UNITED ARROWS LTD. Third Quarter Fiscal 2011 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation and undertook conference calls with the mass media, analysts, and institutional investors on February 8, 2011 (Tuesday) and February 9, 2011 (Wednesday). 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.

Results for the third quarter of fiscal 2011

Q. How was the Group's profit performance for the third quarter cumulative of fiscal 2011 compared with plans?

A. While we do not provide specific details compared with plans, the general trend is positive. The Group's performance is above earnings forecasts for the full fiscal year as of December 31, 2010. Taking into consideration, however, such measures as withdrawal from the Cath Kidston and TOKISHIRAZU businesses during the fourth quarter, large-scale sales promotion activities, disposal of merchandise procured during previous fiscal years, and plans to repair certain stores, final results are projected to fall below the amount of third quarter earnings. Expenditures undertaken during the fourth quarter is expected to help improve future operating results while linking smoothly with the sales promotion and branding activities scheduled for fiscal 2012. While we are unable at this point to fully identify spring item trends, we will closely monitor future operating conditions and consider revising plans as and when required.

Q. What impact has foreign currency exchange rates had on third quarter results? What is the likely impact over the full fiscal year?

A. On a cumulative basis, the Japanese yen during the third quarter of fiscal 2011 appreciated an average of 7.7% compared with the corresponding period of the previous fiscal year against the U.S. dollar. As a result, procurement costs declined over this period. Taking into consideration a year-on-year comparative analysis of overseas purchases as well as other activities, including the manufacture of merchandise overseas, the cost of goods purchased ratio contracted one percentage point compared with the corresponding period of the previous fiscal year. Should the value of the yen decline, procurement costs are likely to climb. In this event, the UNITED ARROWS Group will look to offset any increase in costs be enhancing the efficiency of its product platform.

Q. On a cumulative basis, gross profit has improved 1.6 percentage points for the third quarter of the fiscal year under review. Procurement costs have in turn improved 0.9 of a percentage point. What are the reasons underpinning these improvements?

A. The costs of merchandise manufactured and purchased overseas have declined owing mainly to appreciation in the value of the yen. Not all of the Group's gains can be attributed to movements in foreign currency exchange rates. Improvements also include the shift of production of certain high procurement cost merchandise manufactured in Japan to overseas locations.

Q. What is the estimated amount of expenditures to be undertaken during the fourth quarter?
A. The UNITED ARROWS Group upwardly revised its forecasts in August. At that time, the Group did not take into account the affects of withdrawal from the Cath Kidston and TOKISHIRAZU businesses. Accordingly, gross profit is projected to decline between ¥450 million and ¥500 million. Moreover, we are anticipating additional expenditures of approximately ¥500 million and ¥200 million for large-scale sales promotion activities and disposal of merchandise procured during previous fiscal years, respectively. Over and above established plans, we also estimate additional expenditures for the repair and maintenance of stores.

Q. Is there any change to the Group's projected extraordinary losses as a result of withdrawal from the Cath Kidston and TOKISHIRAZU businesses?
A. We have brought to account all anticipated losses including estimates of extraordinary amounts during the third quarter of the fiscal year under review. On this basis, we do not envisage any change or incidence of additional major extraordinary loss.

Countermeasures aimed at addressing issues relating to the manufacture of merchandise in China as well as the increase in raw material costs

Q. Any impact on private label products procured and manufactured in China during the spring and summer seasons was limited. Looking ahead, however, what affect, if any, will procurement costs have on the Group's operations?
A. The UNITED ARROWS Group will look to extend lead times with respect to the manufacture of private label products in China while quickly securing factory capacity. While the cost of cotton and wool is rising dramatically, we are taking steps to acquire sufficient supplies of raw materials as quickly as possible. At the same time, we are working to offset this upward pressure through the careful and appropriate selection of raw materials according to price. There are no plans at this stage to modify pricing policies which will remain constant through to next autumn and winter. Moreover, we will increase the final sales ratio by strengthening collaboration between product and sales divisions. Through these means, the UNITED ARROWS Group is confident in managing gross profit.

Q. Both the proper sales and residual inventory ratios continue to improve in line with merchandising innovation. What are your thoughts on potential future improvement?

A. Historically, the UNITED ARROWS Group has put in place a common and consistent in-house framework with the aim of maintaining a stable process that employs the same operating schedules. Moving forward, the Group will continue to target this same in-house criteria. We will identify a final in-house sales ratio objective and work toward achieving this objective through proper, sales, and outlet stores. This portion will form the foundation for our product purchasing, creating the potential for a further 2% to 3% improvement.

Q. What is the status of manufacturing activities in China? Are you contemplating areas other than China?

A. The UNITED ARROWS Group is putting in place a manufacturing framework as a part of efforts to build a robust production platform. We are establishing operating schedules that take into account longer lead times, working to secure factory capacity, and engaging in Group-wide activities aimed at controlling costs. While we have not set in motion specific plans and measures, we are looking at the ASEAN region as a whole as we work toward developing manufacturing capabilities outside of China. Concrete plans will include manufacturing in Japan and focus primarily on matching the attributes of products to be manufactured with the attributes of each region.

New sales channel development

Q. The UNITED ARROWS Group is pursuing a new sales channel development policy that includes traffic as well as department store channels. What differences, if any, in terms of profitability are there between these new channels and the Group's existing store strategy?

A. Traffic channel profitability remains low at this stage. The number of stores remains limited and we are still assessing the best product mix. As stores open across an increasing number of railway stations and we gain a better understanding of merchandise to be handled, we will be in a better position to engage in volume purchasing which will help improve profitability. Turning to TV-based sales, results are robust. At this stage, however, our focus remains more on expanding our customer base and sales channels than profitability. Awareness of the UNITED ARROWS Group and its activities is spreading beyond the Group's existing customer base. Looking ahead, we are confident that this will contribute to increased earnings.

Q. What was the rationale behind converting the franchise-based BEAUTY&YOUTH UNITED ARROWS KANEZAWA to a directly operated store?

A. While sales at the BEAUTY&YOUTH UNITED ARROWS KANEZAWA remain firm, we decided to convert it to a directly operated store following discussions with the franchisee. Respecting the privacy of the franchisee, we are not in a position to divulge details. This is an extremely rare occurrence and we do not anticipate repeating this initiative in the foreseeable future. The UNITED ARROWS Group will, however, actively consider any proposals initiated by franchisees.

Plans for fiscal 2012 and beyond

Q. The UNITED ARROWS Group is looking to absorb any increase in raw material costs by enhancing the proficiency of its product platform. Is it safe to assume that the gross profit margin will increase in fiscal 2012?
A. We are currently in the process of putting together plans for fiscal 2012. Part of this process entails identifying gross profit targets for each business. Our forecasts issued six months ago suggested an increase in gross profit. In the ensuing period, however, several challenges including issues in China and the sharp rise in raw material costs have brought about the need for a revision. While our plans call for improvements in sales rates as well as the reduction of inventory to offset the negative impact of such external factors as the increase in procurement costs, specific measure remain under consideration.

Q. What are your business results forecasts for the next fiscal year and beyond?
A. We are currently in the process of formulating forecasts and accordingly are not in the position to disclose details at this time. In broad terms, we are targeting an increase in both revenues and earnings on a non-consolidated basis. Taking the Group's consolidated position into consideration, we believe results will be affected by the completion of FIGO CO., LTD. goodwill during the fiscal year under review as well as the liquidation of PERENNIAL UNITED ARROWS CO., LTD., which remained in the red. With expectations that COEN CO., LTD. will turn a profit during fiscal 2012, we will also set our consolidated targets at a reasonably high level.

Q. What are your thoughts on profit growth over the medium term? Is it safe to assume that the Group's current record high earnings are just a stepping stone to improved results in the future?
A. We are currently working to put in place a medium-term plan. While we are projecting historic high earnings in fiscal 2012, we see this as providing the Group with a clean slate from which to take the next step. In this context, we will first work to clear our ordinary income target of 10%. With this under our belt, we will then move onto the next step.

The external operating environment

Q. How would you assess the Group's current external operating environment?
A. During the autumn and winter seasons, dress products took the lead with casual products remaining

relatively flat. From November 2010, casual products picked up with final results firm across the board. We have only just entered the spring season. It is therefore difficult to make any definitive statement. In overall terms, however, we feel that heavy apparels will perform reasonably well.

Q. Do you sense that consumption is picking up?
A. There is a sense that certain sectors are witnessing a shift from thrift-based consumption to value-added consumption. While businesses in the higher price range are experiencing a partial pickup, consumption in relative terms remains uneven with a persistent difficult trend overall.

Q. Is the general trend toward classic items creating a positive flow-on effect? What are your thoughts on recent trends?
A. There is a swing toward more classical and conservative styles, particularly in menswear. However, this trend is modest. There is a greater focus on higher quality merchandise, especially heavy apparel items. There is of course a link between demand for quality and more classical styles. In casual wear, the trend is more toward vintage styles. Turning to women's merchandise, the focus is on fashion-conscious, quality wear. In this context, UNITED ARROWS LTD. is reaping the benefits of robust results at such business categories as DRAWER.

Q. What views do you have toward price? Is the Group looking toward consumption at a higher level?
A. We are not looking at reducing merchandise prices. Promoting an optimal merchandise balance, we anticipate the selection of reasonably priced items will increase. On this basis, average spending per customer is likely to fall. The number of customers, however, is anticipated to rise. Moving forward, the UNITED ARROWS Group will primarily adhere to this policy. We are yet to enter a period in which higher priced items are in strong demand. Looking ahead, conditions are expected to remain difficult.

Other

Q. How does the Group plan to use its treasury stock?
A. Nothing definitive has been decided at this stage. The UNITED ARROWS Group is considering its various options. The Group is open to replacement where genuine synergies will accrue as well as other initiatives including the retirement of treasury stock and M&A.