UNITED ARROWS LTD. Fiscal 2012 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on May 9, 2012 (Wednesday) and May 10, 2012 (Thursday). 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.

The UNITED ARROWS Group's operating results and activities for fiscal 2012, the fiscal year ended March 31, 2012 and the outlook for fiscal 2013, the fiscal year ending March 31, 2013

Q. Please provide details of the extraordinary loss recorded in the fourth quarter of fiscal 2012.
A. The extraordinary loss was mainly comprised of impairment losses incurred on the relocation and renewal of stores as well as the payment of merit bonuses to two directors.

Q. Please tell us more about improvements in the gross margin in fiscal 2013.
A. The composition of total business unit sales to total sales is expected to increase compared with the fiscal year ended March 31, 2012 (the actual and projected ratios of total business unit sales and outlet sales to total sales in fiscal 2013 and fiscal 2012 are 88.1:11.9 and 87.3:12.7, respectively). As a result, the non-consolidated gross margin for the full fiscal year ending March 31, 2013 is forecast to improve. The total business unit gross margin for the full fiscal year is anticipated to remain unchanged year on year. The outlet store gross margin is estimated to show a slight improvement. Owing mainly to the forecast year-on-year drop of around one percentage point in the ratio of outlet sales to total sales during the first half of fiscal 2013, the gross margin is projected to improve slightly compared with the corresponding period of the previous fiscal year. In the second half, the gross margin is expected to decline year on year. This is largely attributable to the anticipated upswing in other cost of goods sold (write-down and disposal of products and other factors) compared with the corresponding period of the previous fiscal year. The level of improvement in the write-down of products compared with the previous year is forecast to impact the Company's profit and loss. The decline in the write-down of products between fiscal 2012 and fiscal 2011 has had a positive effect on earnings. With little or no change anticipated between fiscal 2013 and fiscal 2012, the impact on profit and loss is projected to be negative compared with the previous fiscal year.

Reference: The non-consolidated gross margin for the fiscal year ending March 31, 2013 is forecast to improve 0.1 of a percentage point compared with the previous fiscal year to 54.2%. The gross margin in the first half is project to climb 0.5 of a percentage point year on year to 53.7% while the gross margin in the second half is anticipated to decline 0.2 of a percentage point year on year to 54.6%.

Q. What is your sense of the scale of advertising expenses in fiscal 2013?

A. On a non-consolidated basis advertising expenses exceeded ¥800 million in the first half of fiscal 2012. Advertising expenses for the first half of fiscal 2013 are projected to come in at around ¥1,100 million. For the second half of the fiscal year ended March 31, 2012, advertising expenses totaled ¥2,200 million. We anticipate second half expenditure in fiscal 2013 will finish about ¥500 to ¥600 million lower.

Q. What are the Company's plans regarding operating and overhead expenses with respect to the opening of new stores?

A. Compared with the previous period, plans are in place to increase the number of newly opened stores during the first half of fiscal 2013. Non-consolidated one-off expenses are therefore projected to climb slightly below ¥300 million compared with the corresponding period of the previous fiscal year. Turning to interior expense for the second half of fiscal 2013, we anticipate spending close to ¥100 million more year on year.

Q. Existing store sales were low in the first half of fiscal 2013 and high in the second half. What are the reasons behind this trend?

A. Rebounding after the earthquake disaster, sales in the first half of the fiscal year ended March 31, 2012 were particularly strong. On this basis, we are anticipating lower first half year-on-year sales, especially for the first quarter. Buoyed by sales and promotional initiatives implemented during the previous period and the first half of fiscal 2013, we are looking at a pickup in sales from the second quarter and into the second half. Thanks mainly to large-scale sales and promotional initiatives undertaken during fiscal 2012, we have witnessed an increase in the number of new customers. Rather than a transient phenomenon, we expect this trend to continue and have factored the positive flow-on effects into second half plans. Moreover, we anticipate that customer numbers will again climb in the second half of fiscal 2013 on the back of sales and promotional initiatives implemented during the first half.

Q. Have sales results for April and May 2012 been incorporated into budget plans for the fiscal year ending March 31, 2013?

A. Plans were finalized at the end of March 2012 and confirmed the following month. As a result, they do not reflect sales results for April and May 2012.

About the Appointment of a New Representative Director and President

Q. What was the main reason for appointing a new representative director and president? Given the large number of candidates from which to choose, what factors contributed to the selection of Mr. Takeda?

A. Taking into account his career prior to joining UNITED ARROWS LTD., Mr. Takeda has worked with the Group for 18 years. Interacting with the owner of and designer at CHROME HEARTS, Mr. Takeda assisted in expanding the CHROME HEARTS brand, in opening new stores and cultivating market recognition and acceptance of products planned in Japan. Confronted at times by a harsh operating environment, Mr. Takeda was influential in overcoming a number of extremely difficult issues. After entering the Company, he was further burdened with a variety of obstacles and challenges, each of which he successfully cleared. Extremely determined in achieving established goals, Mr. Takeda is both bold and meticulous in formulating plans. Our decision therefore to select Mr. Takeda was based on the understanding that the mandate of a representative director is to steadfastly accomplish plans and targets while fulfilling the expectations of shareholders. UNITED ARROWS LTD. places significant emphasis on the philosophy of management and as such holds in high esteem the spiritual nature of business and the way in which business is conducted. While the decision to transfer representation rights was made by a majority of the Board of Directors, we as founders of the Company are comforted by the similarities in the goals, direction and philosophy held with Mr. Takeda. Moving forward, Mr. Shigematsu will provide invaluable support in strengthening private label brand product development. To date, during the fiscal year ending March 31, 2013, we put in place a creative resource center as well as a UNITED ARROWS business atelier. In taking full advantage of these initiatives, we intend to nurture a corporate culture that places a premium on designer creativity and craftsmanship. Looking ahead, we will pursue the manufacture of apparels in earnest.

Q. In putting in place a succession plan, could you please tell us in more detail exactly what you were looking for before deciding on Mr. Takeda?
A. In conjunction with Mr. Shigematsu's return to the position of president, we commenced steps to put in place a succession plan. This entailed a detailed process that would allow us to identify the leaders of the next generation. In our minds, a president must be well versed in products, sales and business operations. A president must also have the spirit and vision to lead. After identifying specific criteria and narrowing down the number of candidates from a pool of around 40, Mr. Takeda was our final choice. UNITED ARROWS LTD. holds both the philosophical and spiritual aspects of management in the highest esteem. In this sense, our succession plan would differ from most companies planning for the future.

Q. This changeover to a new president again coincides with the Company's plans to strengthen private label brands, recommence the opening of new stores and renew the commitment to new business development. What makes this different from the previous failure?
A. The last time we appointed a new president, our product platform[*1] was yet to be completed. We undertook a changeover in our top management without having in place the systematic and organizational skills and structure to consistently overcome hurdles. We now have a robust product platform from which to work from. We are already seeing several seeds bear fruit, most notably in our entrenched product development process that draws on the underlying strength of close-knit collaboration between products

and sales, and the manner in which frontline feedback is reflected in the creation of new products. As a result, our concept of merchandising balance[*2] introduced in fiscal 2010 is proceeding smoothly. The two people most responsible for bringing us to this position are Mr. Takeda and Mr. Fujisawa, who steered our two Business Unit Control Divisions through this critical period. Having put in place a new business model, we are convinced the time is right to pass on the baton to a new management team and structure.

Q. As the newly appointed president, you commented on the importance of respecting the Company's traditions while placing equal emphasis on moving forward and steadily evolving. To which tradition do you refer and what direction will your evolution take? What are your aspirations for the future?

A. In the final analysis, we will continue to place the utmost importance on our customers. Our customers' comments, needs and requirements therefore underpin every decision that we make. This is an unwavering tradition. Both from the internal and external perspectives, the widespread acceptance of our corporate philosophy as well as an unwavering commitment to customer satisfaction has been a driving force throughout our history. This is not only our most important tradition, but also our foremost strength. In moving forward, private label brands will play a key role in our evolution. Our ability to fine tune and hone our expertise in this area is vital in efforts to differentiate UNITED ARROWS LTD. from its competitors. It will also provide the base from which to open new stores overseas. Another area of evolution is the development of new types of business. In this context, we will nurture new businesses that pick up on customers' needs.

Q. What are your attributes, strengths and weaknesses?

A. My motto is "do what is right as a human being." I was involved in the textile business for 19 years working at a general trading company. In reality, my aspirations were more in delivering products directly to end users and feeling their reactions first hand. I believe that one of my attributes is the ability to listen to people's opinions in a calm and level-headed manner. I would hope therefore to adopt a decision-making process that both unbiased and fair. A strength and trait that I have carried with me since my former employ, is my strong dedication to achieving established goals. Work in general is not something that can be accomplished on one's own. It is important to gather the opinions of a wide spectrum of people and to bring people together as a coherent and powerful group. I would hope that this is also a strength. As a weakness, I clearly lack the charisma of someone who has founded a company. My thoughts are to cover this failing through hard work and an emphasis on team play.

Q. What factors are essential for UNITED ARROWS LTD. to continue as a going concern for the next century?

A. Bolstering private label brands from the perspective of the select shop business format is an absolute prerequisite in developing our overseas business. With this in mind, it is vital that we maximize the value, balance and quality of our products. As we take up the challenge of exploring new markets, we will establish new businesses and open new stores in areas where people can be expected to congregate in large numbers. Of equal importance, we must not be content with merely addressing the current needs of customers. It is imperative that we evolve and consistently preempt future demand and requirements.

About the Medium-Term Business Plan

Q. You raised your numerical targets under the medium-term business plan to the uppermost limit. What are your prospects for achieving these goals?
A. We are confident that we are on track to achieve the uppermost limits barring an unforeseen disaster like the earthquake last year. Previously, internal factors were a major cause of deterioration in our performance. We now have the systems and expertise in place to overcome obstacles. On this basis, we believe we will achieve our established plans.

Q. To what levels do you see new businesses, sales channels and domains contributing to overall sales under the medium-term business plan?
A. Contributions from new businesses, sales channels and domains have not been factored into the medium-term business plan. As each new business, channel and domain is launched, results will be added to the plan.

Q. Do you see any room for growth and development in the domestic market?
A. Historically, we have looked to open new stores in cities with a population of one million. We are now also looking at opening stores in regional areas where potential exists to secure an overwhelming dominant position. We will expand mainstay businesses such as BEAUTY&YOUTH and green label relaxing that are expected to drive growth in major urban and semi-urban areas. COEN CO., LTD. store are also earmarked for major urban areas as well as suburban shopping centers.

About New Sales Channels

Q. Please tell us about your vision and strategies for the traffic channel.
A. The traffic channel is in the test marketing stage. Railway stations, airports and services areas along expressways each have their own defining attributes. Railway stations, for example, will differ from region to region with customers seeking diverse products and services. The stores we opened in service areas at the end of the previous fiscal year can be accessed from outside expressways. Their classification is therefore more likely to fall within the category of a regional commercial facility. At this stage, numerical targets for the traffic channel are yet to be determined. Results to date are, however, extremely promising and we will be looking to clarify our direction at an early stage.

Q. How are you positioning online sales, and what is your vision going forward?
A. Online sales are projected to account for around 11.5% of total non-consolidated sales in the fiscal year ending March 31, 2013. Our medium-term target is between 12 and 13%.

About New Business Development

Q. Under your medium-term business plan, the development of new businesses falls within existing domains. You have also identified your intention to look for fresh opportunities and reducing your dependence on existing business models. Could you please clarify your position in this regard?
A. Our policy with respect to existing businesses is to promote continuous growth by utilizing our product platform and enhancing sales capabilities. Unless we cease our ongoing process of evolution, we intend to continue providing customer satisfaction a decade hence and beyond. At the same time, it is important that we take all appropriate measures to address the future needs of our primary customer base, the youth of the next generation. With this demographic in mind, we will explore new business opportunities as one key avenue for growth. Under our medium-term business plan, we have adopted a cautious approach toward overseas expansion. In order for us to remain on a growth trajectory, however, we must turn our eyes overseas and create a business model that will allow us to excel outside of Japan.

Q. How do you plan to manage the impact of future business development on earnings?
A. In the past, new business development was undertaken without the benefit of a fully complete product platform. We also fell short in monitoring weekly merchandise and in our KPI management. As a result, new business development had a negative impact on earnings. This time, we have the underlying strength of a mature product platform. Our efforts to launch new businesses are also supported by each of our two head office Business Unit Control divisions. In this regard, we are confident in our ability to minimize any negative impact on earnings.

Subsidiary Companies

Q. What are your thoughts on COEN CO., LTD.'s year-on-year existing store sales for the fiscal year ended March 31, 2012? And, what are your underlying assumptions for the fiscal year ending March 31, 2013? In the previous fiscal year, COEN CO., LTD. returned to the black. Is it safe to assume that the operating income margin will come close to 10%?
A. On a year-on-year basis, existing store sales in the previous fiscal year increased around 15%. We anticipate sales growth to be somewhere between 6 to 9% this current fiscal year. We are not in a position to comment on the operating income margin in detail. We do, however, expect a year-on-year improvement for the fiscal year ending March 31, 2013.

Q. You are forecasting non-consolidated online sales of ¥11.9 billion in the fiscal year ending March 31, 2013. Online sales are also projected to account for 11.5% of total sales. What can we expect on a consolidated basis?
A. The ratio of COEN CO., LTD.'s online sales is relatively high. On a consolidated basis, we are looking at a share of around 11.7% and sales of approximately ¥13.0 billion.

About the Consumption Environment

Q. We understand that the consumption environment is difficult to read. What, however, are your thoughts in the short term and for the future?
A. Following the earthquake disaster last year, customers began focusing on quality and value. Ultimately, this led to our being chosen as a preferred place to shop, hence our strong operating results in the previous fiscal year. As long as we provide value to our customers and ensure an optimal balance between quality and price, we are confident these conditions will continue. While acknowledging that spring items were impacted by weather conditions, actual demand, which measures the balance between price and value is contributing to steady sales.

Q. Certain commercial facilities, department and other stores are postponing their spring and summer bargain sales and maintaining sales at full retail prices during this period of genuine demand. What is your stance in this matter? Will any postponement in bargain sales periods have an effect on gross profit?
A. From our point of view, we plan to follow the direction provided by developers. We are currently exchanging information with each commercial facility and other companies and analyzing results. To be honest, we believe that the spring and summer bargain sales periods were a little early last year. With imbalance between product prices and value, we lost some of the trust customers held in prices. In this context, it is best to follow the ideal path.

Other

Q. Please tell us about your forecast for the private label brands sales ratio and vision going forward.
A. The private label brand sales ratio was 42% in fiscal 2011 and 46% in fiscal 2012. Rather than any measure of intentional efforts to lift the ratio, we believe this trend indicates the improved quality of products which has necessarily driven up the share of private label brands. Specific numerical targets for the sales ratio of private label brand are yet to be determined.

Q. How do you plan to strengthen private label brands?
A. Products are a measure of customers' perceptions between price and value. Within the context of the select shop market, it is important when looking to the future to develop products that distinguish us from

other companies. Despite this never-ending goal, we will channel our energies in this direction. The fundamental concept of private label brands is to provide the same quality as overseas products at half the price. This has been our underlying goal to date. We are, however, yet to achieve this objective. Just as there are underpriced products at ¥1 million and overpriced products at ¥100, we would like to deliver products whose value exceeds their price. To this end, we established a creative resource center and UA business atelier this current fiscal year as a part of efforts to put in place the necessary tools and environment to reach our destination. In taking full advantage of these initiatives, we intend to nurture a corporate culture that places a premium on designer creativity and craftsmanship. Looking ahead, we will pursue the manufacture of apparels in earnest.

Q. Currently, your distribution needs are being outsourced. Once you have reached a certain scale, do you believe it would be beneficial to bring the distribution function in-house?
A. At this stage, we are looking at the outsourcing of distribution as a clean slate. As a select shop business format, we procure products from a large number of locations. Our operations entail wide-ranging, large volumes of merchandise and substantial inspection activities, which give rise to a variety of issues. Moving forward, we plan to consider our options and whether to undertake the distribution function in-house or to team up with a distribution company.

Q. What is the current status of procurement costs and what measures will you take in light of the sharp increase in personnel expenses in China?
A. Taking into consideration the China + 1 business model, we began shifting production to other ASEAN countries from the previous fiscal year to alleviate any over reliance on China for overseas production. As a result, we are seeing success in the transfer of production to Vietnam. However, the majority of production remains rooted in China. For this reason, we bring together all those engaged in production to our principal factories twice each year for meetings to reinforce the need for product quality management. We also hold seminars to further improve production techniques and capabilities. Every effort is being made to deepen our ties with each factory. Through these means, we are promoting quality enhancements that help to offset the rise in personnel expenses in China. At the same time, the drop in orders from European and U.S. brands has made it easier for us to secure production capacity at factories with recognized expertise and skills.

*1 What is the product platform?
UNITED ARROWS LTD.'s product platform is comprised of its merchandising and production platforms. It entails wide-ranging activities including product procurement, production, product launch, and inventory reduction. The platform itself was designed to break free from a business process and practice that overly relies on the skills and experience of individual artisans. Emphasis is therefore placed on a common and consistent set of forms and benchmarks that all appropriate parties

can quickly master and perform with a high degree of accuracy. Information that underpins the selection of factories and raw materials procured is collated and shared throughout the Group. By applying the product platform, the Company is better positioned to promote stable merchandising processes and to improve gross profit and cash flows.

*2 What is the concept of merchandising balance?

Merchandising balance refers to the optimal distribution of merchandise across all stores. UNITED ARROWS LTD.'s merchandise is classified into three broad product groups—advanced products (items that stand a half step ahead of the market and other competitors and that may become the trend in the coming season); trend products (items that reflect current market trends), and basic products (core items that continue to sell irrespective of trends and changing market conditions). The Company makes every effort to distribute merchandise according to item and business characteristics. In order to ensure stable sales, UNITED ARROWS LTD. maintains an optimal balance of all three product groups and provides a rich variety of merchandise that serves a broad spectrum of customers.