UNITED ARROWS LTD.
Earnings Announcement Q&A
for the Nine-Month Period Ended December 31, 2016
of Fiscal 2017, the Fiscal Year Ending March 31, 2017

UNITED ARROWS LTD. (or, "the Company") held earnings announcement presentations on February 6 and 7, 2017, at which the media, analysts, and institutional investors were in attendance. The principal questions received and answers given by category during each session are presented as follows, with certain details expanded or modified in an attempt to provide readers with a deeper understanding of the UNITED ARROWS Group's performance and activities.

Business Results in Fiscal 2017 (April 1, 2016 to March 31, 2017)

Q. What are the reasons behind the Group's strong performance in the 3Q? Can you elaborate on any changes compared with the 1H?

A. Online sales grew substantially in the 3Q. Existing UNITED ARROWS LTD. retail store sales were essentially unchanged, edging down 0.2% compared with the previous fiscal year. Accounting for each of these factors, results came close to the levels recorded a year earlier. Due mainly to the lingering summer heat following the early termination of summer clearance sales and decision to bring forward the launch of fall items in the 1H, initial fall results were weak. Meanwhile, sales are exhibiting a recovery trend as the full effects of the fall and winter seasons have materialized from October.

Q. What are your impressions of clearance sales in January?

A. The start of clearance sales at a large number of commercial facilities from early January this year has generated considerable motivation. Drawing on the lessons learned from the previous summer, frontline stores have adopted measures that are closely linked to trends in the temperature. As a result, clearance sale sales are steady.

Q. Can you provide details of why profit margins have improved in the 3Q and your outlook for the future?

A. The gross margin for the 3Q three-month period came in at 55.4%, up 0.8

of a percentage point compared with the corresponding period of the previous fiscal year. Improvements at the Company's business units accounted for 0.6 of a percentage point of this year-on-year increase. Despite the impact of markdown losses compared with the corresponding period of the previous fiscal year, the upswing in the gross margin largely reflects the higher share of private label brand sales to total sales as well as the effects of movements in foreign currency exchange rates. At this stage, the profit margin for the full fiscal year is projected to come in at around the revised forecast level.

Q. Currently, the yen is exhibiting signs of weakness. How much longer do you expect the benefits of the strong yen to last?
A. The impact of trends in foreign currency exchange rates on costs will emerge around six months from now. At the moment, we are seeing the benefits of the strong yen carry through to products that have already been procured. The potential exists for the weak yen to impact products from this summer.

Q. What are the reasons behind the increase in inventory?
A. Delays in both the fall and winter seasons attributable to the lingering summer heat contributed to an increase in inventory as of the end of the 3Q. While inventory increased as of the end of the 3Q due mainly to the upswing in actual later-than-usual demand for fall and winter items, clearance sale trends have progressed steadily from January. Taking into consideration the early start of the Lunar New Year, which began over one week earlier from the previous year, the procurement of spring and summer items was brought forward by a corresponding period. As a result, we will work to properly manage, in a timely manner, the balance of spring and summer item inventories, which are currently hovering at a high level.

Q. Sales are trending upward compared with the 1H. Drawing on the lessons learned from the 1H, can we assume that this reflects the positive flow-on effects of a flexible merchandising approach as well as efforts to bolster transition times between seasons and identify the right number of items?
A. While revisions to product planning are scheduled to begin from this year's spring and summer seasons, adjustments to product displays and the change over from winter to spring were undertaken during the 3Q. We have

begun introducing spring-colored items on a gradual basis and rolling out wool-blend spring products as well as miscellaneous items while aligning onsite store activities to changes in the temperature. The actual effects of these endeavors are expected to materialize from the spring and summer seasons this year.

Q. Apparel companies continue to report harsh financial results. What are your thoughts on customer trends from spring?

A. While market conditions remain difficult with little or no sign of a recovery, there are indications that consumption patterns are polarizing. Interest in DRAWER, UNITED ARROWS, and other high-priced items is high. At the same time, trends in UNITED ARROWS green label relaxing and other affordably priced items are firm. Pink, yellow, green, and other pastel-colored spring items are attracting attention. There are indications that the silhouette style is also polarizing between big and tight items. Trends are expected to change in earnest from fall.

House Card Service Renewal

Q. Are you seeing a change in average spending per customer following renewal of the House Card service?

A. While there are no changes to average spending per customer, the frequency and amounts of purchases by House Card members are growing more than anticipated.

Q. Has there been a change in House Card member attributes following renewal of the House Card service?

A. There have been no major changes such as age and gender to the attributes of House Card members at this stage. However, we are seeing the return of dormant members following service renewal. Thanks to the integration with UNITED ARROWS LTD. ONLINE STORE members, the ratio of online store users is also on the rise. In order to increase the number of repeat customers, steps have been taken to overhaul the customer management system. Looking ahead, every effort will be made to strengthen CRM activities and to promote one-to-one marketing.

Online Stores

Q. Can you provide details of online store growth and composition rates by site?

A. Looking at a breakdown of the Company's results, UNITED ARROWS LTD. ONLINE STORE sales climbed roughly 11% to account for approximately 20% of total online store sales. ZOZOTOWN sales grew around 33% and comprised about 59%. Each making up approximately 4% of total online sales, Rakuten BRAND AVENUE, i Lumine, and MAGASEEK sales increased around 70%, 30%, and 10%, respectively. Other sites each accounted for roughly 1%–2% of total online sales.

Q. What led you to strengthen UNITED ARROWS LTD. ONLINE STORE? What are your thoughts regarding the concurrent use of other sites going forward?

A. We are committed to linking online store services more closely to actual stores. Recognizing that our own online store is the most appropriate avenue through which to achieve this goal, we have focused on strengthening the UNITED ARROWS LTD. ONLINE STORE. In specific terms, we upgraded House Card member services in August last year, and will take steps to improve functions and services by undertaking a wide range of measures including the integration and renewal of brand sites. Meanwhile, mall-type e-commerce sites that allow access to a variety of shops offer additional benefits and convenience. Users are able to simultaneously search for and purchase a number of different brands. As far as the Company is concerned, we are keen to ensure the use of each site in a manner that enhances customer convenience. With this in mind, we will continue to promote the concurrent use of our own and other sites in the future.