

# Fiscal Year Ending March 2011

## Third Quarter

## Earnings Announcement

UNITED ARROWS LTD.

[www.united-arrows.co.jp](http://www.united-arrows.co.jp)

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\*In this material, a fractional sum less than one million yen is rounded down and percentage is calculated from raw data.

[Cautionary statement]

Earnings forecasts and objective views contained in this document are based on decisions made by UNITED ARROWS LTD. in light of information obtainable at present, and therefore include risks and uncertainty. Actual earnings may differ materially from forecasts due to global economic trends, market conditions, exchange rate fluctuations and other factors. Investors are asked to refrain from making investment decisions based solely on this document.

[Indication of business in this material]

\*Abbreviation of each business and composition of business;

UNITED ARROWS: UA, BEAUTY&YOUTH UNITED ARROWS: B&Y, green label relaxing: GLR, CHROME HEARTS: CH

SBU: Small Business Units (Another Edition, Jewel Changes, Odette é Odile UNITED ARROWS, DRAWER, Cath Kidston, THE AIRPORT STORE UNITED ARROWS LTD.)

UA Lab: TOKISHIRAZU

PERENNIAL UNITED ARROWS CO., LTD.: PERENNIAL UA, FRANQUEENSENSE: FRQ

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## 1. PL Overview (Consolidated / Non-Consolidated, 9 months aggregate)

- Consolidated results: **increased in revenue and profit**
- Gross margin: 54.9%, up 1.8 points YoY
- SGA expenses: 43.4%, down 1.0 points YoY
- Extraordinary loss: asset retirement obligation of ¥ 921mil, and impairment loss of ¥351 mil

(million yen)

	Consolidated Results FYE 2011 3Q (9 mths aggregate)				Previous 3Q		Non-consolidated Results FYE 2011 3Q (9 mths aggregate)				Previous 3Q	
	Results	vs. Sales	YoY		Results	vs. Sales	Results	vs. Sales	YoY		Results	vs. Sales
			+/-	%					+/-	%		
Sales	<b>68,449</b>	100.0%	6,706	110.9%	61,742	100.0%	<b>64,645</b>	100.0%	6,066	110.4%	58,579	100.0%
Gross Profit	<b>37,572</b>	54.9%	4,763	114.5%	32,809	53.1%	<b>35,250</b>	54.5%	4,217	113.6%	31,033	53.0%
SGA Exp.	<b>29,709</b>	43.4%	2,303	108.4%	27,406	44.4%	<b>27,425</b>	42.4%	2,318	109.2%	25,106	42.9%
Operating Inc.	<b>7,862</b>	11.5%	2,460	145.5%	5,402	8.7%	<b>7,824</b>	12.1%	1,898	132.0%	5,926	10.1%
Non Op. P/L	<b>(118)</b>	(0.2%)	(159)	-	41	0.1%	<b>(64)</b>	(0.1%)	(147)	-	82	0.1%
Ordinary Inc.	<b>7,744</b>	11.3%	2,300	142.3%	5,444	8.8%	<b>7,759</b>	12.0%	1,751	129.1%	6,008	10.3%
Extraordinary P/L	<b>(1,242)</b>	(1.8%)	(1,200)	-	(41)	(0.1%)	<b>(1,264)</b>	(2.0%)	(1,238)	-	(25)	0.0%
Net Inc.	<b>3,990</b>	5.8%	1,222	144.1%	2,768	4.5%	<b>3,457</b>	5.3%	(24)	99.3%	3,482	5.9%

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## For reference: PL overview (Consolidated/Non-consolidated, 3 months aggregate)

(million yen)

	Consolidated Results FYE 2011 3Q (3 mths aggregate)				Previous 3Q		Non-consolidated Results FYE 2011 3Q (3 mths aggregate)				Previous 3Q	
	Results	vs. Sales	YoY		Results	vs. Sales	Results	vs. Sales	YoY		Results	vs. Sales
			+/-	%					+/-	%		
Sales	<b>27,062</b>	100.0%	3,515	114.9%	23,546	100.0%	<b>25,802</b>	100.0%	3,458	115.5%	22,344	100.0%
Gross Profit	<b>15,502</b>	57.3%	2,234	116.8%	13,267	56.3%	<b>14,691</b>	56.9%	2,143	117.1%	12,548	56.2%
SGA Exp.	<b>10,298</b>	38.1%	838	108.9%	9,459	40.2%	<b>9,626</b>	37.3%	951	111.0%	8,675	38.8%
Operating Inc.	<b>5,204</b>	19.2%	1,396	136.7%	3,808	16.2%	<b>5,065</b>	19.6%	1,192	130.8%	3,872	17.3%
Non Op. P/L	<b>(26)</b>	(0.1%)	(20)	-	(6)	0.0%	<b>(5)</b>	0.0%	(17)	-	12	0.1%
Ordinary Inc.	<b>5,177</b>	19.1%	1,375	136.2%	3,801	16.1%	<b>5,059</b>	19.6%	1,174	130.2%	3,885	17.4%
Extraordinary	<b>(35)</b>	(0.1%)	(86)	-	50	0.2%	<b>(33)</b>	(0.1%)	(99)	-	66	0.3%
Net Inc.	<b>3,737</b>	13.8%	1,587	173.8%	2,150	9.1%	<b>2,949</b>	11.4%	634	127.4%	2,315	10.4%

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## Sales Overview (non-consolidated, 9 months aggregate)

- Regular sales **108.7%** YoY Online **139.8%** YoY: increased in revenue at new and existing stores
- Non-consolidated sales vs. the revised forecast: **101.9%**, strong sales in trend products

(million yen)

	FYE March 2011 3Q (9 mths aggregate)					<cf> FYE March 2011 3Q (3mths aggregate)				
	Results	YoY		vs. Revised Forecast		Results	YoY		vs. Revised Forecast	
		+/-	%	+/-	%		+/-	%	+/-	%
Non-consolidated Total Sales	64,645	6,066	110.4%	1,181	<b>101.9%</b>	25,802	3,458	115.5%	1,460	106.0%
Total Business Unit Sales	55,448	5,538	111.1%	963	101.8%	22,108	2,969	115.5%	1,171	105.6%
Regular	48,369	3,855	<b>108.7%</b>	775	101.6%	19,235	2,217	113.0%	912	105.0%
Online	6,394	1,820	<b>139.8%</b>	179	102.9%	2,613	772	141.9%	263	111.2%
Outlet	9,197	527	<b>106.1%</b>	217	102.4%	3,694	488	115.2%	289	108.5%

Same Store Sales YoY				Same Store Sales YoY			
Sales	Number of Customers	Ave. Spending per Customer		Sales	Number of Customers	Ave. Spending per Customer	
Regular + Online	105.7%	-	-	109.6%	-	-	-
Regular	103.6%	<b>106.3%</b>	97.4%	106.6%	107.6%	99.1%	-
Online	124.5%	-	-	135.1%	-	-	-

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## Sales Overview (non-consolidated, 9 months aggregate)

- UA, GLR: same store sales were recovered
- UA, GLR: increased in revenue, both new and existing stores were strong
- CH: increased in revenue due to strong sales at new store but existing stores were weak, thus short of the revised forecast
- SBU's & UA Lab: increased in revenue, new opening stores were favorable

(million yen)

	FYE March 2011 3Q (9 mths aggregate)					<cf> FYE March 2011 3Q (3mths aggregate)				
	Results	YoY		vs. Revised Forecast		Results	YoY		vs. Revised Forecast	
		+/-	%	+/-	%		+/-	%	+/-	%
UA	29,943	2,526	109.2%	1,118	103.9%	12,415	1,472	113.5%	1,039	109.1%
GLR	12,143	1,519	114.3%	425	103.6%	4,815	835	121.0%	415	109.4%
CH	3,634	583	119.1%	(136)	96.4%	1,411	293	126.3%	(38)	97.3%
SBU's & UALab	9,726	908	110.3%	(443)	95.6%	3,466	368	111.9%	(244)	93.4%

Same Store Sales YoY				Same Store Sales YoY			
Regular+Online	Regular	Online		Regular+Online	Regular	Online	
UA	107.2%	104.8%	135.7%	111.5%	108.1%	151.1%	
GLR	107.6%	106.0%	120.3%	111.5%	108.5%	132.5%	
CH	95.7%	95.7%	-	99.0%	99.0%	-	
SBU's & UALab	102.2%	99.5%	114.2%	103.8%	101.2%	115.3%	

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## Overview of Gross Profit Margin (non-consolidated)

- Business Unit and Outlet improved in profitability:  
accuracy of merchandising operation from product purchasing, manufacturing to sales were improved by utilizing the product platform
- Non-consolidated gross profit margin (9 months aggregate): 54.5% improved 1.6 points YoY
  - Percentage ratio of cost of goods purchased: fell 0.9 points YoY
  - Percentage ratio of mark-down loss: improved 0.7 points YoY

	FYE March 2011 3Q (9 mths aggregate)		FYE March 2011 3Q (3 mths aggregate)	
	Results	+/- YoY	Results	+/- YoY
<b>Gross Profit Margin</b>	<b>54.5%</b>	<b>1.6%</b>	<b>56.9%</b>	<b>0.8%</b>
Business Unit	<b>58.7%</b>	<b>1.1%</b>	<b>60.8%</b>	<b>0.9%</b>
Outlet	<b>32.5%</b>	<b>1.7%</b>	<b>33.0%</b>	<b>(0.2%)</b>
Other COGS (million yen)	<b>282</b>	<b>(92)</b>	<b>(38)</b>	<b>(19)</b>

\*Other COGS: valuation loss on goods, disposal etc.

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## Overview of SGA Expenses (non-consolidated)

- SGA Expenses: 42.4% fell 0.5 points YoY
- Personnel, Rent, Others: each ratio to sales were lower than last year

### Details of SGA expenses by 3Q (non-consolidated)

(million yen)

	FYE March 2011 3Q (9 mths aggregate) (non-consolidated)						
	Results		YoY		vs. Previous results		
		vs. Sales		vs. Sales	+/-		
Total SGA expenses	27,425	42.4%	25,106	42.9%	2,318	109.2%	Cause of increase
Advertisement	1,048	1.6%	661	1.1%	386	158.4%	1st anniversary promotion of our onlie shopping site, increased number of advertisings and making catalogues etc.
Personnel	9,678	15.0%	9,213	15.7%	464	105.0%	Increased number of sales staff and office staff as business expansion etc.
Rent	8,019	12.4%	7,349	12.5%	669	109.1%	New opening stores, increased online sales etc.
Depreciation	889	1.4%	763	1.3%	126	116.5%	New opening stores, store renovations, and asset retirement obligations etc.
Others	7,790	12.1%	7,119	12.2%	671	109.4%	Business consignment exp., commission fee, traveling & transportation exp., Repair exp. etc.

### Details of SGA expenses during 3Q (non-consolidated)

(million yen)

	FYE March 2011 3Q (3 mths aggregate) (non-consolidated)					
	Results		YoY		vs. Previous results	
		vs. Sales		vs. Sales	+/-	
<b>Total SGA expenses</b>	<b>9,626</b>	<b>37.3%</b>	<b>8,675</b>	<b>38.8%</b>	<b>951</b>	<b>111.0%</b>
<b>Advertisement</b>	330	1.3%	246	1.1%	84	134.4%
<b>Personnel</b>	3,304	12.8%	3,105	13.9%	198	106.4%
<b>Rent</b>	2,970	11.5%	2,643	11.8%	327	112.4%
<b>Depreciation</b>	307	1.2%	263	1.2%	44	116.8%
<b>Others</b>	2,713	10.5%	2,417	10.8%	296	112.3%

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## B/S Overview

- Inventories: amount of purchased products were disciplined and maintained optimal level of inventory
- Noncurrent assets: increase of noncurrent asset as number of stores, decrease of intangible noncurrent asset due to amortization of goodwill
- Current liabilities : increase of short-term loans
- Noncurrent liabilities: increase of asset retirement obligations, decrease of long-term loans
- Total net assets: purchase of treasury stock
- Liabilities with interest: 153.6% YoY

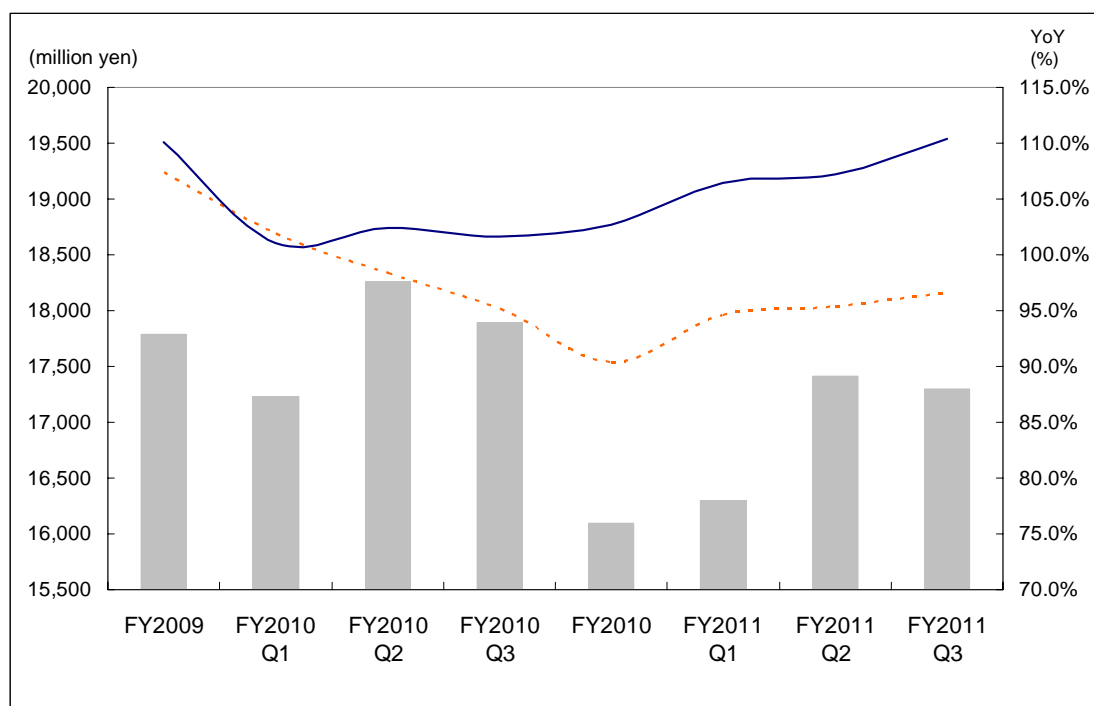
(million yen)

	Consolidated Results				Nonconsolidated Results			
	FYE March 2011 3Q				FYE March 2011 3Q			
	Results		YoY		Results		YoY	
			+/-	%			+/-	%
Total assets	49,860	100.0%	(573)	98.9%	49,601	100.0%	(94)	99.8%
Current assets	32,245	64.7%	(930)	97.2%	31,047	62.6%	(739)	97.7%
Inventories	18,254	36.6%	(817)	95.7%	17,302	34.9%	(596)	96.7%
Noncurrent assets	17,615	35.3%	356	102.1%	18,553	37.4%	645	103.6%
Current liabilities	30,765	61.7%	7,746	133.7%	29,758	60.0%	9,049	143.7%
Noncurrent liabilities	3,636	7.3%	894	132.6%	3,448	7.0%	710	125.9%
Total net assets	15,459	31.0%	(9,214)	62.7%	16,394	33.1%	(9,853)	62.5%
Liabilities with interest	18,562	37.2%	6,476	153.6%	18,562	37.4%	7,786	172.3%

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## For reference: Trend of inventories (non-consolidated)

■ Inventory (million yen)    - - - Inventory Growth    — Sales Growth



## C/F Overview

- C/F from operating activities (subtotal):  
[cause of increase] income before income tax were increased, application of asset retirement obligations accounting standard
- C/F from operating activities:  
[cause of decrease] income taxed paid were increased
- C/F from investment: increased in purchase of tangible noncurrent asset
- C/F from financial activities:  
[cause of increase] short-term loans were increased  
[cause of decrease] purchase of treasury stock, repayment of long-term loans

	Consolidated results FY2011 Q3	<cf>Previous Q3 Results
C/F from operating activities (subtotal)	5,628	5,243
C/F from operating activities	2,399	3,708
C/F from investment activities	(1,747)	(1,389)
C/F from financing activities	(968)	(780)
Increase/decrease in cash and cash equivalents	(316)	1,537
Cash and cash equivalents at beginning of term	4,061	3,322
Cash and cash equivalents at end of term	3,745	4,859

## Store Openings / Closings

- Consolidated Up to 3Q : Open 25 Close 11, Total number of store 209
- Consolidated Full term (est.): Open 34 Close 23, Total number of store 206

	Apr. 1, 2010	Up to 3Q		Dec. 31, 2010	Full term (est.)				
		Open	Close		Full term	Open		Close	Mar. 31, 2011
Total (consolidated)	195	25	11	209	34	16	18	23	206
UNITED ARROWS LTD.	152	15	3	164	23	11	12	14	161
Total UA	48	3	3	48	6	1	5	4	50
Original UA	13		1	12				1	12
New UA	13	1	1	13	2		2	1	14
B&Y	20	2	1	21	4	1	3	2	22
Label Image Store	2			2					2
GLR	36	4		40	6	2	4		42
CH	5	1		6	1	1			6
SBU's and UA Lab	48	5		53	8	5	3	8	48
SBUs									
Another Edition	14			14					14
Jewel Changes	6	1		7	1	1		1	6
Odette é Odile	17	1		18	2	1	1		19
DRAWER	5			5					5
Cath Kidston	5	1		6	1	1		6	0
ARCHIPELAGO	0			0	1		1		1
THE AIRPORT STORE UA	0	2		2	3	2	1		3
UA Lab	1			1				1	0
Outlet	15	2		17	2	2		2	15
FIGO CO., LTD	11	1	1	11	2		2	2	11
PERENNIAL UNITED ARROWS CO., LTD.	6	1	7	0	1	1		7	0
COEN CO., LTD.	26	8		34	8	4	4		34

\* Terminated business operation in Jan. 2011

\* Withdraw from business in Mar. 2011

\*Liquidated company on Dec. 10, 2010

## Consolidated Subsidiaries

**FIGO**  
CO., LTD.


- Sales: 90% to forecast
  - retail / wholesale: weak due to delayed delivery
  - online sales: favorable
- Operating income, ordinary income, and net income were favorable as we forecasted due to improved gross profit margin and decreased SGA exp.

\*FIGO terminated import/store operation of Corthay as of the end of Dec. 2010 and its business are succeeded to newly established Japan arm of the brand

COEN CO., LTD. **coen**


- Sales: favorable as we forecasted due to SS 2010 bargain sales and events were strong
- FW2010: sales were sluggish due to opportunity loss of trend items and delayed delivery. Also, mark-down sales share were increased
- Operating income, ordinary income, and net income were favorable as we forecasted
- Stores in urban Tokyo area were strong

- \* PERENNIAL UNITED ARROWS terminated its operation and closed all stores by the end of September, 2010. and liquidated the company on Dec. 10, 2010  
Operating income, ordinary income, and net income exceeded forecast since costs of dissolution of the company and other costs were conservatively forecasted.

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## Earnings Forecast Full Term FYE March 2011

- No changes has made on the revised forecast released on August 5, 2010
- Business results of 4Q may be influenced by the followings: 1) Decrease of sales and gross profit margin due to withdrawal of businesses; Cath Kidston and TOKISHIRAZU  
2)Additional cost advertisement 3) Disposal of inventories that were procured past fiscal year

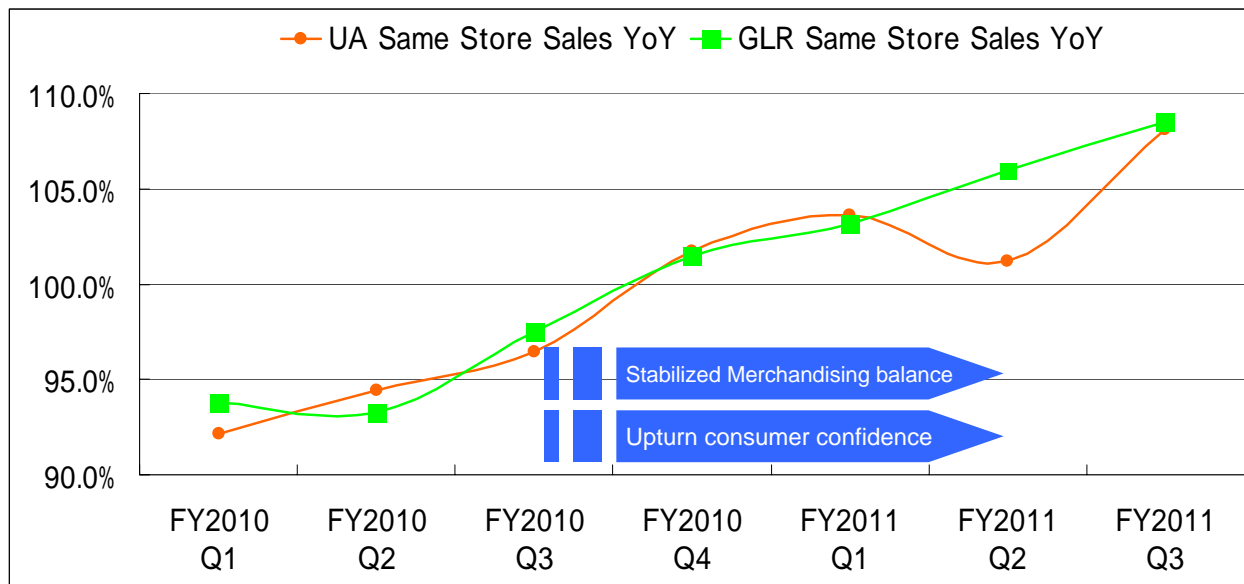
(million yen)

	Consolidated				Non-consolidated							
	FYE March 2011 full term				FYE March 2011 full term							
	Revised	vs. Sales	YoY		Previous Year		Revised	vs. Sales	YoY		Previous Year	
	Forecast		+/-	%	Results	vs. Sales	Forecast		+/-	%	Results	vs. Sales
Sales	90,612	100.0%	7,107	108.5%	83,504	100.0%	84,788	100.0%	6,130	107.8%	78,657	100.0%
Gross profit	47,229	52.1%	4,363	110.2%	42,865	51.3%	44,255	52.2%	3,835	109.5%	40,419	51.4%
SGA exp.	40,819	45.0%	2,897	107.6%	37,922	45.4%	37,665	44.4%	3,038	108.8%	34,627	44.0%
Operating profit	6,409	7.1%	1,466	129.7%	4,942	5.9%	6,589	7.8%	797	113.8%	5,792	7.4%
Non-op. P/L	(71)	-0.1%	(165)	-	94	0.1%	0	0.0%	(152)	-	151	0.2%
Ordinary profit	6,338	7.0%	1,301	125.8%	5,037	6.0%	6,588	7.8%	644	110.8%	5,943	7.6%
Extraordinary P/L	(1,448)	-1.6%	(259)	-	(1,188)	-1.4%	(1,393)	-1.6%	953	-	(2,346)	-3.0%
Net income	2,283	2.5%	879	162.7%	1,403	1.7%	2,723	3.2%	711	135.4%	2,011	2.6%

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## Why Same Store Sales has been favorable?

- Internal factors : cooperation between product and sales divisions in UA and GLR and maintained optimum merchandising balance
- External factors : consumers were tired of cutting off spending and positive changes in consumer confidence has been seen since middle of FY2010



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## Management Policies for FYE March 2011

1. Improve profitability by completing and optimizing product platform and ensuring through implementation of basic product policy\* based on ideal merchandising balance

### Product Platform = Product Planning Platform + Production Platform

Forms the basis of our policy for product procurement and manufacturing, product launch and through to sale

#### <Product Planning Platform>

- Monitor important indicators and carry out further analysis. Share successful case in product planning
- Accelerate inventory reduction
  - send slow-to-sell products to outlet at earlier timing and raise final sales ratio

#### <Production Platform>

- Cost reduction by intensifying cooperation with our partner manufactures.
- To address Chinese production issue such as rising COGP, delayed delivery, suffered quality:
  - Accelerate planning and secure production capacity to tackle longer lead time
  - Building firmer relationship with our mainstay manufactures
  - Diversifying production base besides China

\*Basic product policy is to define and take a systematic approach to the concepts that form the fundamentals of the fashion business, including our product lineup and product development philosophies.

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## Management Policies for FYE March 2011

### 2. Establish store management system and maximize customer satisfaction by ensuring through implementation of basic sales policy\* and enhancing collaboration between product and sales divisions

- Continued to strengthen sales skills / service technique by carrying out role play-based training exercise and on-the-job training at stores.
- Strengthen store managers' skills through specialized training program.
- Intensified cooperation between product and sales divisions with the aim to reflect sales division's feedback in our product development and merchandise mix.

### 3. Improve productivity and revamp organizational structure which enables us to pursue customer satisfaction by standardizing all necessary business processes and ensuring correct operational practices

- Reviewed ten several issues of business processes and rules which across various divisions in order to increase accuracy of operations.
- Examined non-core work in store with the aim to lighten the workload on store operation.
- Introduced labor control system which enables us to enhance store productivity into selected UA, BY stores on a trial basis.
- Discussed the organization structure.

\*Basic sales policy is to take a systematic approach to sales activities in our stores, in which encompass the sales activities of our highly knowledgeable and skilled sales personnel, our store environment and our CRM activities.

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## Mid-term Business Strategy

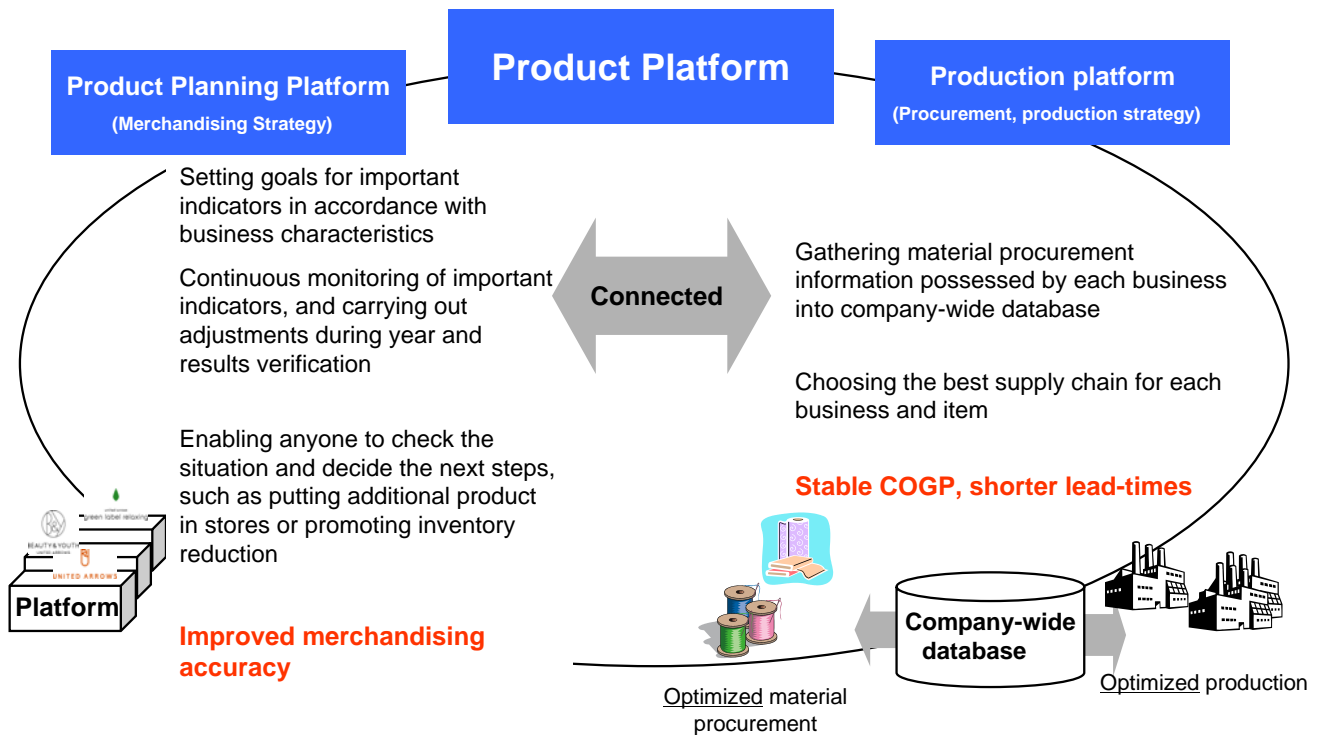
Strategy	Details of Strategy	Progress
Channel Strategy	Opening stores at airport, expressway service areas, and commercial spaces inside train station	<ul style="list-style-type: none"> <li><b>THE AIRPORT STORE UNITED ARROWS</b> &lt;Jul. 2010&gt; NARITA AIRPORT TERMINAL2 and HANEDA AIRPORT TERMINAL2 opened &lt;Feb. 2011&gt; KANSAI AIRPORT opened</li> <li>Reviewing new store openings of other channel</li> </ul>
	Opening stores at department stores	<ul style="list-style-type: none"> <li><b>UNITED ARROWS WOMEN'S STORE = the 1<sup>st</sup> women's only store in UA business</b> &lt;Feb. 2011&gt; DAIMARU KOBE WOMEN'S STORE will be opened</li> <li><b>ARCHIPELAGO UNITED ARROWS LTD.: women's store selling AE, JC, OEO, Lotta Love</b> &lt;Mar. 2011&gt; HAKATA store will be opened</li> <li>Searching new store openings</li> </ul>
	Further expansion of online sales	<ul style="list-style-type: none"> <li><b>Strengthen existing sites</b> - Carried out the 1<sup>st</sup> anniversary sales promotion, including TV commercials, for our online store &lt;Sep. 2010&gt; Opened UA, BY in "SELECT SQUARE", opened UA in "magaseek" and opened BY, GLR, and COEN in Amazon.co.jp® &lt;Oct. 2010&gt; Opened UA in "Stylelife"</li> </ul>
	TV Shopping	<ul style="list-style-type: none"> <li><b>Start selling products at TV shopping program, "SHOP CHANNEL" and broadcasted in Nov. and Dec. 2010</b> reaching new target customers</li> </ul>
	Lifestyle-oriented licensing business	<ul style="list-style-type: none"> <li>Established Licensing Business Planning Team on Oct. 2010 and projects are under active consideration</li> </ul>
Brand equity Multiplication Strategy	Overseas market	<ul style="list-style-type: none"> <li>In Sep. 2010, as extension of wholesale to I.T LTD, Hong Kong, B&amp;Y and Another Edition opened stores in Hong Kong with I.T's operational support</li> <li>Opening directly operated stores and franchise stores are under consideration</li> </ul>
	Opening franchise stores	<ul style="list-style-type: none"> <li>The 1<sup>st</sup> B&amp;Y's franchise store opened in Kanazawa in Sep. 2010 (<b>transformed into directly operated store in Feb. 2011</b>)</li> <li>Searching new store openings</li> </ul>

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## Glossary : Product Platform

We define: Product Platform = Product Planning platform + Production platform

Product Platform supports all activities from product procurement, production and launch through to sale



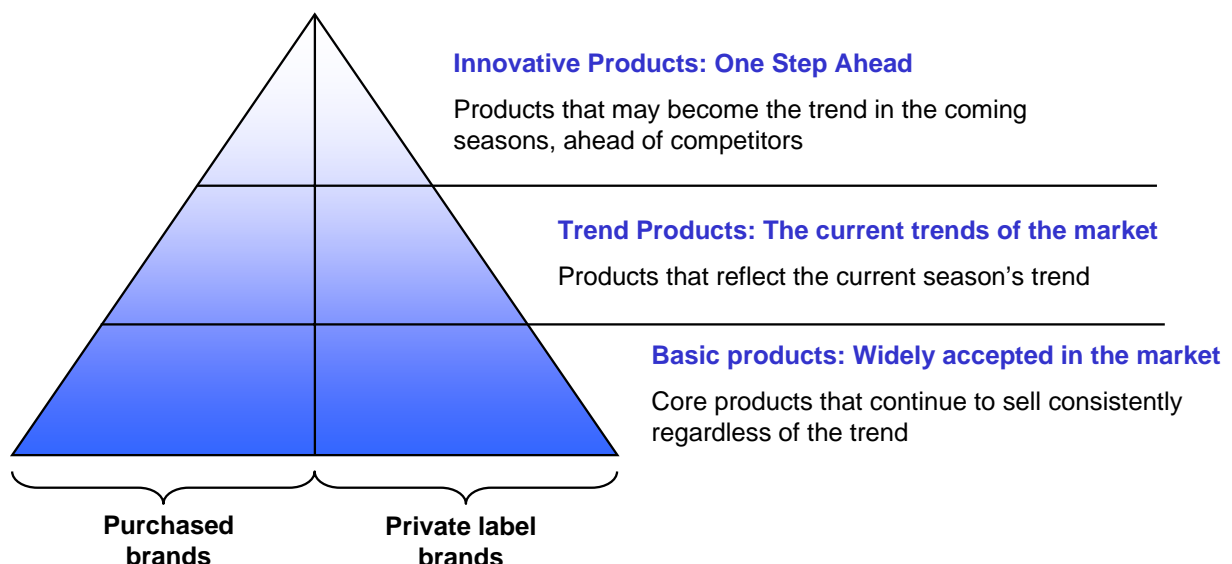
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## Glossary : Merchandising balance

We define Merchandising balance as product composition balance

We categorize our products into three groups—innovative, trend, and basic—according to their characteristics. Then, we distribute them appropriately in line with the characteristics of each business. In order to ensure stable sales, we maintain a good balance among all three product categories and provide a variety of products so that we can serve a wide range of customers.

\*Ratio of purchased brands to private label brands varies



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