UNITED ARROWS LTD. Third Quarter Fiscal 2013 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on February 7, 2013 and February 8, 2013. Details of the 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.

Operating performance

Q. How do you plan to boost existing store sales going forward?
A. We will continue to conduct large-scale promotions in each of our mainstay businesses as a part of efforts to boost sales at existing stores. Thus far, we have aired a series of television commercials featuring the actress Yuriko Yoshitaka to promote the green label relaxing (GLR) brand. Drawing on the results of questionnaire surveys, we have confirmed that these commercials have been instrumental in raising brand awareness and capturing a share of the youth market. As a result, we plan to conduct other large-scale promotions utilizing television commercials this spring. Among several initiatives, UNITED ARROWS (UA) conducted a promotional campaign in 2012 which attracted more than 2,200 customers and wide acclaim. Looking ahead, we plan to continue engaging in promotional activities.

Q. How have sales and profits compared with plans as of the end of the 3Q?
A. Sales and gross profit exceeded plans by well over ¥500 million and ¥200 million, respectively, on a non-consolidated basis. Selling, general and administrative (SGA) expenses were around ¥300 million below plans. Taking the aforementioned into account, ordinary income was more than ¥500 million higher than expected.

Q. The gross margin for the 3Q of FY2013 was lower than levels recorded for the 1Q and 2Q. Can this be attributed to the emphasis placed on inventory reduction and final sales? What are your thoughts on the gross margin?
A. The total business unit gross margin declined 0.2 of a percentage point year on year for the 3Q cumulative period of FY2013. This decline reflects the difference between the 0.3 of a percentage point improvement in procurement cost rate, attributable to the growing proportion of private label product sales to total sales, and the 0.5 of a percentage point deterioration due to mark-down losses. Looking solely at the three-month 3Q period, the gross margin fell 0.7 of a percentage point compared with the corresponding period of the previous fiscal year. Despite

the procurement cost rate remaining unchanged for the period year on year, this result reflects the emphasis placed on inventory reduction and final sales.

Q. Profit levels for the 3Q cumulative period of FY2013 are close to the Company's full fiscal profit year plan. What is your final full fiscal year forecast? Please tell us your thoughts on SGA expenses for the 4Q.
A. We are placing priority on inventory reduction and final sales in the 4Q while taking into consideration final profits. We plan to again look at full fiscal year forecasts after clarifying the status of spring and summer season launch. Should projections significantly exceed forecasts, we intend to implement promotional initiatives and undertake store renovations and repairs in an effort to boost sales in the following period and beyond. At the same time, we will also incur operating expenses including the purchase of furniture and fixtures. In principle, however, our policy remains focused on coming in as close as possible to our profit plan. In FY2012, 4Q costs were high due to the implementation of various measures and the payment of period-end bonuses. On a year-on-year basis, we do not expect costs for the 4Q of FY2013 to be so high.

Q. What is your estimate for inventory as of the end of the period?
A. Steps are being taken to confirm the estimated amount of inventory on a weekly basis. At the same time we are promoting sales across all businesses. Despite these endeavors, the year-on-year rate of inventory growth as of the period-end is not expected to change all that much from the level recorded at the end of the 3Q. Another factor that is forecast to contribute to the increase in period-end inventory is the opening of several new stores in April.

Q. The duration of clearance sales appears to be getting longer. What are your thoughts on the results of clearance sales this fall and winter?
A. We will continue fall and winter clearance sales in February and then conduct a full review. We agree with the view of delaying the timing of clearance sales in order to maintain an appropriate period to sell products at regular prices.

Enhancing the quality of monthly meetings

Q. What do you believe are the specific benefits to be achieved from reviewing the details of monthly meetings and spending more time on the discussion of future initiatives?
A. Our focus during monthly meetings to date has mainly centered on efforts to confirm the progress of existing action plans. Under a new monthly management meeting concept, we will place greater emphasis on future performance projections and initiatives based on recent results. While we are not expecting any dramatic change in the immediate term, this new focus will

allow us to better clarify individual business strategies and engage in more fruitful discussions with the managers of each business regarding specific initiatives. We are confident that over time our cumulative efforts will deliver concrete results.

New business development

Q. Please provide us with details of the number of steven alan stores to be opened and your forecast for sales.
A. We will open three steven alan stores this spring. We will then take steps to put in place a store opening plan after reconfirming market needs. UNITED ARROWS LTD. has handled steven alan products in the past. BEAUTY & YOUTH (BY) private label products are also sold through steven alan stores in the U.S. Looking ahead, our plans to open steven alan stores in Japan are anticipated to bring mutual benefit. Rather than just display steven alan products as they are, we will make various adjustments to bring customized product proposals to customers in Japan.

Q. Is this steven alan initiative a sign of a significant shift toward American traditional fashion?
A. Since its inception, BY has focused on American traditional fashion products and handled steven alan items over a lengthy period. There is strong support for American traditional products within the casual wear field. The COEN brand managed by our Group company COEN CO., LTD. is attracting wide acclaim for its American casual lineup.

Initiatives for the next season and beyond

Q. Can you please explain in more detail your policy of adjusting the allocation of products according to their attributes at the start of each season and actual selling periods?
A. Our products are classified into three categories: “innovativeness” to propose a trend that is a half-step ahead of customers, “trendiness” to match and reflect the fashion of each era, and “uniqueness“ to generate stable sales irrespective of existing trends. Each classification has its own mix of private label, purchased, and OEM products. While the composition of the three categories may change depending on the characteristics of each business, we maintain the basic principle of expressing each trend in an easy to understand manner at the start of each season. Regrettably, product lineups at the start of this fall season were excessively similar to products that sold well during the previous year. This had a negative impact on their fresh appeal. We plan to resolve this dilemma by reviewing the allocation of products.

Q. In the past, emphasis was overly tilted toward the Product Department. As a result, steps were taken to bolster collaboration between the Product and Sales departments while placing increased weight on feedback from the Sales Department. Looking back, has the overall balance shifted too far toward the Sales Department? Is this a temporary phenomenon that can be quickly rectified or do you see this as a structural problem?

A. Listening carefully to the comments of the Sales Department and determining product lineups based on products that sold well during the previous year is fundamental to select shop business operations. We do not see this basic concept as flawed. Corrections from this spring will entail reviewing product lineups that overly emphasized products that sold well last year. Looking at the example where the Sales Department requests that we again market down coats, which proved popular during the previous year, the Product Department will take steps to incorporate a new essence. Our fundamental rule is to bring a fresh appeal to the products that we propose. In carrying out this fundamental rule, it is imperative that we promote increased communication between the Product and Sales departments and to ensure optimal balance. Rather than view this as an ultimate goal, we see efforts toward securing increased communication and optimal balance as a never-ending process of evolution and correction.

Q. Is it safe to say that this correction does not entail the taking of risks?

A. This process of correction is in accordance with our basic product policy. It does not entail the risk of an excessive increase in products with fresh appeal. This process of correction allows us to introduce products that are ideally suited to the timing of each season launch. Ultimately, this also leads to a higher final sales rate at regular prices.

Foreign currency exchange rate fluctuation

Q. The yen is steadily getting weaker. Will this have an impact in purchases for the current and next periods? Will product prices be adjusted in the event of an increase in costs?

A. We have concluded product purchases for the 4Q. The weak yen is therefore not expected to impact our performance in the current period. We are currently considering plans for the next period. Each business is collating its plans regarding key issues including purchases, sales, and product pricing after taking into consideration fluctuations in exchange rates. We will provide details of any impact at our next earnings announcement as considered necessary. While any increase in purchasing costs attributable to the weak yen can be expected to trigger an upswing in the cost of sales rate, our fundamental policy is to revise the value of products and absorb any impact by lifting the final sales rate at regular prices.

Q. Will a continued weakness in the yen have a positive impact on sales? While there are expectations that Japan will break free from a period of sustained deflation, what impact do you

believe the weak yen will have on average spending per customer and sales?
A. Even in the event of an inflationary trend, we believe that the apparel industry will see benefits a little further into the future. We do not believe that apparel consumption will immediately improve due to a pickup in economic conditions. Concerns surrounding an increase in consumption taxes are expected to heighten customers' sensitivity toward prices. Under these circumstances, the only option is to increase the value of products. With this in mind, we will channel our energies toward creating products with this appropriate value.

Plans regarding the opening of stores

Q. Plans are in place to open a store in Grand Front Osaka, which is located in the highly competitive Umeda, Osaka region. What kind of sales channel will you focus on in the future?
A. We are keen to take up the challenge of opening new stores in new large-scale commercial facilities. We will consider opening new stores when the aspirations of commercial facilities match our brand concept.

Q. A significant number of large-scale commercial facilities will open in 2013. What plans do you have regarding the opening of new stores?
A. We are currently in the process of putting in place a plan. Everything is in the melting pot at the moment and open to consideration. While the number of stores to be opened is expected to increase slightly this period, the final plan may change.

Q. Please tell us about the Company's store renovation activities during the fiscal year under review. How much will you increase renovations during the next period?
A. We plan to conduct renovations at around five stores during the current term. While we will continue to bolster existing stores through renovations during the next term, our plans are yet to be finalized. We are not in a position to provide details of specific numbers at this time.

Q. What direction do you plan to take with respect to the opening of overseas stores?
A. At this stage, we are adopting a cautious approach toward plans. We are now witnessing the initial signs of a few possibilities.

Online store sales

Q. What are your thoughts on the decision by START TODAY CO., LTD. to offer shipping free of charge as well as changes to point reversion rates? Please tell us about initiatives to combine real and online sales and activities and efforts to strengthen your own EC site.

A. There was no significant spillover effect on sales after ZOZOTOWN initiated a point reversion rate of 10%. There was little or no impact on actual stores or other EC sites. We believe that steps to return the point reversion rate to 1% reflects the intentions of the fashion industry to pursue value through products and services as opposed to price. We can empathize and agree with this approach. Moving forward, we are also contemplating efforts to combine online sales and activities with those of actual stores. In this way, we hope to bolster our own EC site. Historically, we have seen customer who try on items at actual stores purchase those items online. Conversely, customers who have searched for items and confirmed the availability of inventory online have purchased those items at actual stores where those items are in stock. Looking ahead, we plan to expand our lineup of services to further enhance customer convenience.

Q. Will you undertake efforts to strengthen the infrastructure of your EC site on your own, or will you cooperate with START TODAY CO., LTD.?
A. Currently, we have contracted the fulfillment function of our EC site to START TODAY CO., LTD. We are looking to emphasize the unique features of our EC site contents and to deliver online those services that customers can expect at UNITED ARROWS LTD.'s actual stores. Whether we undertake these efforts in our own right in the future is yet to be determined.

Subsidiaries

Q. What are the reasons behind the positive turnaround by COEN CO., LTD.?
A. COEN differs from UNITED ARROWS LTD.'s traditional store opening strategy. Focusing mainly on suburban areas, the COEN strategy has been to identify price ranges and needs while opening multiple stores at an accelerated pace. In targeting the new trend market, it was also important for COEN to secure economies of scale and increase brand awareness by quickly opening multiple stores. Together with this store opening strategy, COEN faces only limited competition in the area of American casual brands. This has helped boost competitive advantage and contributed to robust results.

Q. Please tell us about the current status of COEN existing stores.
A. Existing retail and online store sales have increased by more than 3% compared with the previous period for the nine-month cumulative period from February 2012 to October 2012.