UNITED ARROWS LTD. Second Quarter Fiscal 2014 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on November 6, 2013 and November 7, 2013. Details of principal questions received and answers given by category during each session are presented briefly 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.

An Overview of Business Performance in the First Half (Second Quarter Cumulative Period), April 1, 2013 to September 30, 2013, of Fiscal 2014 (April 1, 2013 to March 31, 2014)

Q. The Company's non-consolidated selling, general and administrative (SGA) expenses to sales ratio is increasing. Can you please provide us details regarding the "other" component?

A. A breakdown of SGA expenses is provided on page 8 of the Earnings Announcement presentation materials. In line with this breakdown the "other" component of SGA expenses for the 1H of FY14 came to around ¥6,200 million and accounted for 12.0% of sales. Included in this amount are such general expenses as outsourcing expenses related to distribution, one-off operating overhead expenses associated with the opening of new stores, business trip expenses, research and development expenses as well as education, training, and recruiting expenses. While the SGA expenses to sales ratio is exhibiting an upward motion for the 1H of FY14, as a share of sales, SGA expenses have declined from 12.1% in the 1H of FY13 to 12.0%. In specific terms, advertising and personnel expenses, in particular, have grown substantially when considered as a component of sales. On a year-on-year basis, advertising expenses and personnel expenses have risen from 2.1% to 2.2% and from 16.2% to 16.6%, respectively. Higher advertising expenses are mainly attributable to large-scale promotions and an increase in HOUSE CARD point allowances. Personnel expenses grew owing primarily to the increase in staff at newly opened stores, efforts to fill vacancies at existing stores, and as a result of increases in salaries and promotions.

Q. How do you intend to increase earnings for the full fiscal year?

A. Gross margins in June and July declined. This was largely attributable to the weak yen and the effect of bringing forward clearance sales dates resulting in prolonged clearance sales periods. In August and September, however, gross margins improved. Entering the peak fall and winter seasons, revisions to prices saw heavy clothing including outerwear move in earnest. This is believed to have contributed to an upswing in the gross margin. Our policy is to adjust costs while constantly monitoring sales and profit trends. In this manner, we work diligently to secure a final profit.

Q. If personnel and rent expenses have risen during the 1H, we can expect similar increases during the 2H. Doesn't this suggest the need for additional initiatives if the Company is to secure an increase in earnings for the full fiscal year?
A. Sales and profits surpassed expectations in FY12 and FY13. As a result, additional costs including those for sales promotion measures and the payment of period-end bonuses were incurred in the 2H. Forecasts for FY14 do not incorporate these costs. Should trends progress according to plans, the 2H SGA expenses to sales ratio is projected to fall compared with the previous period.

Q. Looking at gross margin trends, please tell us more about the impacts of the weak yen as well as other factors and progress regarding the revision of prices since the fall. Do you expect the period-end balance of inventories to be high?
A. While there are growing signs of an improvement, the gross margin of business units is yet to reach the level recorded in the previous year. This largely reflects the late and slow movement of volume zone private label brands owing mainly to inclement weather conditions in October as well as the effects of robust purchased items on the back of forward-looking demand. Moreover, private label brands are on the rise in line with the decline in temperatures. As a result, there are expectations of an improvement in gross margins. Turning to the revision of prices, around half of all private label brands will see an increase of approximately 5 to 10% on a Companywide basis. This revision shall only apply to materials and specifications. Focusing on price levels that customers will both understand and accept, we are not seeing any signs of resistance. The balance of inventories is indeed a little high compared with the rate of sales expansion. This has, however, been factored in on a number of items basis. During the previous period, particular weight was placed on low priced wholesale products. In the period under review, the handling of these products has in effect concluded, which is a primary factor in the decline in the number of items. During the first half of October, trends in medium-lightweight clothing (knit-, cut-, and other wear) were weak. While there are plans to reduce this inventory through a variety of measures including markdowns, we recognize that the effect on profits will be limited.

Q. Can you tell us specifically about the impact of movements in foreign currency exchange rates on the gross margin?

A. During the 1H, the cost of goods purchased ratio climbed 1.8 percentage points. This was largely attributable to movements in foreign currency exchange rates. Looking at the Company's product lineup, products procured from overseas as well as private label brands manufactured overseas are subject to movements in foreign currency exchange rates. On a year-on-year basis, the cost of goods purchased ratio for products procured from overseas has risen around 3.0 to 5.0 percentage points. In contrast, the cost of goods purchased ratio for products manufactured overseas has improved steadily falling around 2.0 percentage points in July and August and declining 1.5 to 2.0 percentage points in September and October. Mark-down losses have improved around 0.6 of a percentage point compared with the previous year with little or no change in outlet store gross margins and other COGS. Accounting for each of these factors, the gross margin has decreased 1.1 percentage points compared with the corresponding period of the previous fiscal year.

Q. Can you please tell us about the gross margin in October?

A. The gross margin in October was lower compared with the corresponding month of the previous year with the depth of decline greater than in August and September. While the drop in business unit gross margins for August and September were held to around 1.0 percentage point, the decline was approximately 1.5 percentage points in October. In addition to the slow trends in private label brands, which have relatively high gross margins, due mainly to the effects of inclement weather, this deterioration was largely attributable to robust results in purchased products that have low gross margins as a result of forward-looking demand. Together with the drop in temperatures, trends in private label brands are expected to pick up. This is projected to help improve gross margins.

Q. When looking at gross margins going forward, is it safe to assume that levels will trend downward during the 3Q while picking up during the 4Q?

A. Current forecasts indicate that 3Q gross margins will fall short of the levels recorded in the corresponding period of the previous fiscal year. Gross margins in the 4Q, however, will indeed show an increase year on year. While trends in private label brands were slow during October owing mainly to poor weather conditions, results are expected to recover during November and December.

Q. Will be see certain costs slide into the 2H? Or can we assume that the Company has been successful in curtailing expenses?
A. The decline in 1H SGA expenses compared with plans is largely the result of the decline in personnel expenses compared with plans as well as the review of a wide variety of operating overhead expenses. Accordingly, any carryover of costs into the 2H is expected to be small. Even in the event of a carryover, the likelihood of an increase in the ratio of SGA expenses to sales is low for the full fiscal year. This is mainly due to ongoing efforts to curtail costs.

Q. To what degree will prices be amended in light of movements of foreign currency exchange rates?
A. UNITED ARROWS LTD. is not in the habit of increasing prices say 5 or 10% across the board. The Company's focus is, first and foremost, to raise the quality of products. The determination of prices is underpinned by what the Company believes customers will accept as value for their money. When revising product prices, UNITED ARROWS LTD. envisages around ¥1,000 for medium-lightweight clothing and around ¥3,000 for heavy clothing. In overall terms, this translates to approximately 5 to 10%.

Q. Turning to efforts aimed at growing existing businesses, what kind of effect will the Company's various initiatives, including the "passionate customer-service campaign" and online proposals that coordinate desired items with other fashion items, have on actual selling periods?
A. A second UA large-scale campaign was unveiled in 2013. Returning to its roots, steps were taken in the UA business to ensure the participation of customers, a vital key to strengthening customer service and hospitality. In specific terms, sales personnel put forward proposals by coordinating various apparels with fashion items. Photos of those proposals that attracted considerable customer interest were then posted on a designated site. After stimulating the participation of approximately 2,500 customers in 2012, the most recent campaign attracted over 6,000 customers. In addition to enhancing the level of customer service, this campaign also served to motivate sales personnel. As a result, successful preparatory steps were taken to nurture a more aggressive approach prior to the start of actual selling periods when customer numbers increase. From the end of October to the beginning of November, television commercials were aired to promote the UNITED ARROWS green label relaxing business. Focusing mainly on outerwear, this series of commercials is expected to produce a positive effect

in the lead up to actual selling periods.

Q. On a non-consolidated basis, successful steps have been taken to control SGA expenses amid the incidence of new and overseas business costs. Can this control be maintained into the next fiscal year and beyond?
A. The Company's approach toward profit levels and SGA expenses continues to correspond with the direction set under the Long-term vision, which remains unchanged. While there is a possibility that the SGA expenses associated with new businesses and entering overseas markets will slightly rise, any increase will be managed within a limited scope.

The Impact of an Increase in Consumption Taxes

Q. What initiatives will be taken with respect to the listing of prices as well as the anticipated rush in demand in the lead up to the increase in the rate of consumption tax in April next year?
A. UNITED ARROWS LTD. plans to reflect the three percentage point increase in the consumption tax rate in its product prices. At each future product launch price tags will clearly identify a base price plus tax. The prices of products introduced from April 2014 will be labeled inclusive of tax with the base prices shown in parentheses. In the past, an increase in the consumption tax rate has had little effect. In this instance, however, a rush of demand is projected for March followed by a slump in April. To address the rush in demand, preparatory steps are being taken to promote spring and other items. While a slump in demand is forecast for April, the Company is currently reevaluating its response. As a result, any specific discussion of quantitative forecasts is premature. Looking at the March and April period as a whole, we do not envisage any major impact.

Q. Can you elaborate on specific initiatives to address the rush in demand?
A. A light rush in demand is expected for UA, CH, DRAWER, and other mid-to-high-end price range stores. An analysis by business is currently under way. Accordingly, we are unable to elaborate on specific initiatives at this time.

Trends in Online Store Sales

Q. Online store sales fell slightly short of plans. Please tell us about your thoughts on current conditions and any measures that you plan to take in the future?

A. We are seeing an increase in tenants who offer products at a lower price range than the Company on certain online store sites. As a result, the trend toward lower prices is expanding. There is also a growing prevalence of lost sales opportunities owing mainly to insufficient stock. we recognize this is an issue going forward. Looking ahead, UNITED ARROWS LTD. will assume full responsibility for photographing products. This will allow the Company to present to customers a true picture and image of its intentions. In this manner, we hope to put forward proposals that customers will accept represent a sound balance between value and price. In addition, the Company has also commenced the sharing of distribution inventory information with Marui web channel, Stylife, au Brand Garden, and SELECT SQUARE with robust results. These factors are expected to drive performance in the future.

Q. Will costs increase now that the Company has taken full responsibility for photographing products? In this event, is there a possibility that you will review commissions paid to each mail-order company?
A. We will continue to discuss terms and conditions with each mail-order company after providing a full explanation of the merits of photographing products in our own right. Every effort will be made to prevent any increase in costs.

Q. We would like to know more about the Company's O2O endeavors. Has there been any change following the launch of START TODAY CO., LTD. WEAR services?
A. With the WEAR service having only just begun, there is little or no change of note. We do believe, however, that this service offers considerable value as it provides a choice between the more convenient of actual and online store sales. On a less positive note, there is a need to obtain the authorization of each commercial facility with regard to the scanning of bar codes when introducing the service. Given the large number of commercial facilities in which UNITED ARROWS LTD. maintains a presence, the number of stores that are capable of scanning bar codes is currently limited. As one of several initiatives, the Company is working to upgrade and expand UNITED ARROWS LTD. ONLINE STORE content. The goal is to bring this content closer to the level of service and convenience of actual and online stores. By upgrading and expanding content, we hope to persuade customers to purchase products where they see there is merit and sense a higher level of convenience. This will negate the need to turn actual stores into showrooms. The development of UNITED ARROWS LTD. ONLINE STORE mobile applications and the addition of an ordering function that accommodates the delivery of products to actual stores are some examples of this endeavor.

New Businesses

Q. How does the development framework for the new ASTRAET business differ from the development of other businesses to date? Also, could you please elaborate on your future direction, efforts to secure earnings, and time schedule?
A. Calling on the services and assistance of external creative and art directors to push forward the development of the ASTRAET business is one major difference. While drawing on the foundation of existing platforms, we hope to incorporate sensibilities not currently held within the Company in our pursuit of unexplored markets. In determining a timetable for each business to generate earnings, we fall back on our existing policy of securing a single fiscal year profit by the third year of operations and to clear all accumulated loss by the fifth year.

Q. By positioning the ASTRAET business as a luxury brand, will you make any changes to your store location policy and plans?
A. We are indeed looking to promote the ASTRAET business as a luxury brand. Accordingly, plans dictate that the inaugural store will offer either a roadside frontage or entrance within a commercial facility of similar appeal. Thereafter, we will look to expand sales channels both through fashion buildings and department stores.

Q. Please provide us with details if you have any specific plans for the opening of Boisson Chocolat stores. Could you also elaborate on such aspects as the scale of each store?
A. Boisson Chocolat is scheduled to commence next spring. Prices will be set at around 70% of Odette é Odile with the emphasis place very much on shoes that provide comfort. Taking into consideration the results of test marketing through online stores and stores in railway station buildings, the intention is to market through fashion buildings and suburban-type shopping centers in an effort to reach a broad customer base.

Q. Please tell us as much as you can about the launch of UNITED ARROWS TAIPEI.
A. A prominent feature of UNITED ARROWS TAIPEI is its large number of affluent customers. This can partly be attributed to the store’s location. As a roadside store, many customers arrive at the store in chauffeur-driven cars. In addition, the store is frequented by customers, who have purchased the Company’s products in Japan, including the wives of Japanese businessmen working in Taipei. Set at levels around 1.25 times higher than the prices found in Japan, products are considered more

than affordable. In addition to such high-priced products as mouton coats, rainwear including apparels and shoes are hot selling items. From the Company's perspective, UNITED ARROWS LTD. is looking to develop a men's dress market in Taiwan. Notable is the significant number of coordinated fashion purchases that are bought as they are displayed by mannequins. With this in mind, we are working to further increase our presence and appeal by putting forward styling proposals.

Subsidiary Companies

Q. Can you tell us about the status of existing coen stores?
A. In the 1H (February to July) of FY14, sales at COEN CO., LTD. existing stores increased 1.4% compared with the corresponding period of the previous fiscal year. For the full fiscal year, sales are projected to climb 6.3% year on year.

Q. What steps and modifications are required to introduce a product platform to COEN CO., Ltd.?
A. Unlike UNITED ARROWS LTD., COEN CO., LTD. the introduction of a product platform will be undertaken over time to allow for customization. The vast majority of coen products are manufactured in China and the ASEAN region. Lead times are quite lengthy due mainly to the restrictions on prices. Taking into consideration the need to quickly respond to this environment, we will look for the best option.

Q. Looking at the opening of coen stores, locations are not limited to suburban areas. There is a sense that developer expectations are high and include such urban commercial facilities as SEIBU SHINJUKU PePe and MARK IS. What are your views on the scale of the new trend market?
A. Under the Group's Long-Term Vision, COEN CO., LTD. is targeting a network of 200 stores and sales of ¥20 billion or more. Looking at the company's competitive environment, we are confident that coen is well positioned to achieve these targets. The company's presence in SEIBU SHINJUKU PePe is effectively as a general store and results to date are robust. We will consider making further adjustments to scale should this format exhibit increased potential.

Other

Q. The Company has opened several stores in such large-scale commercial facilities as

GRAND FRONT OSAKA and MARK IS. Can you provide details of progress for each?
A. Stores opened during the current period are performing well in overall terms. Certain stores are confronting difficult conditions due to such factors as weather conditions and temperatures during October as well as the impact of typhoons. On a cumulative basis, however, results are firm.

Q. The Company has worked to expand channels by opening new stores in railway and fashion buildings as well as through online sites. Are there any new channels that you will look to bolster over the medium term?
A. We have continued to develop sales channels focusing on railway and fashion buildings as well as online store sites. In recent years, we have also developed stores solely for women in department stores. As department undergo a major reform, the UNITED ARROWS brand is nurturing a significant affinity with this particular channel which is exhibiting substantial potential. We will work toward opening new stores where terms and conditions best suit.

Q. It is now around one year since the Abe Administration launched its initiatives, which have been dubbed “Abenomics.” Have you seen are change in consumption as a result of the government’s policy measures?
A. While UNITED ARROWS LTD. also caters to affluent customers, who are particularly enjoying the benefits of “Abenomics,” the impact in overall terms has to date been quite small. We have witnessed a substantial increase in overseas customers as a result of the weak yen. Bulk purchases by foreign travelers have become particularly prominent.