UNITED ARROWS LTD. Third 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 February 6, 2014 and February 7, 2014. 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 for the Third Quarter Cumulative Period (April 1, 2013 to December 31, 2013) of Fiscal 2014 (April 1, 2013 to March 31, 2014)

Q. Can you please provide us with details of the progress you have made regarding sales, profits, and operating overhead expenses up to the 3Q of FY14 compared with plans?
A. On a consolidated basis, sales were approximately ¥500 million higher than plans. Gross profit, on the other hand, declined by more than ¥800 million. SGA expenses were down around ¥600 million while operating income and ordinary income each contracted about ¥250 million. On a non-consolidated basis, sales climbed approximately ¥1,000 million compared with plans. Gross profit and SGA expenses each declined by more than ¥400 million while operating income and ordinary income were essentially in line with plans.

Q. What were the differences in gross profit results compared with plans and the previous period for the 3Q three-month period from October 1, 2013 to December 31, 2013?
A. For the 3Q three-month period, plans called for a non-consolidated gross margin of between 57.6 and 57.9%. The actual gross margin was around 1.3 to 1.4 percentage points below this target. Compared with the corresponding period of the previous fiscal year, the gross margin declined 1.6 percentage points. For the period under review, the gross margin for total business units fell 1.5 percentage points year on year. Factors contributing to this year-on-year 3Q three-month period difference are presented briefly as follows.

An increase in procurement costs and the higher composition of purchased products to total sales had a negative impact of around 1.4 percentage points and 0.2 of a percentage point, respectively. On a positive note, improvements in mark-down losses had a favorable impact of approximately 0.3 of a percentage point. The negative impact of the increase in procurement costs has narrowed owing mainly to the revision of prices. From a decrease of 1.8 percentage points in the 2Q three-month period from July 1, 2013 to September 30, 2013, the downturn narrowed to 1.4 percentage points in the 3Q three-month period. Moreover, and despite the continued decline in the value of the yen which resulted in a decrease of around 0.3 of a percentage point in the CH gross margin, the amount of gross profit substantially exceeded plans thanks largely to robust trends in sales.

Q. Cutbacks in the fixed component of SGA expenses amounted to ¥700 million on a non-consolidated basis. Could you please provide specific details?
A. The total decline of around ¥700 million was essentially made up of successful cutbacks in advertising expenses of ¥150 million; research and development, domestic and overseas travel, conference, and related expenses of ¥150 million, initial costs associated with the opening of new stores including furniture and fixtures as well as promotions of ¥150 million, maintenance and repair as well as appointments of ¥100 million, and direct personnel expenses of just under ¥100 million.

Q. Please provide us with details of gross margin forecasts for the 4Q.
A. Little by little, we plan to increase gross margins through a variety of endeavors including the revision of prices and improvements in mark-down losses. While the gross margin is not expected to reach the initially forecast level, we do anticipate to secure a solid gross profit amount on the back of robust sales.

Q. Earnings declined for the 3Q nine-month cumulative period. Forecasts, on the other hand, indicate an increase for the full fiscal year. Could you please elaborate?
A. Operating results for the previous period were extremely strong. Accordingly, we undertook additional operating overhead expense payments totaling ¥1,300 million to ¥1,400 million in the 4Q to cover such expenditures as period-end

bonuses, advertising, and the purchase of furniture and fixtures. This expenditure is not anticipated in the current period. For the 4Q three-month period of FY14, our initial forecast for net sales was a year-on-year increase of above 6%. At the same time, we have factored in a year-on-year decrease in SGA expenses of around 4%. This is one factor behind the projected increase in earnings in the 4Q and full fiscal year.

A second factor is that anticipated rush in demand during the 4Q and especially in March in the lead up to the increase in consumption tax. At the time forecasts were first put in place, the decision to lift the consumption tax rate had not been made. Our initial forecasts therefore did not include this projected rush in demand. Looking at the single month of March 2013, weather conditions were generally stable with results extremely strong. Companywide sales on a non-consolidated basis were up 19.9% compared with the corresponding period of the previous fiscal year while existing retail and online store sales improved 12.9% year on year. Taking these results into consideration, initial forecasts for the single month of March 2014 had Companywide sales on a non-consolidated basis essentially in line with March of the previous year. Existing retail and online store sales, on the other hand, were initially projected to fall 4% year on year. Thereafter, the decision was made to lift the consumption tax rate in Japan. Factoring in the expected surge in demand, forecasts have been revised with Companywide sales in March 2014 anticipated to climb around 7% compared with results in March 2013. Moreover, the projected increase in earnings for the full fiscal year is expected to cover the slight shortfall compared with profit plans up to the 3Q cumulative nine-month period.

Q. What level of price revision are you contemplating from the spring and summer seasons?
A. UNITED ARROWS LTD. revised the prices of just under 50% of its private label products between 5 and 10% for the fall and winter seasons. Turning to the spring and summer seasons, the Company plans to revise prices for over 50% of its private label products. Despite this initiative, the policy to set prices in line with quality remains unchanged. For both the fall and winter seasons, we are confident that customers accepted the prices revisions on the basis of product quality.

Trends in Online Store Sales

Q. Online store sales growth was weak in the 3Q. What issues do you currently face?
A. We have stepped up efforts to open new retail stores during the current period. As a result, it therefore appears that the ratio of online sales has fallen in overall terms. In actual fact, both retail and online store sales have met plans. One issue that we currently face is the disparity in sales between malls. UA online stores are performing extremely well with continuous growth rates of between 20 and 40%. A major factor in this growth is the increase in new members that have been attracted through actual stores. In contrast, there is an ongoing trend toward low priced products at certain large-scale and other sites. As a result, there are indications that the Company's mid-to-high-end price range products are becoming difficult to choose. On another note, energies are being directed toward expanding inventory supply through a number of initiatives including the sharing of information regarding inventory at distribution warehouses. Despite these endeavors, we are yet to sufficiently make up ground.

Q. A UA online store smart phone application has been released. Are you seeing sales through this application?
A. There is a link to UA online stores from the application. Consequently, sales through this application are taking shape.

Forecasts of Operating Results for the Next Period

Q. We would like to hear about your underlying assumptions regarding foreign currency exchange rates from the spring and summer seasons. Is it safe to assume that gross margins will improve?
A. We are estimating an exchange rate of US1:¥105 for the next period. Our policy is to put in place a policy that we ensure a profit even if the rate were to reach ¥110. While we currently working toward putting a plan into place, we will endeavor to improve the gross margin through such measures as price revisions and reductions in mark-down losses.

Q. How much of an improvement can we expect in the next period compared with the current period's gross margin target of 54.4%?

A. We believe that the gross margin for the current period will fall below plans. Based on robust trends in sales, we are expecting profits to reach planned levels. This expectation reflects our confidence in securing an appropriate amount of gross profit and efforts to cutback fixed costs. As we are currently preparing forecasts for the next period, it is difficult for us to comment at this moment. With the exception of CH, price revisions were not undertaken during the previous spring and summer seasons. We believe that the gross margin will increase due mainly to the price revisions planned for this spring and summer.

Q. New business costs are expected for the next period. Is there a chance that plans will call for an increase in revenues and a decrease in earnings?
A. Despite the increase in costs associated with the development of new businesses, the negative impact is projected to be small. This is based on a number of factors including the completion of Boisson Chocolat test marketing at online and actual stores. While we do recognize that ASTRAET will require more time to turn a profit, we will work toward alleviating any negative impacts by relying on the high ratio of private label brands and lifting gross margins through the determined development of products. We feel that the review of brand value will play an important role in our future. From a product perspective, we recognize the critical need to lift the quality of private label brands. In addition, we will look to adopt a flexible approach toward any decline in the value of the yen next period and undertake price revisions. Turning to our customer service endeavors, which is a principal theme for FY15, we became aware that our customers looked to us to provide detailed and carefully thought out styling and other proposals following the implementation of a large-scale UA business campaign. We will make every effort to secure an increase in both revenues and earnings by strengthening our customer service capabilities, which in turn will help to lift the ratio of regular price sales.

Q. What are your forecasts for the opening of new stores in FY15?
A. We are yet to take steps to formulate a plan and as such our thoughts are fluid. We do not, however, any major change from the number of stores opened in FY14. There are plans for UNITED ARROWS LTD. to commence new businesses. This is expected to slightly lift the number of new stores opened. COEN has opened 17 new stores in the fiscal year currently under review. During the next fiscal year, steps will be taken to hold down the number of new

stores opened. Energies will be directed toward bolstering product development and sales capabilities.

Measures Aimed at Addressing the Increase in the Consumption Tax Rate in Japan

Q. Please provide us with your thoughts on the rush in demand in the lead up to the consumption tax hike and your expectations of a correction in April.
A. Buoyed by favorable weather conditions in March 2013, existing retail and online store sales climbed 12.9% year on year. As a result, we initially forecast that total Company sales in March 2014 would remain around the same level as those recorded last year with existing retail and online sales falling around 4%. With the decision to lift Japan’s consumption tax rate, we have factored in a projected rush in demand. In specific terms, we are looking at an increase of around seven percentage points compared with initial plans. We are already witnessing this trend in men’s business, women’s formal, and CH demand. We do not, however, anticipate any major surge in demand for casual clothing. We are currently in the throes of assessing the potential for a correction in April and cannot at this stage make any comment. We do, however, plan to introduce new products from April which should help to offset any correction.

Group Companies

Q. Please tell us about trends in Group company sales and profits.
A. While we cannot provide details of profits on an individual Group company basis, we can confirm that Group company gross margins are generally on a downward trend due mainly to the impact of the weak yen. In addition to the weak yen, we are seeing the effects of markdowns at COEN. As a result, we will strengthen systems for product supply through UNITED ARROWS LTD. support.

Q. COEN increased the prices of certain products during the fall and winter seasons. What levels of price increase were rejected by customers? And, what price range has the company now decided to pursue?
A. During the fall and winter seasons, the prices of certain products were increased around 10%. These prices increases were not well received by the new trend market. As a result, plans are in place to return prices to their original

levels.

Q. COEN has identified its intention to promote a “China Plus One” strategy. To what degree will this strategy be advanced?
A. Currently, 15% of all production is undertaken in the ASEAN region. Plans are in place to increase this to around 20%.

Q. Taking into consideration a variety of factors including the relative low price of COEN products, the assumption is that customers would also be able to peruse and purchase items freely. What if anything will happen to COEN’s sales framework with the emphasis on boosting sales capabilities and systems?
A. While we intend to maintain our focus on customer service in developing a unique style, we do recognize that certain customers do not appreciate excessive contact. In the first instance, we will place considerable importance on raising the skills of sales staff through education and training. Moving forward, we will focus on identifying the best customer service style for each market. With COEN’s emphasis on opening stores in suburban areas, the ability to secure human resources is a major issue. Accordingly, steps have been taken to introduce an internship program and shorter work hour system.

New Businesses

Q. With the decision to position private label products at the heart of new business development plans, can we assume that this reflects an emerging confidence regarding the quality of private label products?
A. Initially UNITED ARROWS LTD. placed considerable weight on the men’s market. We believe therefore that one of our strengths lies in men’s wear and especially men’s heavy clothing. Under the BOW & ARROWS brand, we will put forward proposals that address the market need for traditional wear with just the right touch of casual, targeting the well-to-do male adult. On this basis, we will pursue the development and promotion of this new business within the existing UA business. Turning to the needs of women, we still feel that we have a ways to go. In developing the ASTRAET brand, which is designed to attract women, we will call of the talents of external directors.

<ASTRAET>

Q. How will ASTRAET's earnings evolve? What do you see as this business' most challenging hurdle?
A. From a profit perspective, we are projecting that the ASTRAET business will turn a single fiscal year profit in three years and cover all accumulated losses in five years. In specific terms, we are forecasting sales of ¥3,000 million and a profit margin of 5% over the medium term. This is expected to grow to ¥8,000 million and around 10% over the long term. Looking at our efforts to foster new businesses in the past, our inability to develop activities over the long term has been our greatest issue. At the same time, we have placed an inordinate emphasis on the domestic market, with the tendency to focus too heavily on competitors in Japan. With the ASTRAET brand, we will also maintain a keen eye on the overseas market and pay careful attention to the quality of overseas brands.

Q. The ASTRAET brand is positioned between the luxury and fast fashion markets. Is it true to say that this area of activity is difficult to lead?
A. We are well aware that the market between luxury and fast fashion brands is a difficult one. However, we believe that signs of a change have emerged in recent years. For example, in the UA business, demand was previously high in the two core areas: private label products and Japanese designer brands in a similar price range as well as high-priced luxury brands. Over the past year, we have seen a shift toward the middle market. In the case of department store renovation plans, trends in purchasing patterns are showing a swing to the next level. We believe that this reflects dissatisfaction toward existing levels of quality, not only in the fashion, but also the food and housing fields. This is leading to a growing number of people who are looking for more. Our goal is to fulfill this need.

Q. What do you find most attractive and appealing about creative director Futoshi Toya?
A. Mr. Toya places the utmost emphasis on creativity and is extremely well-versed in private label brands. His expertise and creativity extends beyond the fashion field and encompasses a wide area including music and construction. More importantly, he is a man of impeccable character. Mr. Toya also offers a contemporary taste not found within the Company. Inviting him into the fold will

help us to foster a mode taste select shop business to complement our existing traditional taste select shop business.

<BOW & ARROWS>

Q. A part of existing business activities are directed toward men between the aged of 30 and 60. How large is this market?
A. The UA business also boasts a large number of customers in the 30 to 60 age range. We recognize, however, that there are numerous customers who frequent department stores on a regular basis, but are yet to step into our stores. BOW & ARROWS is a new business that will target this department store market.

Q. Please elaborate on your intentions to develop a broad range of product sizes.
A. As previously mentioned, this new business will target an age range that is slightly higher than the UA business' core customer base. Recognizing the need to place additional emphasis on comfort and style at the time products are tried on, we plan to put together a lineup of relatively generous sizes. The UA business basically promotes six sizes 42, 44, 46, 48, 50, and 52. BOW & ARROWS will offer seven sizes 44, 46, 48, 50, 52, 54, and 56.

Q. The focus for opening new stores is on department stores. Do you plan, however, to look at other channels, including for example urban railway station buildings? I would think that it would be difficult to create a worldly ambiance through small-sized stores in department stores. What kind of ideas do you have in mind?
A. Yes, our new store opening plans are essentially directed toward department stores. Our goal is indeed to create a worldly view despite the small size of each store. We are currently considering a number of interior options and proposals. We intend at this stage to have customers imagine a particular scene by not only utilizing clothing displays, but also combining with a mix of miscellaneous items. We will first work to present a worldly view through styling proposals and then create an atmosphere that allows customers to easily choose products through the effective use of miscellaneous items. With the limited space available to genuinely express our intentions, we believe that our ability to build a 52-week merchandising cycle will prove critical.

Q. Where are your principal areas of production?
A. Our manufacturing activities will for the most part be centered in Japan and China. Initially, we anticipate issues regarding lots. As a result, we expect the bulk of production will be undertaken in Japan.

<Overseas Business Development>

Q. Please tell us about conditions at the Taiwan store and your feelings regarding progress.
A. We have come to learn that our profile in Taiwan was lower than first expected. As a result, we have not been able to increase customer numbers with a single stroke. On a positive note, however, we are witnessing a high repeat rate. Our impressions are that word-of-mouth communication is having a strong impact on raising our profile. Well-to-do individuals make up a large proportion of our customer base. Together with differences between domestic and foreign prices, we are seeing an increase of around 1.5 to 1.8 times in average spending per customer compared with Japan. While results are generally in line with plans, we expect that actual performance will fall just short of initial forecasts. Our intention to fill the current gap and create a men’s dress market remains unchanged. The needs of women, however, are greater than expected and we will therefore work to expand our presence there. In addition, demand for select items marketing in Japan is high. Accordingly, we are in the throes of revising our merchandising makeup.