UNITED ARROWS LTD. Second 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 November 7, 2011 (Monday) and November 8, 2011 (Tuesday). 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.

The UNITED ARROWS Group's financial and operating performance for the second quarter cumulative (the six-month period from April 1, 2011 to September 30, 2011) of fiscal 2012, the fiscal year ending March 31, 2012, and its business activities

Q. Please provide us with your rationale for selecting mainly UNITED ARROWS (UA) business products and green label relaxing (GLR) business products for sale at airport stores as well as railway station building and expressway stores, respectively.
A. Visitors to our airport stores are most closely associated with UA's traditional customer base. Accordingly, in determining the product lineup for airport stores, we drew heavily on UA merchandise. Compared with airport stores, on the other hand, our railway station and expressway stores appeal to a more diverse customer base. For this reason, we felt that GLR merchandise, which better addresses the needs of a broad market, was more appropriate for sale at railway building and expressway stores. Since opening several stores, we have taken steps to verify the accuracy of each underlying premise. While the potential exists for minor adjustment, we are finding that our initial assumptions are holding true.

Q. What have been the results of GLR cross-media promotion? Have you seen any activity from new customers?
A. During the fiscal year under review, UNITED ARROWS LTD. is conducting large-scale promotion campaigns that include television commercials in its GLR business. In addition to purchases by new customers, our promotional activities during September and October 2011 have resulted in purchases by repeating customers. We expect that benefits from these promotional efforts will continue to accrue throughout the next fiscal year and beyond. Looking at house-card purchasing data, the demographics of our customer base has expanded from the 25 to 35 year-old range to include customers over 35. Unfortunately, we are yet to see and substantial movement from the youth market.

Q. Is the increase in fixed price sales rates at regular stores a factor in the upswing in average spend per customer? Have unit purchase prices increased?

A. Casting an eye over sales data, both the unit price per item and the number of items purchased per customer have risen. Further optimizing the product mix and balance through collaboration between the Product and Sales divisions, minimizing opportunity losses attributable to shortages in stock, and enhancing sales and marketing capabilities by bolstering the Sales Division have in turn led to an upswing in average spend per customer. Robust results in our CHROME HEARTS business, which offers higher priced items, are another factor in the increase in average spend per customer.

Q. Amid fluctuations in the monthly sales of other companies, the Company's sales remain stable. How would you explain this stability?

A. We believe that our ability to put in place an optimal product mix and balance through collaboration between our Product and Sales divisions thereby delivering to customers a product lineup that best fits their needs is the main reason for the stability of our sales. At the same time, efforts to strengthen advertising and promotions and specifically the use of cross-media promotions encompassing catalogues, television commercials, and transit advertising are producing results. Looking at trends from the autumn and winter seasons, there is a definite shift from the casual to the elegant. The UNITED ARROWS Group boasts a diverse range of brands, each with their own individuality and character from the dress line of UA's brand portfolio to the casual lineup of the BEAUTY&YOUTH UNITED ARROWS business. Accordingly, our sales are less susceptible to shifts in trends, which contributes to the currently stability of our sales.

Q. There is an unused portion of selling, general and administrative (SGA) expenses for the first half of the fiscal year ending March 31, 2012. How much of this unused portion will be carried over into the second half?

A. SGA expenses for the first half of the fiscal year under review were over ¥300 million lower than our first half estimates announced in September. Of this amount, approximately half was earmarked as advertising expenses and other half for various overhead expenses. While the unused portion of advertising expenses will be applied during the second half, there is a strong possibility that the overhead expenses portion will remain unused. In the second half, we intend to engage actively in advertising taking into consideration business performance trends with the possibility of bringing forward overhead expenditure if we believe it will have a positive impact in the following fiscal year.

Medium-Term Management Plan

- *Management Targets*

Q. Will the Company's management target of a consolidated ROE of 20% or more by the fiscal year ending March 31, 2014 decline in the event it enters into an M&A using the Company's own stock?
A. Our current management target for consolidated ROE is based on the assumption that we will continue to hold treasury stock. In the event that we enter into an M&A that requires the use of treasury stock, then we will reconsider our management targets and announce details accordingly.

Q. Please provide us with your thoughts on opening new stores in existing business as well as your expectations for existing store growth in the context of your medium-term management targets.
A. In the context of our existing businesses, we plan to open around 35 stores each year on a consolidated basis. This translates to a total of well over 300 stores by the fiscal year ending March 31, 2014. On a non-consolidated basis, we anticipate opening around 25 stores each year. This will bring the total to above 230 stores. Turning to businesses that are expected to drive future growth, we intend to open between five and six stores annually in the BY and GLR businesses, and seven stores annually in the COEN business. At between 2 and 3% and 3 and 6%, year-on-year existing store growth rates for each of the GLR and COEN businesses are relatively high. The year-on-year growth rate for other business existing stores is projected at between 0 and 1%.

Q. According to the medium-term management plan, UNITED ARROWS LTD. presupposes an improvement in the profit margins of existing businesses. Is this attributable to an increase in existing store sales, or is it due mainly to new initiatives with respect to both gross profit margins and overhead expenses?
A. An increase in gross profit margins is factored into the medium-term management plan. We anticipate a consolidated gross profit margin of between 54.0 and 54.4% in the fiscal year ending March 31, 2014. As a matter of course, we will continue to use 55% as our target for gross profit margin until this figure is achieved. Again, in the fiscal year ending March 31, 2014, we are forecasting a consolidated SGA to sales ratio of between 44.0 and 44.9% and an ordinary income margin of between 9.5 and 9.6%.

Q. At first, expectations were that the UNITED ARROWS Group would achieve sales of ¥100 billion by this point. In the intervening period, we suspect that there have been numerous fluctuations in the market and other factors that have impacted results. Please tell us about any changes between your initial and current thoughts.
A. As you have rightly pointed out, we are several years behind achieving our originally established medium-term management targets. One reason revolves around an in-house issue and stems from the breakdown in collaboration between the Product, Sales and Promotion divisions. Despite clarifying our direction and focus on efforts aimed at strengthening our original product (private label)

planning and development capabilities, our explanations throughout the Company were lacking. Our stance was overly slanted toward apparel-based manufacturing. As a result, the Product Division took an excessively leading role in product planning, which made it difficult to appropriately reflect feedback from the Sales Division into product purchasing activities. This helped foster a sense of uncertainty within the Sales Division. In recent years, we have taken steps to reinstate and nurture close ties of mutual trust, returning to our original business model. This is the main reason for our inability to achieve sales of ¥100 billion at this time.

・ *Reinforcing existing businesses*

Q. Please tell us about any specific initiatives that you are taking to enhance private label product develop capabilities.
A. Over the past three years, UNITED ARROWS LTD. has dedicated itself to restoring the Company's competitive advantage. To help rebuild a structure that had all but collapsed, we put in place a more robust product platform, reinforced collaboration between the Product, Sales, and Promotion divisions, and took steps to optimize our product mix and merchandise balance. However, we are yet to genuinely address the need to strengthen our private label product development capabilities.

We are currently looking at adopting two initiatives as a part of overall efforts to strengthen our product development capabilities. The first is to establish an archive. We will bring to a single location clothing-, fashion-, and lifestyle-related documents covering the past 50 years that each of our businesses can use as a reference in their development of apparel and products. We anticipate this archive will be fully accessible from the following fiscal year. We believe that it will be particularly helpful in raising the level of women's products. The second initiative, which remains under consideration, is the establishment of an atelier or studio. In creating a place where our businesses can explore the various components of product development including patterns and designs, we hope to identify the ideal model for each business activity. While our businesses are grounded in the retail industry, we plan to distinguish our private label products by undertaking activities that are similar to the designer brand sector.

・ *Developing new businesses*

Q. While the medium-term management targets established by the Company are readily acceptable, the strategy to secure long-term performance growth by developing new businesses is not unique to UNITED ARROWS LTD. We acknowledge that the Company is well positioned to assess the

revenue and earnings streams from its mainstay business over the next two to three years. It is difficult if not impossible, however, to gauge the level of revenues and earnings to accrue from new businesses over the next five to 10 years. Against this backdrop, please provide us with your thoughts on the Company's ability to cultivate new businesses and the existence or otherwise of an appropriate market. Please also tell us if UNITED ARROWS LTD. has sufficient surplus funds to engage in necessary investments without affecting its business performance.
A. We recognize that new brands will not be readily accepted given current market conditions. Taking into consideration declining birthrates and an aging population, the youth demographic, which can be expected to drive new market growth, continues to contract. At the same time, interest toward purchasing fashion items among the young is on the decline. On the other hand, turning specifically to markets and certain consumers with a keen interest in clothing, there is a strong level of discontent when new brands to not come regularly onto the market.

In recent years, we have seen significant progress in the development of SPA-type apparel companies and select taste businesses. This has brought with it a send of market saturation. Customers, who have become tired with a lengthy period of penny-pinching, are inherently looking toward new items and purchases. Leading commercial facilities are quickly picking up on this change in behavioral patterns. It is imperative that UNITED ARROWS LTD. take the lead in adopting a bold approach and to put forward new business proposals that can be readily understood. While current market conditions are not conducive to the launch of new ideas and businesses, we see this as an opportune time to make the most of our competitive advantage.

Our current assumptions and ideas with respect to business development are based on the marketing information of leading commercial facilities. As a result, our levels of accuracy and precision are high, particularly when compared with efforts to date. Taking each of the aforementioned factors into consideration, we will channel our energies toward existing businesses while at the same time cultivating new business during the fiscal year ending March 31, 2013.

・ *Develop new sales channels, expand overseas, and enter new fields*

Q. Business results from new sales channels have not been factored into medium-term management targets. What impact would new sales channels have on medium-term management targets?
A. We are yet to fix our medium-term plans with respect to new sales channels. Accordingly, we are not in a position to disclose any figures in this regard.

Q. As UNITED ARROWS LTD. move forward with efforts to develop new sales channels, expand overseas, and enter new fields, are management target figures likely to rise? Or, will investments and anticipatory expenditure place downward pressure on targets? Please tell us your thoughts on new businesses.

A. With respect to our efforts to expand overseas, we are not planning any major investments under the medium-term management plan. As a result, we see no downside risk. Turning to our new business endeavors, we do not contemplate taking action unless assured that profit will follow. Finally, from the new sales channel and field perspectives, we anticipate progress will only lead to positive results.

Q. What is the reason behind the Company's cautious approach toward expanding overseas? Do you see market potential?

A. We are confident that overseas markets offer considerable potential. We have however determined that current risks outweigh this potential. We will adopt a wait-and-see approach toward the China market. Taking into considerations the efforts of other companies, we will make our move when confident that risks have been minimized.

Other

Q. What are your thoughts on this year's consumption environment?

A. Activity at the beginning of the autumn season was firm. This was largely attributable to trends in consumer sentiment as customers began making purchasing that would brighten their lives after a prolonged period of penny-pinching. The unusual warm weather, however, had a negative impact on outer-wear through to October. We believe that as the weather turns cold, sales of outer-wear will pick up. While the economic environment remains weak in December, we expect purchases of fashion items will be sound.

Q. How do you intend to apply or dispose of treasury stock? What plans do you have regarding M&As?

A. As previously mentioned, we are considering three alternatives with respect to treasury stock: allocate treasury stock to parties with whom we can exercise maximum synergy; apply to M&As, and; retire. The sale and allocation of treasury stock is not an option at this stage. We are very much open to M&As both in and outside Japan. This option is currently under consideration.

Q. How do you plan to address the issue of declining birthrates and an aging population? What strategies will you employ with respect to the needs of the baby boomer generation? What initiatives are you contemplating in the area of suburban shopping centers (SCs)?

A. We are not currently contemplating the development of businesses that specifically target the baby boomer generation. Looking at recent trends in the youth market, there are items that appeal to the baby boomer generation. We are satisfied that we can address the needs of this segment through existing activities. COEN CO. LTD. is already opening stores in suburban SCs. We are also looking to reinforce our activities in this area through our GLR business. Complementing these initiatives, we are considering further suburban SC business development through BY. In this event, we will focus our activities on a new product line that is more reasonably priced. We have not at this stage factored in efforts to expand business in suburban SCs into our medium-term management plan.

With vacancies still evident in commercial facilities located in major cities, we are confident in our ability to address new business requests by reorganizing our existing activities. We believe that now is the time to expand the market.