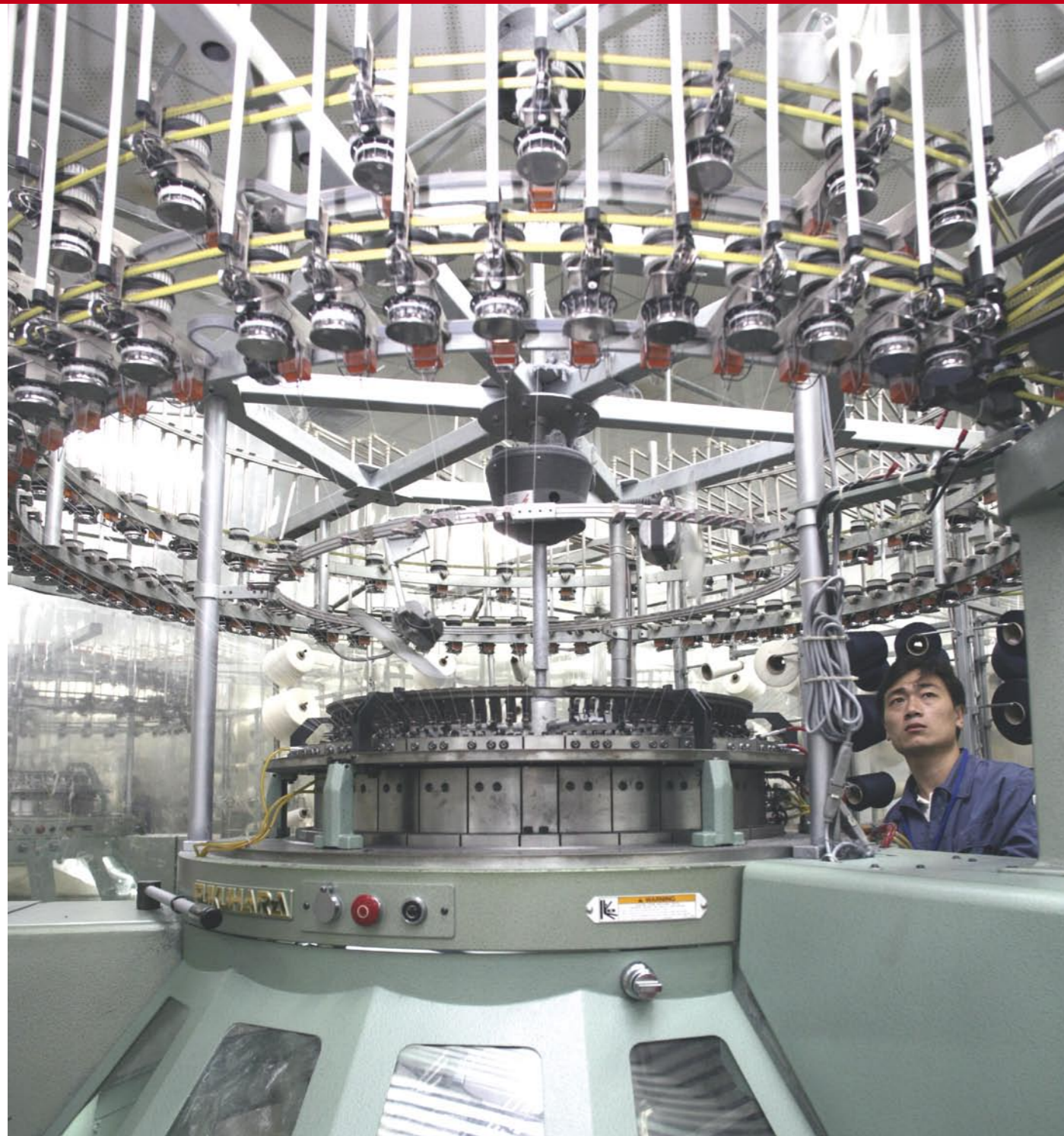


Working with production partners toward top quality by forging relationships of trust

We spare no effort to provide the highest quality products while thoroughly controlling quality and safety and ensuring complete compliance.



Pursuing the right way together is the pathway to genuine partnership



Hiroshi Nagai
Vice President, Production Division
FAST RETAILING CO., LTD.

Mutually sharing wisdom to grow together

When doing business with our business partners, a mutual goal is of course profit, as that is the nature of business. Good partnerships, however, aren't built solely on consideration. Nor do they emerge from simply coming to agreement on products, delivery times and prices.

With our overseas factories in China and other countries, I believe we are on a common mission and not just engaging in a series of transactions. We are about delivering great clothing to make customers happy everywhere in the world. And to do so, we are mutually sharing our wisdom and growing together, which is exactly what we are trying to do. I believe that only those who share this philosophy and work with one heart and mind can be called true partners.

FR WAY as a major cornerstone for building relationships of trust

Over the past ten years or so, we have been producing products mainly in China. The introduction of the Takumi Team has significantly improved the quality of manufacturing in the Chinese factories. Recently, we have been expanding production into countries like Bangladesh and Vietnam. How do we find companies in these new regions to work with us? I have spent the past year developing solutions to this challenge.

Potential partners respond differently to our approach. Some factories' top managers see that ongoing work with us may advance their techniques to new levels and that by turning out higher quality products, they may be able to grow with us. The clear statement of the FR WAY is the cornerstone on which relationships of trust can be built with the conviction that we are a company worth trusting.

Determining working conditions at partner factories requires each other's efforts to find solutions. There will not be any overtime concerns if we produce at the same pace, every week of every month. Nevertheless, demand for products fluctuates, which is simply unavoidable in business. How do we solve this paradox? While nothing can be done about fluctuations in demand, we must take steps to remove burdens on the factories with regard to how we do business and place orders. We have to discuss with them how efficiency can be improved and how the workload can be leveled out. And we must constantly review the entire process of our operations to take the right action while upholding high standards.

Recognizing our strength in face-to-face relationships with our partners

Manufacturing is a logical process, and products can be made without flaws as long as we set up the right procedures and stick to them. If we can't do this, there is a problem somewhere, in which case we must conduct a thorough review of the process and share our collective wisdom on a company-to-company basis and work to correct the problem, one step at a time. There is no other way to do this but repeatedly.

Only by working face to face with our partners in this way can we identify the cause of any problem with a product on the spot and quickly find a solution. This kind of system is not possible unless people voice their ideas and opinions. And this requires a profound relationship of trust with partners. I believe this is our chief strength and the foundation of meeting our responsibility to customers.

Our Basic Principle

FAST RETAILING is committed to the “correctness” of all its corporate activities, be it our style of management, our negotiating attitude, or our ways of thinking. Naturally, we make every effort as a company to embrace the rule of law and uphold fairness. We also seek to act fairly toward each and every one of our employees and business partners.

Monitoring workplace conditions at production factories

Implementation and focus of monitoring

UNIQLO works with about 70 production partners, primarily located in China and other Asian countries, to enhance product safety controls, production efficiency and quality. In addition, to ensure products are produced under the right conditions without the use of child labor or forced labor, we regularly conduct reviews and seek improvements, while at the same time ensuring timely information disclosure. As concrete steps in this direction, our Code of Conduct (CoC) for Production Partners was established in 2004 and third-party monitoring is carried out at major sewing factories that have signed a pledge of compliance, primarily in the area of working conditions.

Follow-up based on monitoring results

The results of monitoring are graded on a four-point scale from A to D in accordance with UNIQLO’s own evaluation criteria. A partnership may become subject to immediate change or termination depending on the severity of the situation. UNIQLO’s top priority in monitoring is to prohibit the use of child labor and forced labor. Factories that do not abide by rules against these types of labor receive the lowest grade, D. In such a case, UNIQLO’s representatives visit the factory to request immediate improvement, and progress is confirmed through follow-up monitoring. If improvements have still not been made after follow-up monitoring, business transactions may be either reduced or terminated.

Revised monitoring criteria

The evaluation criteria have been revised so that the monitoring framework established in 2004 better applies to the current situation. In FY 2009, we plan to begin by explaining the new criteria to partner factories and then start monitoring using the criteria once the FAST RETAILING approach is understood. In addition, future plans include expanding the scope of monitoring to encompass partner factories of Group companies other than UNIQLO.

Evaluation Criteria and Results as of the End of FY 2008

(81 factories)

Grade	Areas	FY 2008
A	Environmental protection Dormitory hygiene and safety Incorporation of internal rules	2%
B	Coercion and harassment Discrimination Occupational health and safety Freedom of association Wages and benefits Working hours	67%
C	Acceptance of monitoring (deficiencies in key documents such as labor contracts and time cards)	27%
D	Child labor Forced labor	4%

Examples of grade D cases in FY 2008

- Grade D was given after worker interviews during monitoring revealed that a manager made mentally distressing comments to a worker. The factory was issued a strict warning, and in follow-up monitoring improvement was confirmed.
- Factory regulations included a clause stating that a penalty charge of 500 yuan was required upon leaving, which could be taken to imply forced labor. Revision was called for, and improvement will be confirmed in follow-up monitoring.
- Monitoring revealed that a worker was hired at age 15, a month before turning 16. The worker was over 16 years old at the time of monitoring. Since this was a result of insufficient checking of identification information at the time of hiring, thorough checks were requested going forward, and improvement was confirmed in follow-up monitoring.



For fair and honest business transactions

Established the Business Ethics Committee

To develop equal and friendly relationships with its business partners, UNIQLO CO., LTD. established the Business Ethics Committee and formulated its Guidelines for the Prevention of Improper Behavior Based on Superior Positions, in 2004. UNIQLO is working to raise employee awareness of the rules governing inter-company transactions based on these guidelines.

Fifth business partner survey

Every fiscal quarter, FAST RETAILING CO., LTD. and UNIQLO CO., LTD. survey all departments to identify any issues that may have arisen with business partners. An annual business partner survey is also administered to confirm whether partners experienced problems with any employee or anyone in management during the year.

In the FY 2008 survey, we received feedback regarding the behavior of employees during business negotiations and requests concerning conditions of transaction. Problems were taken to the Business Ethics Committee for deliberation, and improvements have been underway after conducting more detailed investigations as necessary.

FY 2008 Results of Business Partner Survey

- **Implementation:** Once a year (administered during July and August in 2008)
- **Subject:** Major business partners of FAST RETAILING and UNIQLO
- **Response:**
Domestic: 202 out of 258 companies (rate: 78%)
Overseas: 51 out of 73 companies (rate: 70%)
- **Concrete examples of comments from survey results:**
 - Demand for delivery dates and deadlines not stated in contract.
 - Inappropriate response during phone calls and meetings.
 - ➔ After securely ensuring anonymity, and with the business partner’s approval, feedback was provided to the staff in charge and improvement steps were recommended; measures to prevent recurrence were called for in executive meetings.

Business Ethics Committee

- **Purpose**
Established to prevent UNIQLO CO., LTD. from taking actions that exert improper pressure on business partners (production factories, suppliers, etc.) by virtue of its superior position.
- **Frequency of meetings**
Once a month in principle. Special meetings are held when issues arise that require deliberation.
- **Members**
Chaired by the Vice President in charge of CSR. Participating members include a full-time corporate auditor, external auditors with legal or accounting accreditations and a corporate lawyer.
- **Subjects of deliberation**
Appropriateness of issues such as reduction or termination of business transactions, damage claims and others.
- **Issues deliberated in FY 2008**
32 cases

