# UNITED ARROWS LTD.
# Earnings Announcement Q&A
# for the Nine-Month Period Ended December 31, 2015
# of Fiscal 2016, the Fiscal Year Ending March 31, 2016

UNITED ARROWS LTD. held earnings announcement presentations on February 5, 2016 and February 8, 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 the Nine-Month Period Ended December 31, 2015 of Fiscal 2016 (April 1, 2015 to March 31, 2016)***

Q. What is your assessment of gross profit in the 3Q? What was the status of inventory as of the end of the 3Q?

A. The gross margin for total business units in the three-month 3Q period (October 1, 2015 to December 31, 2015) declined 1.4 percentage points compared with the corresponding period of the previous fiscal year on a non-consolidated basis. Looking at this year-on-year downturn in more detail, the negative impact of markdown losses on the gross margin improved around 1.0 point. Despite this improvement, movements in foreign currency exchange rates as well as the ratios of procured products and private label brands in the sales mix negatively affected the gross margin for total business units approximately 2.2 points and 0.1 of a point, respectively, year on year. As of the end of the 3Q, items to be sold during the upcoming spring and summer seasons made up 13% of the balance of total inventories. This was compared with 11% as of the end of the corresponding period of the previous fiscal year and a year-on-year increase of just under ¥400 million. The amount of current year fall and winter items was essentially unchanged from the end of the corresponding period of the previous fiscal year accounting for 47% and slightly below 46% of the balance of total inventories as of the end of the 3Q of FY16 and the end of the 3Q of FY15, respectively. Past inventories represented 23% of the balance of total inventories as of the end of the 3Q of the fiscal year under review compared with 24% as of the end of the 3Q of FY15. This was a downturn of a little less than ¥300 million. Products that were not linked to any particular season made up 17% of the balance of total inventories as of the end of the 3Q of FY16 and 20% as of the end of the 3Q of FY15. This was a year-on-year decline of more than ¥700 million.

Q. What is your outlook for gross profit going forward?

A. Initial forecasts called for a year-on-year improvement in the gross margin of just under 2.0 percentage points in the 4Q. Currently, the gross margin is projected to increase by slightly less than

1.0 percentage point. Meanwhile, past inventory reduction costs are forecast to have less of an impact on the gross margin in the fiscal year ending March 31, 2017. This in turn is expected to deliver improvements of around 0.3 of a percentage point over the next fiscal year. I am unable to provide further details at this time, as we are currently in the process of putting in place a plan.

Q. While indications are that results in the 3Q are consistent with forecasts, taking into consideration the increase in earnings in the 1H of around ¥600 million over plans, can we also assume an approximate ¥600 million upside for the nine-month period ended December 31, 2015?
A. Results were indeed around this level as of the end of the 3Q. Sales in January, however, fell below plans. Accounting for this recent trend, we believe there is little room for complacency.

Q. Can you comment on selling, general and administrative (SGA) expenses in the 3rd and 4th quarters?
A. Despite steady trends in sales, the gross margin remains weak. As a result, we took steps to control costs in the 3Q. We will continue to adopt this stance throughout the 4Q.

***About the Company's Merchandising and Product Lineup Policies***

Q. Is it correct to say that the decision to introduce an 8-season merchandising approach and position August as a month during which products would be sold at their regular prices was initiated through the UNITED ARROWS green label relaxing (GLR) business? Do you plan to expand this initiative into other businesses from the 2016 spring and summer seasons?
A. An 8-season merchandising approach was indeed first applied to the GLR business. It is important to note that we also cut short clearance sales in other businesses and took steps to bring forward the start of the next season. In the future, we plan to adopt an 8-season merchandising approach for women's items across virtually all of our businesses with the notable exception of shoes.

Q. Clearance sales results in January were weak due to efforts aimed at controlling inventories. Do you intend to continue current measures going forward?
A. While certain aspects regarding sales are indeed harsh, we will continue to implement current measures. Due to the prolonged nature of clearance sales as well as the continuous and gradual markdown of products up to the recent past, we have lost a measure of credibility with customers in connection our pricing initiatives. As a result, we are steadfastly incorporating these concerns into the product development process, and as early as the planning phase. We will promote the early launch of unique products and revert to the sale of items at regular prices.

Q. You have explained that the Company's in-house atelier has served to increase the precision of core product samples while also increasing the speed of development. What is the ratio of core products to the total?

A. Core products make up around 30% of private label brands. Of this 30%, heavy fabric clothing including coats and jackets that are generally more elaborate and deliver a higher degree of sophistication make up the majority of samples developed through the atelier. Again, it is important to point out that our pool of staff who is capable of producing samples in-house is limited. Accordingly, only a small number of products are developed in this manner.

Q. Do you have any concrete methods for collecting and sharing marketing information in a timely manner?

A. At UNITED ARROWS LTD., the Fashion Marketing Department sets the Group's overall course one year prior to each season, drawing on a wide range of information including collection data, social tastes, and spending patterns. Based on this overall course, each business then sets its own direction in line with brand attributes. In the past, we failed to properly monitor each businesses' success in identifying and making the necessary adjustments when discrepancies arose between initial trend forecasts and actual trends as each season progressed. As a result, the Fashion Marketing Department now undertakes a cross-sectional check of all businesses after each season begins.

Q. Can we assume that improvements in product development capabilities will eventually lift the ratio of private brand sales to total sales?

A. While it is true that customers have a high level of expectation toward the Company's purchased products, from an operating perspective purchased products sales alone do not boost profit margins. An over-reliance on the value of well-known brands has a negative impact on operating results. Accordingly, we are working to enhance our private label brand product development capabilities. Our goal is to ensure that customers look at our private label brands in the same way as they do purchased products when making a purchase and to this end we are putting forward private label brand proposals that compare favorably in terms of their quality. While there are slight differences depending on the attributes of each business, we believe that the ratio of private label brands to total sales will increase as we strengthen our product development capabilities.

Q. What is your strategy regarding the pricing of 2016 spring and summer items?

A. Our policy is the raise the quality of UNITED ARROWS (UA) products and to then set prices accordingly. As far as the BEAUTY&YOUTH UNITED ARROWS (BY) and GLR businesses are concerned, in principle we will maintain prices at their current levels. We will work to increase the prices of products little by little as considered warranted in line with efforts in line with increased quality.

***About the Group's Outlook for FY17***

Q. What are your thoughts on the gross margin in FY17 in the context of movements in foreign currency exchange rates in the future and the Group's pricing strategies?

A. During the fiscal year under review, we restored product prices to their former levels. Our first priority has been to attract the patronage of customers. As a result, our efforts to control the cost of goods sold ratio have become a little weak. We are currently putting in place a plan and as such I am unable at this stage to provide specific details. I will say, however, that we will work to strengthen control over the cost of goods sold ratio and look to improve the gross margin in FY17.

Q. This current year is viewed as one during which the Group incurred opportunity losses due to efforts aimed at curbing inventories. Taking this into consideration, what do you see as pending issues in FY17?

A. It is a fact that sales would have increased had we held more inventory during clearance sales periods. However, we took the bold step of curbing clearance sale inventories in the belief that customers would lose faith in the integrity of our prices as a result of the prolonged nature of clearance sales and the implementation of a gradual markdown policy. As a countermeasure, we are placing greater emphasis on the Company's atelier function to strengthen product development capabilities. Working to minimize any incidence of opportunity loss in 2016, we will pursue a variety of initiatives. In addition to improving the precision of our strategic product sales plans, we will put in place mechanisms that allow us to better predict demand based on, for example, trends in online store advance orders. These and other measures will enable us to arrange for additional production in advance.

Q. During the fiscal year under review, you have also taken steps to control the opening of new stores and to strengthen the Group's operating base. Will you raise the pace at which you open new stores in FY17?

A. Taking into consideration the recent growth in online store sales, we will focus on reinforcing existing stores in FY17 rather than open new stores. In addition to expanding the scale of existing stores, we will place greater emphasis on ensuring that existing stores offer a richer and deeper appeal.

***About Subsidiary Companies***

Q. Can you provide us with an update on FIGO CO., LTD. and COEN CO., LTD.?

A. FIGO has been busy with the acquisition of new brands and is currently working diligently to address certain issues that have arisen. COEN's focus has been on expanding its production capacity in the ASEAN region as a part of efforts to control its cost of goods sold ratio. Regrettably, the company has fallen short in its ability to promptly meet customers' needs and as a result struggled throughout the 2015 fall and winter seasons. During the next period, COEN will review the countries in which its products are produced. This will include steps to expand the proportion of production undertaken in China. In this manner, the company will transition toward a structure that is better positioned to adapt to changing trends in a timely fashion.

Q. You are launching a high-end brand through Designs & Co. Where will this fit within the Group?
A. Designs & Co. is positioned as the Group's most prestigious business for women. We do not intend to adopt a multi-store approach. We will initially set up a single salon-type store. We will also consider wholesale sales if approached from overseas.

***Other***

Q. What role will online store sales play in the Group's structural reform plans over the short, medium, and long terms?
A. For the most part, actual stores lie at the center of efforts to put forward and implement various measures. This recognizes the underlying principle that both actual and online stores are frequented by the same customers. As a result, the initial distribution of inventories to online stores has been inadequate. In FY17, we will increase the initial distribution of inventories to online stores and work diligently to address customers' needs. We also recognize that there are discrepancies between the services provide at actual and online stores. In order to address this discrepancy, we will improve the services provided by UNITED ARROWS LTD. ONLINE STORE to a level that equates to actual stores and allow customers to choose freely between actual and online stores in a bid to further enhance convenience.

Q. How effective is the use of customer data in the fashion industry? To what degree do you utilize the Company's database and what initiatives are you planning to pursue in the future?
A. In addition to customer data gathered through our UNITED ARROWS LTD. HOUSE CARD, we have recently built up a database that draws on certain online store sales information. Unfortunately, we are yet to fully utilize this information. Looking ahead, we will assess a wide range of solutions and increase interaction with customers. For example, we are conducting online surveys in an effort to glean customer feedback at certain businesses. By combining the information gathered through these online surveys with in-store information obtained from customers and direct consulting, we plan to meet our customers' expectations.