UNITED ARROWS LTD. First Quarter Fiscal 2012 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on August 4, 2011 (Thursday) and August 5, 2011 (Friday). 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.

Summary of the spring and summer seasons; details regarding the impact of sales brought forward

Q. Please provide us with a summary of fashion-related consumption and expenditures during the April to June quarter.
A. Despite the impact of the Great East Japan Earthquake, consumer sentiment toward fashion-related consumption was surprisingly buoyant. Spending patterns reflected individuals' attempts to maintain a positive state of mind. As a result, expenditures during the April to June quarter were greater than expected. While bargain sales were brought forward at certain commercial facilities this year, there are clear indications that the traditional bargain sales period has attracted the usual consumer response.

Q. What was the impact on sales and gross profits of bringing forward certain bargain sales?
A. UNITED ARROWS green label relaxing and several of the Group's Small Business Units (SBUs) launched bargain sales from June 2011 in response to the bringing forward of bargain sales activities at certain commercial facilities this year. As a result, portions of these businesses' sales normally recorded in July were posted in June. As a corrective measure, we revised our sales strategy, placing greater emphasis on raising the ratio of full-priced product sales in July. This enabled us to offset the drop in gross profit in June.

Trends during the autumn and winter seasons

Q. What are your thoughts on consumer expenditure prospects during the autumn and winter seasons?
A. We believe that consumer sentiment toward fashion items remains positive overall. Concerns surrounding restrictions on the supply of electric power over summer and the impact on autumn purchases of the late-summer heat, which is projected to linger into September, make it difficult to project future trends with accuracy. Currently, we are adopting a wait-and-see approach, upgrading and expanding our lineups of late summer, early autumn light apparel, inner-wear, and accessories. We have modified our portfolio on the assumption that demand for heavy items will remain weak. To what level the aforementioned single item light apparel, inner-wear, and accessory sales will cover this anticipated trend

is critical. How we identify top-selling merchandise during August and September holds the key to our performance during autumn and winter.

Q. Please give us your views on pricing policy trends.
A. In areas where we can add value, the prices of certain merchandise will rise. In overall terms, however, we have no plans to revise our pricing policy at this stage.

Inventory efficiency and improvements in gross profit

Q. What progress has the Group made in streamlining its inventory and improving the efficiency of its sales? How much more room is there for improvement?
A. The UNITED ARROWS Group has focused mainly on improving the efficiency of its product platform over the past three years. Over this period, we have witnessed steady improvement in our sales rate. From an initial rate of around 50%, we are now in sight of our target of 85%. In terms of individual items, we have addressed inventory issues to a level of around 95%. This leaves room for a further 5% improvement. After achieving our targeted sales rate, we will move on to enhancing our creative capabilities, taking steps to upgrade and expand our product portfolio.

Q. To what extent do you anticipate the Group's gross profit margin will improve?
A. We are targeting a gross profit margin of 55% over the medium to long term. In this regard, BEAUTY&YOUTH UNITED ARROWS and UNITED ARROWS green label relaxing are positioned as key drivers of future growth, taking into consideration their high ratio of private label products and profitability. Moving forward, we will endeavor to lift the overall share of these brands in an effort to achieve our target gross profit margin. The UNITED ARROWS Group company COEN CO., LTD. is also a business that is distinguished by its relative high profitability. On a consolidated basis, COEN is therefore expected to contribute to improved gross profit.

Q. How much will changes in the inventory management method for sample products affect gross profit for the full fiscal year ending March 31, 2012?
A. To date, sample products have been sold through outlet stores. Recognizing their perceived lower quality compared with finished goods as well as the use of sample products by models ostensibly for promotional purposes, we decided that sample products were not fit for sale to the general public. On this basis, sample products are now restricted to in-house sale. In addition to deterioration in the pace at which sample products are sold, this shift in management method has led to increases in sample product inventory as well as in-house discount sales. Collectively, these factors have contributed to higher product valuation losses. Looking ahead, UNITED ARROWS LTD. will continue to promote in-house sales. As a

result, we expect to incur a product valuation loss in the second quarter equivalent to the previous quarter. In the second half of the current fiscal year, every effort will be made to appropriately control movements in sample product inventory. Should the inventory level remain stable, this will eliminate not only the product valuation loss but also any future increase in other costs. Currently, the Group's performance is robust and, accordingly, we anticipate any impact on full fiscal year results to be small.

Q. What impact has trends in raw materials had on gross profit, and what are your forecasts for the future?
A. The cost of goods purchased for manufacturing conducted overseas for the first quarter of the fiscal year ending March 31, 2012 was essentially unchanged compared with the previous year. The sharp increase in raw material costs is largely being offset by efforts to consolidate accessories, to shift the pattern-making function in-house as well as steps to concentrate and bring forward the placement of orders. Further alleviating higher input costs is the positive flow-on affects of the strong yen. There are concerns of an ongoing upswing throughout the autumn and winter seasons. Should foreign currency exchange rates remain at levels recorded during the first half, it would not be a surprise to see the cost of sales ratio climb by around 1.5 to 2.0 percentage points. Should the value of the yen continue to appreciate, on the other hand, there is strong potential for the cost of sales ratio to remain flat.

Progress under established plans during the current fiscal year

Q. UNITED ARROWS LTD. has not announced forecasts for the interim period of the fiscal year ending March 31, 2012. Can you please provide details of progress against in-house plans?
A. At the start of the current fiscal year, we forecast a harsh operating environment due mainly to the impact of electric power conservation measures in the Kanto area. With the passage of time, however, sales recovered during April and May, eventually surpassing initial plans. Gross profit has contracted slightly owing largely to changes in the inventory management method for sample products. While selling, general and administrative (SG&A) expenses were effectively in line with plans, the ratio of SG&A expenses to sales fell several points compared with in-house plans reflecting the portion attributable to the increase in sales. Turning to UNITED ARROWS LTD. principal subsidiaries, sales and earnings of FIGO CO., LTD. were consistent with plans while those of COEN CO., LTD. were above initially established plans.

Q. Will measures aimed at controlling operating overheads remain effective should existing store growth rates narrow? What are your thoughts regarding future operating overheads?
A. UNITED ARROWS LTD.'s efforts to control its operating overheads are becoming increasingly sophisticated and stringent with each passing year. We maintain a disciplined management approach

while maintaining close collaboration between business and administrative divisions. Despite plans to systematically engage in mainly advertising expenditures for branding and related purposes, UNITED ARROWS LTD. continues to maintain its prudent control over overall operating overheads to ensure a steady reduction in the SG&A expenses to sales ration over the medium term.

Overseas business development

Q. What progress has the Group made under its overseas strategy? What are your expectations of ZOZOTOWN overseas development?

A. UNITED ARROWS LTD. plans to provide a detailed explanation of its overseas strategy in its medium-term management plan to be announced in November 2011. We are currently in the process of assessing and analyzing current conditions. Our feelings at this stage, however, are that development will be extremely difficult. To date, we have found no examples of other companies succeeding in this field and as such we have no benchmarks from which to draw. There is no doubting that a market exists, but for the most part we are adopting a cautious approach. From a ZOZOTOWN perspective, we face numerous issues and again remain entrenched in a preparatory phase. ZOZOTOWN is a partner with whom we have enjoyed considerable success in the past. Should we be in the position to overcome the many challenges that lie ahead, we will indeed move forward together.

Other

Q. What is the difference between specialty and department store merchandising?

A. UNITED ARROWS LTD. boasts considerable strength in its ability to display and present wide-ranging products in a broad spectrum of ways. This attribute is not, however, appropriate for department store sales and marketing. Through its department store sales channel, the Group has accordingly modified its merchandising model to focus more on narrowing item numbers and bringing greater depth to its specific product sales. By adding accessories and miscellaneous items, the Group continues to refine its merchandising approach while ensuring an image of a sound product lineup.

Q. Turning to the Group's sales by sales channel, what factors underpin growth in ZOZOTOWN sales?

A. Currently, ZOZOTOWN accounts for approximately 74% of the Group's online sales. Growth is particularly marked in the mainstay UNITED ARROWS, BEAUTY&YOUTH UNITED ARROWS, and UNITED ARROWS green label relaxing businesses. The sharing of inventories with START TODAY CO., LTD. and the decision to accept ZOZOTOWN returned goods from April 2011 are having a significant impact.

Q. What progress has UNITED ARROWS LTD. made on the retirement of treasury stock?

A. The Company is not currently pursuing any initiatives in this area. UNITED ARROWS LTD. will make the necessary announcements when the time is right.