 2H gross margin to fall somewhere between 52.5 and 53%. By continuing our efforts to

hold down costs, we are endeavoring to achieve ordinary income at around 95 to 100% of our initial forecast.

Q. To what extent do you currently see the Company reducing costs?
A. We have cut costs by around ¥0.5 billion in the 1H. Looking at our most recent forecast, we see ourselves achieving a reduction in costs that exceeds this amount in the 2H.

Q. Plans for existing retail and online stores sales in the 2H increasing 1.2% compared with the previous year. How realistic is this plan? Taking into consideration the harsh results in October and persistent downturn in the number of customers, do you believe there is the potential for downside risk?
A. Despite growth in the scale of sales entering October, customer behavior was weak compared with the previous year. This in turn has led to a downturn in the number of customers. Looking ahead, we will look to review product prices and despite a decline in average spending per customer secure sales by lifting the number of purchasing customers.

Q. When will the impact of the recent downturn in the value of the yen emerge? What countermeasures do you have in place?
A. The impact of the weak yen will emerge mainly from the spring and summer seasons next year. We will work to hold down any increase in costs by implementing a variety of measures including expanding production in the ASEAN region and consolidating the procurement of materials while taking into consideration customers attitudes toward price and cautiously setting product prices.

Q. Is the reason for considering steps to lower the prices of certain products based on the impact you believe raising prices will have on the number of purchasing customers or is it because you have begun to see the sudden effects of this measure?
A. Since entering October during which the scale of sales has grown, we have received feedback from customers regarding the prices of certain longstanding favorites including shirts. There are indications that consumptions patterns are polarizing. Customers are purchasing high-priced items that they believe offer the right value. On the other hand, there is a growing number of customers adopting a cautious approach toward the prices of supplementary products including medium and lightweight basic garments.

Q. Are you seeing any disparities in price compared with competitors following the revision of prices?
A. Competitors are taking steps to revise prices. In overall terms, we are seeing an upswing in average spending per customer. However, reflecting on past actions, we recognize that our ability to identify whether an increase in the price of a product is appropriate or not has become weak. Moving forward, we will look more carefully at maintaining the proper balance between quality and price on an individual product basis when setting prices.

Q. Even when looking at past monthly results, it is evident that the use or absence of promotional campaigns mainly organized by commercial facilities has the tendency to significantly affect sales. Do you believe that the slump in October was the result of customers holding off on their purchases in the lead up to campaigns in November? Or do you put this down to general weakness in consumer confidence?
A. At the moment, we are yet to fully identify the reasons behind the slump in October. In addition to such factors as weather conditions, we do believe that some part of the delay and carryover of demand can be attributed to expectations toward promotional campaigns. At the same time, the attitudes of customers do show signs of increased caution. We intend to make our assessments while carefully examining conditions from November and beyond.

Q. What specifically are you planning through your review of the seasonal merchandising strategy?
A. Customers today are increasingly sensitive to the climate and temperatures. The purchase of products for immediate use is growing. For example, it is becoming increasingly difficult to sell spring items during summer clearance sales. Taking these trends into consideration, we have reclassified the year from the existing six seasons to a maximum of eight seasons and are reviewing merchandise on the basis of promoting sales and reducing inventories within each season. By shortening the product lifecycle from introduction to sale, we are better placed to ensure a freshness of each store and to heighten our appeal to customers. We will launch this initiative focusing on mainstay businesses beginning with spring and summer items next year.

Outlet Stores

Q. What is your assessment of outlet store gross margins in the 2H taking into consideration the priority placed on reducing inventories?
A. While our plan was for the outlet store gross margin to come in at around 32% in the 2H, the focus on reducing inventories is expected to bring the gross margin to just over 30%. Our intention is to offset this downturn from our plan through efforts to control costs.

Q. What factors are causing weakness in outlet store sales?
A. Weak outlet store sales began to noticeably emerge after the increase in the consumption tax rate. Moreover, the flood of clearance sale initiatives at regular businesses and the prolonged nature of clearance sales are also contributing factors. With summer clearance sale periods extending throughout June to August, and the gradual increase in mark down rates, the merit of traveling all the way to outlet stores in search of bargains is fading. Meanwhile, interest in designated outlet store online sites is also increasing. Looking ahead, we will pursue initiatives that include the twin channels of actual and online stores. Deterioration in our merchandising balance is one factor contributing to weakness in the Company's sales. Customers who call on our outlet stores come in search of not only previous season products, but also products from the current period. If sales of a product at regular businesses are slow, steps are taken to market the item through outlet stores even for current period products. Recognizing that this measure is insufficient to meet expectations, steps are also taken to complement product lineups with outlet-exclusive items. In providing this mix of products, our outlet stores have attracted solid support. In the fiscal year under review, the increase in inventories has triggered this deterioration in our merchandising balance. Accordingly, we will push forward appropriate countermeasures.

Other

Q. Reflecting on the Company's performance during summer clearance sales, is there any change to your policies toward winter clearance sales?
A. For the most part we have persistently aligned clearance sales schedules to those of developers. Our understanding is that delaying the start of clearance sales is a point of agreement across the industry as a whole. As a result, we believe that the start of clearance sales periods will slowly be carried forward. While we anticipate that the

staggering and prolonging of clearance sales periods will continue for some time in the future, we see a growing sense of distrust and uncertainty among customers toward the gradual lowering of prices. Under these circumstances, our plan is to focus on the short term. Furthermore, steps are being taken to also review the approach toward clearance sales products. In specific terms, this will entail limiting the introduction of clearance sales products aimed at creating a peak in sales. The goal is to compete on the basis of regular price new product sales.

Q. What are your thoughts on the future of the domestic contemporary market including ASTRAET?
A. As a company that maintains its strengths in traditional taste businesses, we recognize that this focus alone is insufficient to fully meet the needs of customers. As a result, we launched the new mode taste ASTRAET business. ASTRAET products are marketed through certain UNITED ARROWS stores. This mode taste is being recognized as the essence of the product lineup with customers taking up these items much in the same way as purchased brands. However, we believe that the strength of the mode color at stand-alone ASTRAET stores is polarizing customers with the possibility of clear distinctions between those in favor and those opposed. Taking this understanding into consideration, we are in the throes of reviewing certain tastes depending on the item. Adjustments to the ASTRAET brand are only now underway. We are therefore not currently in the position to clarify our thoughts on the future of the domestic contemporary market.

* Domestic contemporary market: A market that falls between luxury brands and domestic career brands.

Q. What measures are you promoting to raise the visibility and awareness of business in Taipei?
A. The UNITED ARROWS TAIPEI store celebrated its first anniversary at the end of last month. While we initially put in place a product lineup that was largely made up of private label brands, in reality, we came to realize that much like Japan, customer needs for topical products were extremely high and that there was little or no time lag toward trends between our home market and Taiwan. Regarding the store’s first anniversary as an ideal opportunity, we introduced the UNITED ARROWS & SONS (UA&SONS) concept corner, a key feature of UNITED ARROWS HARAJUKU FOR MEN store, which in part explains the close affinity between the Japan and Taiwan markets. We

have already seen UA&SONS Instagram accounts burgeon to over 20,000 followers. The use of SNS tools together with customer word-of-mouth is going a long way to raising visibility and awareness. In addition, trends in men’s dressy items are steadily advancing in a greater than expected manner. Taking into consideration the relatively small scale of this category in the Taiwan market, we are diligently expanding sales under current circumstances by cultivating new customers through word-of-mouth.

Q. Please provide us with an update on your approach toward capital policies.
A. Basically, there is no change to the direction that we have followed up to now. While we will use treasury stock if there is an activity that is beneficial to stakeholders, we will also consider the retirement of treasury stock if no such activity exists. Incidentally, UNITED ARROWS LTD. has only conducted one M&A and entered into one capital alliance in the past. To date, these measures have not been aggressively pursued.