UNITED ARROWS LTD.
Earnings Announcement Q&A
for Fiscal 2016, the Fiscal Year Ended March 31, 2016

UNITED ARROWS LTD. held earnings announcement presentations on May 9, 2016 and May 10, 2016, at which the media, analysts, and institutional investors were in attendance. The principal questions received and answers given by category during each session are presented as follows, with certain details expanded or modified in an attempt to provide readers with a deeper understanding of the UNITED ARROWS Group's performance and activities.

About Business Results for Fiscal 2016, the Fiscal Year Ended March 31, 2016 (April 1, 2015 to March 31, 2016)

Q. What caused the Group to struggle in the three-month 4Q period?
A. There were a number of reasons why the Group struggled in the 4Q. For example, we were unable to put forward alternative proposals for women's trench coats during February and March, which in part led to weak sales of outerwear products. While results in medium and lightweight garments were robust, the growth in sales was insufficient to cover the drop in spring coats.

Q. What are your thoughts on the reasons why the non-consolidated gross margin declined?
A. The business unit gross margin declined roughly 0.8 of a percentage point YoY in the 4Q. Despite trends in markdown losses and the composition of procured product and private label brands that contributed to improvements of around 1.6 percentage points and 1.0 percentage point, respectively, foreign currency exchange rates had a substantial negative impact of approximately 2.4 percentage points. For the full fiscal year, the business unit gross margin declined roughly 1.3 percentage points YoY. While the downturn in markdown losses contributed approximately 0.8 of a percentage point, other factors including changes in the composition of sales and foreign currency exchange rates had a negative impact of around 0.1 of a percentage point and 2.0 percentage points, respectively.

Q. What portion of total sales can be attributed to private label brands?
A. Private label brands accounted for 45.7% of total sales across the Company as a

whole for the full fiscal year under review. This was 0.5 of a percentage point lower than the previous fiscal year. In more specific terms, private label brands made up 36.0% of total UA sales (down around 1.0 percentage point YoY), 53% of total BY sales (up roughly 1.0 percentage point YoY), and 62% of total GLR sales (up approximately 1.0 percentage point YoY).

Q. Why were online sales strong in the 4Q?
A. Looking at online sales in the 4Q, sales were boosted not only by the consolidation of clearance sale items and shipment of advance orders, but also an increase in normal sales. We see this as evidence that the acceptance and use of online stores as a purchasing medium is steadily growing.

About Business Results Forecasts for Fiscal 2017, the Fiscal Year Ending March 31, 2017 (April 1, 2016 to March 31, 2017)

・ About Sales and Gross Profit Forecasts

Q. The consolidated gross margin in the new fiscal year is forecast to improve 0.9 of a percentage point. Can you provide us with details?
A. A forecast improvement in the gross margin on a non-consolidated basis is expected to contribute around 0.7 of a percentage point to the 0.9 of a percentage point projected improvement in the consolidated gross margin. The Business Unit gross margin is estimated to improve roughly 0.5 to 0.6 of a percentage point thanks to efforts aimed at controlling the cost of goods sold and improvements in markdown losses. Meanwhile, the gross margin for outlet stores is forecast to improve around 0.1 of a percentage point. Successful efforts to control markdown losses at COEN CO., LTD. are the main reason for the projected improvement in the gross margin of subsidiaries.

Q. What steps do you plan to take to improve the gross margin?
A. Over the past few years, we have promoted the shift of production to the ASEAN region owing mainly to the upswing in costs in China. While this has enabled us to control costs, difficulties in flexibly addressing the impact of inclement weather conditions during hot selling periods are becoming a concern due to lengthy lead times. In addition, the long lead times associated with production in the ASEAN region is hindering our ability to properly implement 8-season merchandising. Recognizing the important role that Chinese factories play in producing high-quality products over a

short period of time, we will return a portion of the production function back to China and make every effort to undertake production that is as closely linked to the timing of sales as possible while taking into consideration trends and weather conditions. In this manner, we will work to lift the ratio of regular price sales. In the fiscal year ended March 31, 2016, we placed too much emphasis on setting prices at levels that customers could be expected to accept. As a result, the planning of certain products with an unnecessarily high cost of goods sold ratio was undertaken. In the fiscal year ending March 31, 2017, we will again focus more on identifying and maintaining a balance between the price and quality of products. We will strengthen the control of costs with a view to developing products that generate an appropriate level of earnings.

Q. What are your thoughts on foreign currency exchange rates in connection with new fiscal year forecasts? Do you see the continued strength of the yen having a positive impact on earnings?
A. We are looking at a rate of around ¥120 to the US dollar with respect to new fiscal year forecasts. Steps to procure spring and summer items have all but been completed. Accordingly, there is no impact as a result of the strong yen. There is a possibility, however, that the strong yen will have a positive impact on fall and winter items.

Q. What is the effect on profits of a ¥1 movement in the exchange rate?
A. Movements in foreign currency exchange rates do indeed have an impact on procurement costs. Ultimately, however, gross profit is determined by a wide range of factors including the ratio of markdown items to total sales, the proportion of purchased products and private label brands, the composition of sales by business, and the ratios of regular and outlet store sales to total sales. Taking each of these factors into consideration, a simple computation is not possible. Drawing on past data, the gross margin was above 54% when the ¥:US$ rate hovered around ¥80-¥89. Currently, the gross margin is above 50% with the ¥:US$ rate at around ¥120. A movement of roughly ¥40 has therefore altered the gross margin by around 4.0 percentage points. While a simple comparison is difficult due to the effects of such wide-ranging factors as economic conditions, consumption trends, and weather patterns, we offer this information as reference.

Q. What are your reasons for projecting a year-on-year increase of 2.7% in existing retail store sales?
A. The projected increase for the fiscal year ending March 31, 2017 reflects the absence

of difficulties encountered during winter and spring seasons of the fiscal year ended March 31, 2016. We believe that we can improve over the previous fiscal year by expanding the introduction of 8-season merchandising.

・ About SGA Expenses

Q. Why is the SGA expenses to sales ratio forecast to increase in the new fiscal year?
A. The SGA expenses to sales ratio is forecast to increase 1.2 percentage points on a consolidated basis. Personnel expenses, advertising expenses, and other expenses are expected to contribute roughly 0.7 to 0.8 of a percentage point, 0.2 of a percentage point, and 0.2 of a percentage point, respectively, to this increase. Plans are in place to recruit staff for new stores and to fill vacant positions. As a result, the number of employees is anticipated to rise around 8.0%. Steps are also being taken to review promotion rates, which had been curtailed in recent years. This is expected to drive up personnel expenses per employee between 3.0 to 4.0%. Turning to advertising expenses, promotional costs are forecast to increase in line with activities at large-scale stores. The SGA expenses to sales ratio is also being impacted by other temporary costs that reflect changes to the UNITED ARROWS LTD. HOUSE CARD point system.

Q. The Company controls costs while assessing conditions during the period. Is there room to do so during the fiscal year ending March 31, 2017?
A. The increase in personnel expenses is having a substantial impact on costs in the current fiscal year. While it will be difficult to manage the costs associated with recruiting staff for new store and reviewing promotion rates, there is a little room to control expenditures with respect to the filling of vacant positions.

Q. Why are costs increasing when the number of stores opened less than the previous year?
A. The costs of two stores, the UNITED ARROWS ROPPONGI HILLS STORE (UA Roppongi) and the H BEAUTY&YOUTH(H BY), are included in the costs associated with opening large-scale stores. Each of these stores is in the flagship class of 400 tsubo, or roughly 1,320 square meters. As a result, a substantial amount of one-time expenses (interior, furniture and fixtures, advertising) are incurred. This is the primary reason behind the increase in costs compared with the number of stores opened.

Q. You have mentioned that the Company will evaluate and undertake costs from a medium to long-term growth perspective. As far as each expenditure item is concerned, when do you expect to see growth?

A. Amid the growing importance of customer service at individual stores, the ability to secure high-quality sales staff is becoming a major issue in the retail sector. The impact of costs incurred in securing and training staff is therefore expected over the medium to long term. We believe that investments in such stores as UA Roppongi and H BY will help to gradually lift our overall brand image. As far as the integration of UNITED ARROWS LTD. HOUSE CARD and UNITED ARROWS LTD. ONLINE STORE members is concerned, we expect to see results emerge from the 2H.

・ Other

Q. You have explained that the Company's online store operations are behind many of its rivals who entered the market at an earlier stage. Where specifically do you see yourself as behind your rivals and how will you go about resolving any deficiencies?

A. We have not undertaken any measures directed specifically at increasing online sales in the past. In the fiscal year ending March 31, 2017, we will look to strengthen online sales by addressing the manner in which we maintain inventory and working to improve systems. When an online store is out of stock, customers issue a request to have the item replenished. Regrettably, we are not currently in the position to field every request, and as such are witnessing the incidence of sales opportunity loss. We are working to reduce this opportunity loss by coordinating with distribution centers and making every effort to maximize the efficient use of inventory information. When an item is unavailable at the time it is most required, realistically it is next to impossible to ask a customer to wait. In order to address this problem, we are increasing the initial allocation of popular items to online stores as a means to meet the immediate needs of customers. In August, we will also integrate the membership point systems of UNITED ARROWS LTD. HOUSE CARD and UA ONLINE STORE. Under the integrated structure, members can not only access the UA ONLINE STORE using their UNITED ARROWS LTD. HOUSE CARD IDs, but also accrue and exercise points at either actual or online points of sale. Over the medium term, we plan to expand sales by improving the manner in which we present UA ONLINE STORE as well as service levels.

Q. What steps do you intend to take to reverse the decline in the number of purchasing customers at existing retail stores?

A. In view of the sharp and rapid spread of online operations, we will undertake measures to increase the number of customers at both actual and online stores while making every effort to strengthen collaboration going forward. Thanks to the growing penetration of smartphone use, we are seeing an increase in the number of highly motivated customers, who have taken the time to gather product information using a variety of online tools including SNS in advance. Taking these behavioral patterns into consideration, we will enhance the convenience of online stores in a bid to attract customers. Stimulating customers in this manner to visit actual stores, we will then look to secure purchased through enhanced customer service and coordination proposals.

Q. You have continued to control the launch of inventories since the previous fiscal year. Will this have a positive effect on the select shop format, which offers an abundant product lineup as a part of its appeal?
A. Twice each year, senior management calls on each distribution center to confirm with their own eyes what products are leftover and in what quantities. From this, we realize the need to reduce the number of items. With the shortening of product lifecycles as a result of the introduction of 8-season merchandising, it is important that we lift the ratio of hit products while narrowing the number of items. The select shop format is indeed characterized by an increase in miscellaneous items. Having said this, however, we will make every effort to change the composition of products in a bid to generate fresh appeal without increasing the number of items. In this manner, we will endeavor to increase efficiency.

Q. What do you hope to achieve by reorganizing the Supply Chain Management Division. What is the Division's role?
A. UNITED ARROWS LTD. has adopted a division-based structure and system in the organization of its various businesses. In principle, each business is responsible for the product purchasing function, which entails management of the cost of goods sold ratio and the selection of sites for production. Prior to reorganization, the division was charged with the responsibility of providing assistance to each division. On this basis, coordination between and across divisions was limited in nature. Reorganization helps to bring together the Fashion Marketing Department, which has been engaged in the collection of information on trends and control over the proposal function, and the Supply Chain Management Division, which maintains and analyzes past sales data. The role of the division is to lift the precision of merchandise while monitoring and supporting the activities of the Company across each division. With respect also to the full-fledged introduction of 8-season merchandising into most businesses since the

previous fall and winter seasons, the Supply Chain Management Division is ensuring that the application of 8-season merchandising is undertaken in line with the attributes of each business.

Q. What led to the withdrawal of the quantitative targets set under the Long-Term Vision?

A. Both the external environment and spending trends have changed substantially since the Long-Term Vision was first formulated in 2012. While we are fully aware of our responsibilities and the need to address any and all difficulties, we are also cognizant of the stress and anxiety imposed on stakeholders in pushing forward our business when there remains a significant discrepancy with our Long-Term Vision quantitative targets. For this reason, we have decided to withdraw these targets in this instance. UNITED ARROWS LTD. is looking to again put in place medium-term strategies and a Long-Term Vision during the fiscal year ending March 31, 2017 and to announce details in May 2017. The Company also intends to identify targets for ROE and other quantitative indices with a view to increasing stakeholders' value to the maximum extent possible over the medium to long term.