

# Sustainability Report 2018





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## About this report

### Scope of activities covered

This report primarily covers the sustainability-related activities of Fast Retailing Co., Ltd., and its subsidiaries worldwide (the Fast Retailing Group), and also includes information about other relevant initiatives outside the Group.

### Time period covered

Unless otherwise stated, data disclosed in this report is based on Fast Retailing's fiscal year, from September 1, 2016 to August 31, 2017. Some particularly important content is based on the most recent information at the time of publication.

### Reporting Guidelines Used

This report is based on the G4 Sustainability Reporting Guidelines issued by the Global Reporting Initiative.

### Publication

February, 2018

The next English report is scheduled for publication in February 2019.

## Related websites

- **Fast Retailing's English website:**  
[www.fastretailing.com/eng/](http://www.fastretailing.com/eng/)
- **Sustainability section of the English website:**  
[www.fastretailing.com/eng/sustainability/](http://www.fastretailing.com/eng/sustainability/)

### Wastewater treatment facilities at a fabric mill (see page 18)

Wastewater treatment facilities have been installed at a partner factory operated by Lu Thai Textile Co., Ltd., in China. The factory, which manufactures fabrics and materials, generates about 20,000 tons of wastewater per day, and can treat and reuse about 12,000 tons per day. The facilities are also used for treating 60,000 tons per day of wastewater produced in the local community, allowing the treated water to be safely discharged in rivers.

# UNLOCKING THE POWER OF CLOTHING





**Tadashi Yanai**  
Chairman, President and CEO  
Fast Retailing Co., Ltd.

## Make, distribute and sell only what is necessary Sustainability is integral to our business

### Merging sustainability and business

Digital technology brings together individuals, countries and companies like never before. In this age of direct digital interaction, an event happening halfway around the world can affect our own lives and businesses instantaneously. This is the world today. Now, everything matters, everywhere worldwide. Acting responsibly and being transparent with all stakeholders has become the new norm, both for individuals and businesses.

The world continues to face a host of problems. The environment, poverty, refugees, regional conflicts... all these and more are critical issues. At stake is the long-term survival of human life. Without social stability and sustainability, businesses will be unable to function. Unless we make sustainability our top priority, we won't have a future. As a corporate global citizen we must repeatedly ask ourselves if we are doing the right things for society at large. The world is watching.

In this context, in 2017 FR adopted a new sustainability statement, "Unlocking The Power of Clothing," which challenges us to use our business to enrich people's lives and society as a whole. Good clothes are simple, high quality, and made to last. They are produced using innovative technology to minimize environmental impact. Going forward, all Fast Retailing group employees will align their efforts with this in mind.

### A sustainable future starts with everything we do today

We don't make, distribute, or sell wasteful items. Achieving a more sustainable society requires shrinking our environmental footprint across all business operations. We must provide traceability across the supply chain, from material sourcing to manufacturing processes, and onward through the final consumption stage. We must constantly ask ourselves how we can support all stakeholders in terms of human rights, safety and well-being. We must use our business to help people everywhere, especially the vulnerable and marginalized.

The cornerstone of our approach to sustainability is to make, distribute and sell only what is necessary. To set clear and meaningful targets we must first understand all processes in our business operations. Only then can we effectively resolve issues together with our production and logistics partners. The key is to take action; words alone are empty. We must consider all facets of our daily business from the perspective of sustainability.

### Engaging all employees to put ideals into practice

Sustainability demands that we face the facts with rigorous honesty, and we have much more to do. Do our products and processes truly benefit customers and society? Are we leveraging our resources to the best effect? We must seek ways to improve the level of sustainability through our work.



Beginning in the spring of 2017, we require all 110,000 Fast Retailing employees, worldwide, including retail store staff, to take an online course or other training sessions on sustainability, offered in eight languages. Over 70% had completed training by the end of August 2017, and we expect the rest to finish by the end of August 2018. While educating our workforce on sustainability from a business perspective, we are also consolidating employee feedback on how to improve our sustainability efforts. This is the foundation for effective action.

#### Disclosure of UNIQLO core partner factory list

Our sustainability initiatives focus on four priority areas: Supply Chain, Products, Stores and Communities, and Employees. With this four-pronged approach, we seek to maximize positive environmental and social impacts for a better world. To further address concerns around the environment and human rights, we have also improved supply chain traceability and published a list of UNIQLO and GU brand core partner sewing factories.

Through our Ariake Project we are reinventing Fast Retailing operations with sustainability in mind. This calls for a company-wide re-examination of all processes, not just manufacturing and logistics. It challenges us to rethink how we work in every capacity, from customer interaction to office functions. By asking ourselves “Is it sustainable?” before making decisions, we will see our business operations — in and of themselves — become increasingly sustainable. In short, we are committed

to integrating sustainability across every aspect of our business.

#### To change the world, we change from within

Changing clothes. Changing conventional wisdom. Change the world.

This is the corporate statement of the Fast Retailing Group. We created it to inspire ways to change society for the better through our business activities and product offerings. It represents our belief that a more sustainable world is the most important business goal for us. The ultimate benchmark is whether we meet or exceed the expectations of all our stakeholders. Profitability has little meaning unless we do our part to put society firmly on a path of stable and sustainable development.

Our overarching goal is to enrich people’s lives and benefit society through our business and provide truly great clothing for all.



**Tadashi Yanai**  
Chairman, President and CEO, Fast Retailing Co., Ltd.  
January 2018

**FAST RETAILING WAY (FAST RETAILING Group Corporate Philosophy)**

# Changing clothes. Changing conventional wisdom. Change the world.



We believe we can turn the power of clothing into a force for good.  
By designing, making and selling good clothing,  
we can make the world a better place.

Good clothing means simple clothing, high in quality, and built to last.  
It's clothing that enriches the lives of people  
who wear it by giving them comfort, protection and pleasure.  
It is produced in a way that is harmonious with nature,  
without excessive burden on the environment.

Good clothing is made by people of diverse backgrounds  
working with energy and enthusiasm, under conditions  
where their health, safety and human rights are respected and upheld.

And we will extend this same spirit to our customers and all our stakeholders,  
working with them to aspire to a better society where we all thrive.

This is our promise: to always work toward a better, more sustainable society.

## SUSTAINABILITY STATEMENT

# UNLOCKING THE POWER OF CLOTHING



# Committed to four priority areas for sustainability

## United Nations Sustainable Development Goals



## The Fast Retailing Group's main stakeholders



## Four priority areas for the Fast Retailing Group

### Supply Chain

- Respect human rights
- Reduce waste and minimize environmental impact
- Maintain strong ties with business partners to build a stable foundation for business growth
- Ensure traceability and address all relevant issues that emerge
- Disclose information to all stakeholders

### Products

- Consider communities and the environment when procuring raw materials and manufacturing products
- Create more sustainable products
- Offer products that benefit society and the environment

### Stores and Communities

- Improve energy efficiency at stores
- Manage and recycle waste at stores
- Use more sustainable store materials
- Work with communities to help them achieve stable and sustainable growth
- Attract and involve customers and employees in community outreach activities

### Employees

- Respect human rights
- Value diversity and equal opportunity
- Ensure occupational health and safety
- Facilitate career advancement
- Provide skills development and training opportunities

The world is facing many threats and pressing issues — the environment, poverty, refugees, regional conflicts, and others — that must be addressed. At stake is the long-term survival of human life.

In September 2015, the world began a new journey toward meeting these challenges. The 193 United Nations member states unanimously adopted the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). The agenda calls for all countries to improve the lives of people everywhere. The United Nations, governments, businesses, international agencies, and civil society are working together to reach the SDGs by 2030.

The Fast Retailing Group is committed to achieving these goals. For example, we collaborate with our worldwide partner factories to assure a safe workplace where employees feel empowered and rewarded for their efforts (SDG 8). We also save energy and reduce carbon dioxide emissions in manufacturing, while making high-quality, long-lasting clothing (SDG 12). Building on our proven track record, in 2017 we formulated a new Sustainability Statement and identified four priority areas where we are intensifying our efforts to create a positive impact, in cooperation with our stakeholders and partners.



# Feature

Putting sustainability into practice

## Part 1

Employee voices



## Integrating sustainability into one's work

### Making a difference

"Changing clothes. Changing conventional wisdom. Change the world," expresses our commitment to business and sustainability. As our business, operations and supply chain expands globally, our responsibility to address social and environmental issues is greater than ever before. Doing little or nothing only multiplies potential repercussions and business risk — all the more reason why sustainable action must engage all employees at the FR group.

### Setting targets for sustainability

A sustainable company must strike a balance between the environment, society and economy. To put this into practice, in 2017 we created a new sustainability statement (see pages 7–8) and grouped key issues into four priority areas (see page 10). Across these areas we have set specific goals such as using more sustainable materials; enhancing labor conditions at partner factories; creating more sustainable manufacturing processes; using more sustainable materials in stores; respecting diversity in the workplace, and more.

### Action by all employees

The Fast Retailing Code of Conduct (CoC) acts as the guideline for employee behavior, stressing respect for human rights and diversity, as well as responsibilities regarding regulatory compliance and business ethics. We explain the CoC to all employees worldwide to make sure they fully understand how to act in a professional and sustainable manner. At training sessions, we use examples to show how human rights, work safety and environmental initiatives are integral to employees' daily work and to the growth of our business.



## Feature

Putting sustainability  
into practice

### Part 1

Employee voices

#### Supply Chain

### Aligned with partner factories for more sustainable operations

#### Guo Zheng

GU  
Production Division Leader

Guo oversees all steps of the production process, from contracting partner factories and ordering samples to manufacturing and delivery to stores. "To meet the demands of fashion conscious customers and competitive prices of GU products, I pay close attention to quality, cost, delivery schedules and other details," says Guo. Her mission is not only to maximize value, but also to promote more sustainable manufacturing at partner factories. "That means making better clothing with quality materials, while simultaneously cutting costs, a difficult balancing act," she says. "To succeed, I share all issues with other divisions and propose efficient methods to help partner factories optimize production processes, for example. It may take time, but I'm always looking for new ways to improve the value chain."



#### Products

### "I want to develop eco-conscious jeans for today's needs"

#### Masaaki Matsubara

Jeans Innovation Center (JIC)  
Director

The Jeans Innovation Center opened in November 2016 in Los Angeles, which is often referred to as the jeans capital of the world. Matsubara selected the site and equipment for the center and made other strategic decisions from the very beginning. One of his high-priority projects is developing jeans that can be manufactured sustainably. An example is jeans made with as little water as possible. The UNIQLO brand is committed to more eco-conscious jeans. We also continuously improve the design and comfort of our jeans through subtle adjustments in materials, silhouette and fit.



#### Stores and Communities

### Store design that preserves history for the future

#### Julie Especel

UNIQLO Europe  
Store Design Project Manager

Julie designs UNIQLO stores in Europe, where there are historical streets lined with buildings and structures from another era. She says thinking about sustainability is part of her lifestyle. "I live now between the past and future. I learn the history and culture of a region to consider what I should preserve when designing a store. I think about what kind of space I can create for people to enhance their experience and feelings. This is my way of giving something to future generations and our planet. It's part of my life and approach to sustainability. I want customers to feel excited when they enter a store."



#### Employees

### Providing a memorable shopping experience through excellent service

#### Sylvester Cargill

UNIQLO USA  
Michigan Avenue store

Sylvester focuses on customer service at UNIQLO USA's Chicago flagship store. He joined UNIQLO in 2015 through our hiring program for people with disabilities. Even when the store is busy, Sylvester enthusiastically greets shoppers one by one, and politely assists them with purchases. Naturally, this wins him compliments. Sylvester also shares his expertise with new staff and inspires colleagues with his energy. "We appreciate customers who choose to come to UNIQLO, and we want to express our thanks by quickly responding to their needs," Sylvester says. "The moment shoppers step into our store, I think about what I should do and how to provide the best service. I'm proud of being able to provide a memorable shopping experience."





# Feature

Putting sustainability into practice

## Part 2

Partners in sustainability



## Shared vision in the pursuit of sustainability

### Building long-term partnerships

In the 1990s Fast Retailing (FR) contracted a Chinese sewing factory to produce UNIQLO branded apparel. Since then, FR has partnered with more and more factories in China, Southeast Asia, and South Asia. In each partnership we take a long-term view, evaluating technological and manufacturing expertise, while committing to a shared vision of making the world a better place through our business. We expect our partners to apply global best practices in quality control, labor management, worker safety, and environmental impact reduction. Mutually sustainable growth is a key factor in building partnerships.

### Sustainability across the supply chain

Since the 1990s, sustainability has become more of a business priority, especially regarding the global environment, human rights, and labor management. This led Fast Retailing in 2004 to establish a Code of Conduct for Production Partners (CoC) covering occupational safety and environmental protection. Besides initiating factory monitoring (see page 26), we also interact with international organizations specializing in social and environmental issues, and cooperate with stakeholders and partner factories to facilitate solutions.

### Deepening our bonds with partners

We are entering a new phase in tackling sustainability together with our manufacturing partners. Besides partner factory monitoring, we have begun auditing their suppliers' efforts to save energy and water as well (see page 27), using an environmental impact assessment tool developed by the Sustainable Apparel Coalition (SAC). In the areas of labor welfare, we monitor work hours and workplace safety to maintain good working conditions. With select partner factories, we are encouraging automation and other innovation to improve workplace conditions and elevate productivity. Furthermore, UNIQLO's six regional production departments support partner factory business stability by liaising closely with the factories to forecast orders and production volume more systematically.





## Feature

Putting sustainability into practice

### Part 2

Partners in sustainability

## An exemplary sewing factory

### Putting workers first, at a world-class sewing factory

#### Setting the global quality standard

China's Chenfeng Group headquarters is located on a vast, spacious campus in Jintan District, Changzhou, Jiangsu Province. With 11 factories in China making about 6.5 million pieces monthly, Chenfeng is a world-class clothing manufacturer. Since the partnership began in the 1990s, we have been collaborating with Chenfeng to make clothing that meets the world's highest standards. Chenfeng fosters awareness of social responsibility among its employees and works with us to maintain strict quality control, supported by FR's *takumi* experts (see page 32). Its vital contribution to our growth makes Chenfeng one of the core partners of the Fast Retailing group.



#### "We are a family"

Chenfeng Chairman Yin Guoxing reflects on his partnership with Fast Retailing that goes back more than 20 years: "Meeting FR was a stroke of luck. They have a clear policy of making sustainability a business goal. We work with them to find where and how to improve working conditions and reduce environmental impact, going beyond quality and design. This means that staff are not seen as a cost, but rather like a family that creates added value, an idea that matches my firm's philosophy of 'we are a family' to the letter. As the apparel industry globalizes further China's sewing factories must transform themselves to stay ahead. We are aligned with Fast Retailing in the belief that the forces of change are actually growth opportunities for our employees and business. We work to strengthen our valued partnership with Fast Retailing to grow the global clothing business. An example is identifying processes where automation can increase efficiency. Fast Retailing is truly our most valuable partner."



#### World's first-ever supplier member of Fair Labor Association (FLA)

The FLA recognized Yin's exemplary labor practices by making Chenfeng its first-ever Participating Supplier upon its affiliation in 2006. Chenfeng's high workplace standards raise the bar for rest of the industry in China. Besides guaranteeing top-level regional wages, Chenfeng has pioneered automation to increase overall efficiency, and gives workers safety instruction whenever it inaugurates a new production line. Twice a year, Yin explains Chenfeng's growth strategy to employees, while also committing to new improvements in working and on-site living conditions. Education programs and a career advancement support system are among the employee benefits that help individuals pursue their potential and increase their compensation. By putting people first, Chenfeng is well on its way to becoming the most competitive garment manufacturer in the world. As close partners, Fast Retailing and Chenfeng are ready for any challenge.



## A world-class fabric manufacturer

### Tackling social and environmental needs

#### Setting an example for companies in harmony with their communities

Located in the city of Zibo, Shandong Prefecture, China's Luthai is a world-class fabric manufacturer, producing over 16 million square meters of fabric monthly. Surrounded by greenery, its headquarters lies on Luthai Avenue. The thoroughfare's name reflects the company's ongoing support of regional infrastructure, paid for out of its earnings. Luthai's commitment extends to road maintenance, jointly operated secondary vocational schools, as well as the construction and upkeep of sports grounds, a zoo, and hotel facilities. In ways like these, Luthai Textile sets an impressive example of how companies and their communities can coexist harmoniously.

#### Water treatment plant built by Luthai

Luthai's large-scale wastewater treatment plant symbolizes the fabric manufacturer's dedication to improving the local community's quality of life. Fabric manufacturing uses high volumes of water and dye, calling for water purification and local water supply replenishment. Luthai invested in construction of a water treatment plant, which purifies plant wastewater to ensure levels exceeding China's strict environmental regulations. Of Luthai's approximately 20,000 tons of daily effluent, about 12,000 tons are reused in the factory. Luthai also treats 60,000 tons per day of local household wastewater before it is returned to waterways. To meet its own energy needs and the community's, Luthai bought and rebuilt a nearby power plant, outfitting it with advanced technology that raises power generation efficiency and minimizes pollution. Besides cleaner energy, the power plant also outputs steam, which Luthai uses in its factory, and local residential apartments use for heating.



#### Fabric manufacturers set 2020 sustainability targets

With fabric manufacturers such as Luthai, we are taking our sustainability efforts to the next level. In 2015 Fast Retailing began applying the HIGG Index to assess environmental impacts at strategic fabric manufacturers covering 70% of UNIQLO's production volume. Based on data collected with this tool, Luthai has set environmental impact reduction targets for 2020 with confidence. Luthai Chairman Liu Zibin says, "Given our commitment to sustainability, we happily comply with China's environmental regulations. Now that Luthai's operations are global in scope, expanding to Vietnam, Cambodia and beyond, our long-term obligations toward communities and the natural environment are greater than ever."





# Feature

Putting sustainability  
into practice

## Part 3

Becoming a digital consumer  
retail company



## Aligning customer satisfaction with sustainability

### A new business model integrating sustainability

The internet is creating new opportunities, bringing people, things and information closer together. A new dynamic industry is taking shape, unfettered by national borders or boundaries between manufacturing, distribution and services. For an apparel manufacturer and retailer such as UNIQLO, the ability to leverage information to deliver more value to customers is key to both customer satisfaction and competitive advantage. To achieve this, we must change in ways that align with our sustainability goals. Digital information helps us deliver products in sync with demand, thereby using raw materials, energy, human and business resources more efficiently. To transform FR into a digital consumer retail company, we have adopted a new business model that boosts customer satisfaction, competitive advantage, and sustainability simultaneously.

### Customer-focused project

To deliver what customers want as quickly as possible, FR must plan and develop products in real time, while applying nimble manufacturing and using our advanced logistics network for distribution. Therefore, we built a new 16,500 square meter office complex called UNIQLO CITY TOKYO in the Ariake District of Tokyo. Completed in February 2017, the facility has more than 1,000 employees, managing product planning, design, materials procurement, manufacturing, marketing, and information systems. Specialists from these areas form small teams to handle particular product categories such as men's shirts or women's outerwear. Teams share information output by algorithms and AI analysis of big data collected from stores, social networks, internal product design discussions, inventory, and partner factory production conditions.

### Creating new value and minimizing waste

To better respond to customer needs, UNIQLO CITY TOKYO performs many functions much faster than before. Based on highly reliable demand forecasting, it publishes product information, develops new and improved products, adjusts production volume at partner factories, and manages inventory in stores and warehouses. Capitalizing on its strengths of delivering high quality at reasonable prices, UNIQLO leverages big data to minimize waste and create new value. At UNIQLO, the pursuit of sustainability and innovation are one and the same.



## Feature

Putting sustainability  
into practice

### Part 3

Becoming a digital consumer  
retail company

## Product planning and development

### Improving customer satisfaction in a speedy fashion

UNIQLO CITY TOKYO is working on two initiatives in product planning and development aimed at improving customer satisfaction. One is improving product offerings more quickly and more often. The UNIQLO UPDATE website (see page 33) tells customers exactly how we've updated products in response to their feedback and requests. The other initiative accelerates new product development. Previously, the steps from product planning to launch took about a year. Now, small teams share business data such as product popularity, trends and new materials. By creating an environment for active discussion, UNIQLO CITY TOKYO will be able to propose new products in as little as two weeks.



## Production planning

### Shortening lead times while helping to improve labor conditions at partner factories

Representatives from UNIQLO's six regional production centers maintain close contact with suppliers by regularly visiting partner factories to check on manufacturing progress and capacity. If a new product sells better than expected, we may request production increases. Such sudden changes in production volume used to impact the work environment at partner factories. UNIQLO is intent on implementing a more systematic method of placing orders, based on improved demand-forecast accuracy derived from sales figures, social media, and other data sources that reflect customer needs.



## Production

### Improved order scheduling supports partner factory investment in personnel and equipment

Partner factories rely on Fast Retailing's product orders to make informed decisions about investments in technology such as automation and IT. One such investment is the "hanger system" implemented at Chenfeng, our main Chinese sewing factory for UNIQLO shirts (see page 17). Fabric on hangers moves automatically to the next person available to perform the next sewing task. Previously, faster workers would need to wait, while slower workers are under pressure to finish work at their station. Moving shirts from start to finish, this automated system not only keeps the line running smoothly and seamlessly, it also removes stress. Now, workers can sew at their own speed, with their own rhythm. By eliminating fluctuations in the production process, the hanger system equalizes variations in work efficiency, boosting productivity by about 10%.

## Warehouse and shop inventory

### Delivering popular items in sync with demand, while managing inventory more efficiently

Digital radio frequency ID (RFID) tags attached to UNIQLO merchandise can provide an efficient real-time picture of inventory and sales. Accurate sales figures, in turn, help stores adjust inbound shipments and maximize the assortment of popular items. Customers can find what they want more easily and inventory space is saved. RFID tags are also increasingly used by partner factories to track manufacturing progress in real time. Going forward, we will implement RFID tags worldwide.





## Building a supply chain with better working conditions and less environmental impact

### Recognizing the impact of global supply chains

Covering the procurement of raw materials to product development, manufacturing, distribution and sales, the supply chains of major corporations today are global in scope. Corporations must fully understand the extent of their impact if they are to grow sustainably in harmony with society. Furthermore, corporations must work to address issues related to their supply chains while respecting human rights.

### The Group's approach to supply chain management

The scope of the Fast Retailing (FR) Group's impact and responsibility has been increasing along with the global expansion of its business activities. Accordingly, the Group is striving to establish a responsible supply chain with better working conditions and less environmental impact. To that end, FR created its Code of Conduct for Production Partners, and expects partner factories to adhere to it. In collaboration with NGOs and NPOs that have extensive expertise in the apparel industry, the FR Group has been strengthening efforts around regular monitoring of partner factories to check and improve working conditions, human rights, and environmental measures. Furthermore, the Group has its departments in charge of product development, production, and sustainability work together with partner factories to raise productivity and improve working conditions.





# Building a supply chain with better working conditions and less impact on the global environment

## Responsible procurement

### Procuring materials while addressing human rights, working conditions, and the environment

The FR Group respects human rights at every stage of its supply chain and works to procure materials responsibly with regard to communities and the environment. Accordingly, the Group is teaming up with partner factories to create guidelines for promoting responsible procurement. The following three main principles are being incorporated in these guidelines:

1. The health, safety, human and legal rights of workers shall be ensured, and efforts made to help improve their working conditions and livelihoods.
2. Partner factories shall be able to stably expand their business with the FR Group.
3. Products shall be manufactured in accordance with proper processes in order to earn the trust of customers.

In order to carry out responsible procurement, all relevant departments must ensure proper procedures and operations. For that purpose, FR created these guidelines to clarify specific operational procedures for all relevant departments. Training programs based on the guidelines are also provided to these departments.

### The Fast Retailing Business Ethics Committee

The Fast Retailing Business Ethics Committee meets regularly to discuss issues related to business transactions between suppliers and companies of the FR Group. Chaired by the head of the Sustainability Department, the committee is primarily made up of full-time auditors, external auditors, legal advisors, and managers from relevant departments in the company. The committee has been conducting an annual survey of the FR Group's major business partners since 2003. In fiscal 2017, 330 companies were requested to participate in the survey. Survey questions were broadened to gain feedback about supply conditions particularly from partner factories. Survey results have led to improvements and been reflected in the guidelines in order to promote responsible procurement.

## Monitoring partner factories

### Revision of the Code of Conduct for Production Partners

FR established its Code of Conduct for Production Partners to help improve labor conditions at partner factories, raise the level of satisfaction among workers while ensuring respect for their human rights, enhance product quality and increase the productivity of factories. Contracts between

FR and partner factories include a provision requiring the factories to agree to and comply with this code.

In an effort to improve its whistleblower hotline system and other initiatives, the company revised certain parts of the code in 2016 following discussions with the Fair Labor Association, an international nonprofit organization committed to protecting the rights of factory workers. FR has been an affiliated member since 2015.

### Monitoring labor conditions at partner factories

In accordance with relevant items in its Code of Conduct for Production Partners, FR monitors working conditions at its sewing and fabric partner factories, and publicly discloses the results. Specifically, external specialized organizations periodically inspect labor conditions and environmental initiatives at partner factories, and FR relays the evaluation results to the factories. If improvements are deemed necessary, FR employees visit the factory to help. Factories working with the Group for the first time are also inspected before any contract is signed, allowing for any needed improvements to labor conditions at the earliest stage possible.

Since 2015, partner factory monitoring has been carried out in cooperation with Better Work, an organization jointly established by the International Labor Organization and the International Finance Corporation. Better Work calls on

affiliated companies to reduce overlapping inspections and improvement initiatives at sewing factories that handle more than one brand of clothing so that the factories can focus more on improving workplace conditions.

### Hotline to allow whistleblowers from partner factories to contact FR

FR has been confirming which partner factories have a whistleblower hotline in place and whether such systems are effective for allowing employees to report on problems in the workplace and voice their opinions and concerns. It also added new items to its factory inspection requirements in 2017 based on standards set by the Fair Labor Association, specifically concerning the availability of whistleblower hotlines, organizations representing factory workers, and employee training opportunities. As a result of these efforts, FR began operating a whistleblower hotline for enabling factory workers to directly report to the company. The hotline will be made available to an increasing number of partner factories going forward.

### Periodic visits to suppliers' factories

Inspection teams from UNIQLO's six regional production offices regularly visit partner factories to verify quality control systems, manufacturing conditions, environmental

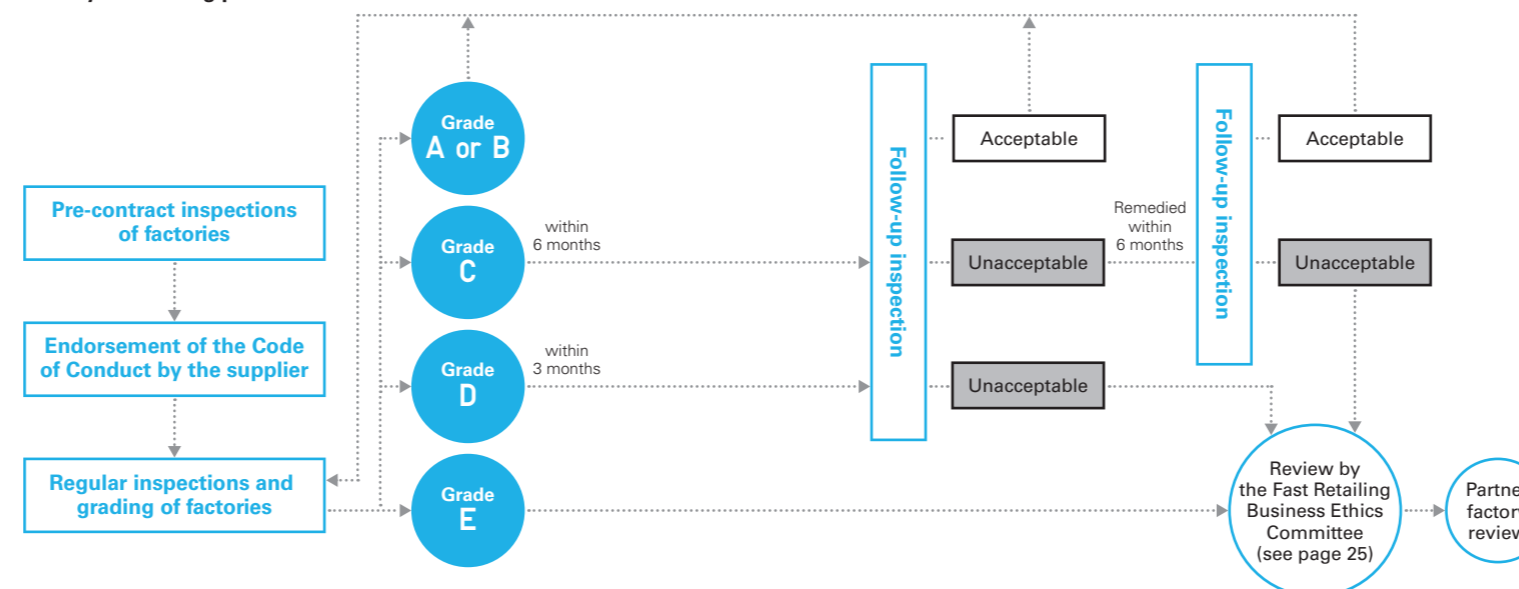
Number of cases reported to the Fast Retailing Business Ethics Committee

2015	101
2016	105
2017	69

### Code of Conduct for Production Partners Main contents

- Legal Requirements
- Prohibition of child labor
- Prohibition of forced labor
- Prohibition of oppression and harassment
- Prohibition of discrimination
- Guidelines on health and safety
- Guidelines on the right to form unions
- Guidelines on wages and benefits
- Guidelines on working hours
- Guidelines on environmental protection
- Guidelines on internal regulations
- Monitoring and strict compliance with the Code of Conduct
- Corrective actions
- Guidelines on subcontracting and procurement
- Strengthening transparency and integrity

Factory monitoring process





initiatives, and other activities. During the visits, the teams hold meetings to discuss solutions to various issues and work with local management to review the volume and schedules of production orders in consideration of available production capacity to help ensure that specified working hours are maintained. In addition, the teams work to help management at the partner factories become more independent and skilled by appointing full-time managers in charge of establishing internal inspection systems and organizations.

### UNIQLO Responsible Mill Program

#### Reducing water and energy consumption at fabric manufactures

FR is working to reduce the Group's environmental impact across its supply chain. Water and energy consumption, especially, comprise a large part of the environmental impact during the fabric manufacturing processes. FR monitors how fabric manufacturers address environmental impacts in addition to labor conditions.

In 2014, FR joined the Sustainable Apparel Coalition with the goal of improving environmental performance. From 2015, it introduced the Higg Index, an environmental assessment tool developed by the coalition, at core fabric

manufacturers which make up about 70% of UNIQLO's business. It also launched the UNIQLO Responsible Mill Program, through which factory personnel and external experts use the tool to conduct environmental assessments and make improvements. The assessments cover seven areas, including environmental management systems, energy consumption, greenhouse gas emissions, water consumption, and chemical substance usage amounts. At these core fabric manufacturers, goals have been set to reduce water and energy consumption by 15% and 10%, respectively, by 2020 compared with the 2016 levels.

#### Collaborating with industry groups and other apparel retailers

FR recognizes that strengthening ties with industry groups and other apparel retailers is essential for enforcing its codes of conduct and effectively monitoring suppliers according to international standards. Through such cooperation, FR strives to help address issues facing the entire apparel industry, which no single company can solve alone. Major organizations that FR works with are listed at the bottom of page 28.

### Eliminating hazardous chemical emissions

#### Controlling hazardous chemicals

In 2013, FR committed to completely eliminating emissions of hazardous chemicals across the entire product life cycle by January 2020. To achieve this goal, the Group has been conducting a wide range of tests together with NGOs and other industry experts. Along with its monitoring of partner factories, FR sends *takumi* teams (see page 32) to the factories to provide assistance in the event that hazardous chemicals have been detected in wastewater.

Since 2012, the FR Group has made all factories aware of its total ban on the usage of alkylphenol ethoxylate (APEO), a detergent widely used in cleaning agents. It also completely eliminated the usage of perfluorinated chemicals (PFCs), which are used to make clothing more durable and water-repellant, in apparel products from the 2017 fall-winter season after reducing their content down to about 2% of products in 2016. To ensure full transparency regarding these initiatives, FR discloses lists of restricted and controlled substances along with updates on the progress of this initiative on its website.

### Information disclosure

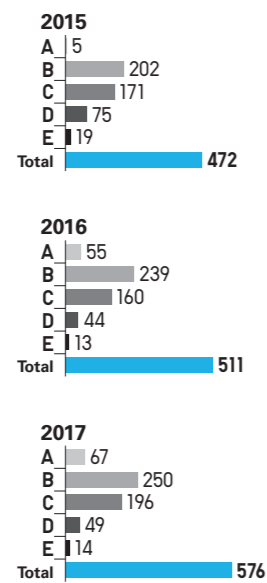
#### List of core partner factories published

FR discloses and updates information on its partner factories on the company website and in its annual Sustainability Report. In 2017, it published a list of UNIQLO core partner factories in February followed by a list of GU core partner factories in December, with the goals of increasing the transparency of its supply chain and taking on a greater responsibility to ensure good labor conditions and address issues concerning human rights and the environment.

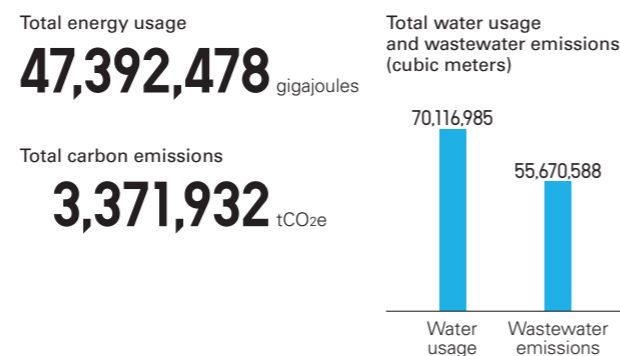
#### Partner factory labor monitoring results (as of August 31, 2017)

In fiscal 2017, the number of partner factories receiving a Grade A increased year on year, attributable to greater onsite support for improvements provided by visiting inspection teams from FR's Sustainability Department. On the other hand, the number of factories receiving a Grade D increased year on year as a result of numerous cases of late responses to revised laws related to various allowances. Therefore, FR plans to step up its supervision at those factories.

- **Grade A** No violations discovered
- **Grade B** One or more minor violations discovered
- **Grade C** One or more major violations discovered
- **Grade D** One or more serious violations discovered
- **Grade E** Highly unethical behavior and serious offenses discovered



#### Environmental impact of strategic fabric manufacturers (January 2016 to December 2016)



#### Environmental impact of UNIQLO's logistics operations in Japan (April 2016 to March 2017)



#### Key organizations that FR works with

Organization	Start of affiliation	Mission	Main activities
<b>The Accord on Fire and Building Safety in Bangladesh</b>	August 2013	Implement fire prevention and safety measures to ensure safe labor conditions so that factory workers are not at risk of fires, collapsing buildings or other accidents	Fireproofing of sewing factories, assessments of building safety, support for adoption of best practices based on accepted standards, assistance with implementation of improvements
<b>Sustainable Apparel Coalition</b>	September 2014	Reduce the environmental impact across the supply chain of the apparel and footwear industry, and contribute positively to people and communities affected by the industry's manufacturing operations	Development and promotion of the Higg Index, an industry-standard tool for measuring the environmental and social impacts of supply chains
<b>Fair Labor Association</b>	July 2015	Coordinate the efforts of apparel companies, suppliers, community organizations, and universities to protect the rights of workers and improve working conditions in line with international standards	Assessments of labor condition monitoring programs implemented by affiliated apparel companies and factories, and guidance on making improvements in accordance with the association's standards
<b>Better Work</b>	December 2015	Promote compliance with national and international labor standards in the apparel and footwear industry, and boost the safety and competitiveness of the industry as a whole by improving labor conditions and the rights of factory workers in general	Support for independent inspections and improvements at affiliated factories, sharing of reports among multiple apparel brands to reduce overlapping inspections and directives, guidance on bolstering management systems for continuously improving labor conditions



## Working to make innovative and high-quality clothing

### Recognizing the importance of more sustainable products

Attaining sustainability through products means considering the impact of products on the environment and communities over their entire lifecycle—from the planning and development stages through to recycling—while ensuring the traceability of raw materials along with product safety and quality. Fast Retailing (FR) recognizes that cooperation and collaboration with the global apparel industry as a whole is vital for tackling the common challenge of producing more sustainable clothing.

### Approach to products

UNIQLO, the FR Group's largest brand, markets clothing under the concept of LifeWear, which accounts for about 80% of the Group's sales. Made to reflect the individuality and personal preferences of customers, LifeWear products are comfortable and functional high-quality clothes that are simple and basic yet smartly designed. UNIQLO offers a new lineup every season, and works with customers in an effort to advance LifeWear and enhance their lives with good-value clothes that can be worn for a long time. In this way, UNIQLO has been laying a foundation for sustainability. The FR Group is striving to ensure that every company in the Group makes products more environmentally and socially sustainable over their entire life cycles. Toward that end, FR has been selecting raw materials in consideration of the environment and human rights, establishing strict quality control and traceability systems, reflecting customer feedback in product development, and recycling used products.





## Working to make innovative and high-quality clothing

### Considering sustainability at the product planning and development stage

#### Procuring raw materials responsibly in consideration of animal welfare

As an international apparel manufacturer and retailer, the FR Group strives to procure raw materials for its products in the most responsible way possible. Accordingly, FR is carrying out initiatives for protecting animal rights.

UNIQLO, for example, prohibits its merino wool suppliers from procuring wool from farms that practice mulesing, which involves the removal of wool-bearing skin of merino sheep to prevent parasitic infestation by flies, leaving scars on the animals. The company has been promoting procurement from farms that use medicine or other alternatives to mulesing for preventing this infestation.

In addition, for its products made with down, UNIQLO only uses bird feathers collected as byproducts at the food processing stage, and does not source from producers that force-feed birds or harvest the feathers of live birds. Moreover, UNIQLO prohibits the use of animal fur in its products.

#### Supporting people in need through UNIQLO's Upcycling Project

UNIQLO is carrying out its Upcycling Project in an effort to turn scrap materials into valuable items by reusing and recycling them. As part of these efforts, led by UNIQLO Philippines, an initiative has been introduced to give formerly homeless people and refugees the opportunity to make tote bags and other accessories using denim scraps left over from alterations of jeans at local UNIQLO stores. In cooperation with a local NGO, the company is aiming to help people in need improve their sewing ability under the guidance of UNIQLO's *takumi* experts (textile artisans) in order to eventually gain needed skills for securing employment and becoming self-reliant.

In 2017, 20 people made a total of 2,400 items, which UNIQLO purchased and offered to customers as novelty items. In the same year, other companies supporting the initiative provided materials, such as zippers. Looking ahead, UNIQLO will broaden this initiative together with other companies.



### Strict quality control and safety management

#### UNIQLO's quality control and safety management

UNIQLO has created its own Global Quality and Safety Standards, which are stricter than most safety standards established in the countries and regions where it operates. The company's standards were formulated by its Quality Assurance Committee, which is led by the executive officer in charge of production. In cooperation with partner factories, UNIQLO's production departments confirm that all of its products comply with the standards, and the information is shared among relevant departments.

Inquiries from customers regarding product quality are primarily handled by the company's Product Quality and Customer Care Team, and the customers' concerns are shared among factories and relevant departments in an effort to improve product quality and prevent quality-related problems from recurring. Reports on product defects and measures for improvements are compiled every month based on customers' opinions and requests collected by customer service centers and customers' complaints handled by the Product Quality and Customer Care Team. These reports are made known to all personnel of the company's production offices around the world, where they are useful for improving quality.

#### Passing down expertise to partner factories

UNIQLO sends *takumi* experts (textile artisans) to its partner factories to provide assistance with technical instructions, production management, or human resources training. The *takumi* have many years of experience and specialize in either fabrics or sewing. They also provide support whenever necessary at the partner factories of other FR Group companies, including GU.

This *takumi* system provides a unique way for UNIQLO to pursue its goal of producing innovative and high-quality clothing. It also plays an important role in raising product quality, improving productivity, and maintaining safe workplace environments. At the same time, it is an effective system for building capacity in the supply chain overall. The skills, improved processes, and training provided by the *takumi* enable partner factories to develop independently, especially given that most manufacture products besides UNIQLO branded goods.

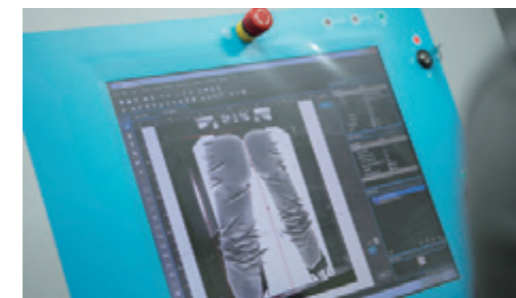
Furthermore, the *takumi* help raise the standards of the apparel manufacturing industry as a whole by overseeing many factories in the region.



### Spotlight

#### Good Wool hits the market

Fast Retailing Group company Theory launched Good Wool as a sustainable fashion collection in October 2017. The company procures wool from responsible sheep farmers in Tasmania, Australia, and has it woven into fabric using renewable energy at a textile mill in Italy. As a light and soft fabric with outstanding breathability, Good Wool is particularly suitable for clothes requiring both practicality and elegance. The fabric was developed for the Good Wool collection of suits for men and women, which are priced on par with comparable Theory products. Suits in the collection also feature biodegradable cellulose linings, buttons made from ivory nut palm, and quality labels and tags made from recycled paper. After debuting in the United States, the Good Wool collection was put on sale at Theory stores worldwide.



### Spotlight

#### Developing sustainable denim products at the Jeans Innovation Center

In November 2016, FR opened the Jeans Innovation Center as a denim research and development facility in Los Angeles, which is widely regarded as the denim capital of the world. The center creates designs with an emphasis on quality, while reducing environmental impacts during manufacturing and pursuing safe and efficient operations. An example of one of its innovations is the production of pre-faded and pre-ripped jeans. Large amounts of water and chemicals for fading the denim along with manual labor to make the tears and rips are generally required when producing such jeans. By adopting a laser process and other cutting-edge technologies, the Jeans Innovation Center aims to shorten manual processes and greatly reduce chemicals, water and waste.



### Improving products by incorporating feedback from customers

#### Recording customer feedback at customer service centers

To stay on top of consumer needs as they change with the times, the FR Group has set up customer service centers all over the world. In addition to being contacted by telephone and email, the centers in Japan launched an online chat service in 2017, making it easier and faster for customers to make inquiries. The feedback from customers is relayed to relevant stores and departments usually within a few business days. Store supervisors then work with customer service center personnel to respond and take whatever actions are necessary, ensuring that customer feedback is reflected to improve products and services. Recognizing that complaints are especially valuable feedback, all personnel involved promptly share details with relevant stores and departments so that their root causes and solutions can be determined in order to prevent any recurrence.

In addition, with the aim of improving customer service, FR has customers evaluate its customer service centers through questionnaires, which also include evaluations of telephone customer service representatives.

The centers plan to make use of this customer feedback when training representatives in the future.

#### Analyzing data in order to improve products and services

FR reviews customer feedback in detail in order to improve products and services. The Global Digital Commerce Department collects and analyzes data in real time. Drawing from information collected by customer service centers and product reviews, the department analyzes the main reasons why customers exchange or return products purchased online, and examines ways of reducing such cases.

The Global Digital Commerce Department has developed a mobile member service smartphone app that manages customer data using barcodes, allowing customer data to be collected on what items were purchased, where and when, by scanning the bar code on a customer's smartphone at the point of purchase in the store. With such data, the department can recommend the most suitable products to a customer through the service based on his or her age and personal tastes.

The Global Digital Commerce Department can also identify products that a customer seeks online, see product ratings, and improvement requests by analyzing the

customer's purchasing history, product reviews, questionnaire responses, and responses to the unavailability of products at stores. This information is shared by relevant departments for the purpose of improving and developing better products.

### Taking responsibility as an apparel manufacturer and retailer

#### Collecting used company products at stores

People can continue benefiting from clothing right up until garments wear out. Therefore, in addition to its activities of manufacturing and selling new apparel products, the FR Group recognizes the importance of reusing and recycling clothing. Accordingly, it donates second-hand clothing collected from customers at UNIQLO and GU stores to refugees and other people in need around the world in partnership with the United Nations High Commissioner for Refugees as well as NGOs and NPOs in various countries. The clothes collected at the stores are first sorted (about 80% are wearable) and then donated after clarifying the quantities and types of clothes needed by people in need. FR employees regularly travel to refugee camps to confirm that donated clothes are properly distributed and to speak directly with the recipients about what clothing and daily

items they need. As of August 31, 2017, the FR Group had collected clothing in 16 countries and regions.

In a similar initiative, Group company Comptoir des Cottonniers has been collecting and donating non-sellable factory stock to people in need since 2015 in collaboration with an NGO in France. Together, they have also been processing heat insulation materials for reuse as cloth and other items. In 2016, about 9.5 tons of clothing was collected, of which more than 60% was donated and over 30% was recycled.

#### Recycling unwearable clothing into solid fuel pellets

After sorting, about 20% of the clothes collected from customers at stores are deemed unwearable. In Japan, these clothes are recycled into refuse paper and plastic fuel (RPF) pellets by cutting the clothes into fine pieces using a shredding machine, removing any metal pieces, mixing in paper and plastic, and then compressing the materials. This high-calorie solid fuel is used by large paper manufacturers as an alternative to fossil fuels such as coal.

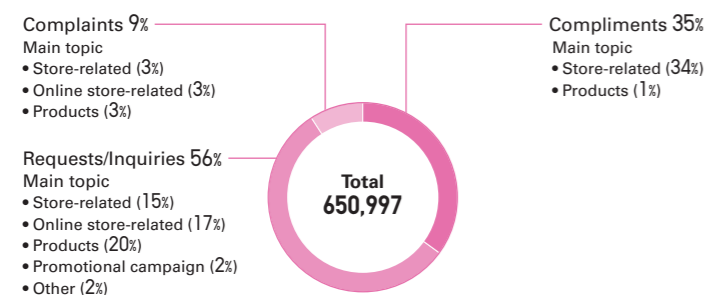
#### Number of customer feedback instances handled by UNIQLO in Japan

2015	273,400
2016	390,890
2017*	650,997

\* Feedback obtained via websites, postcards, questionnaires, telephone calls, emails, and chat services.

#### Breakdown of feedback received by UNIQLO customer service centers in Japan

Total received by telephone, email, post, or feedback cards distributed in stores



### Spotlight

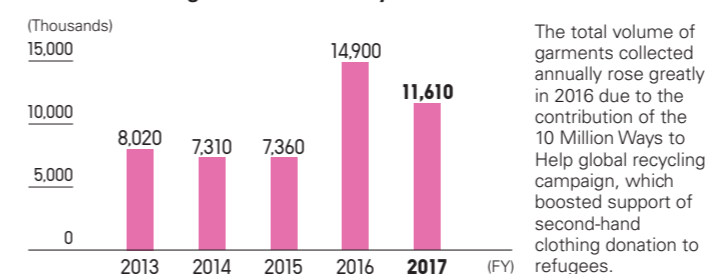
#### UNIQLO Update website debuts

UNIQLO launched a new Japanese website called UNIQLO Update in September 2017. The website features product improvements made in response to customer feedback. Various products showcased on the site have been improved. For example, fabric used for underwear was made softer to the touch after customers remarked that the material felt clingy, and a down vest was changed to a V-neck style so that the collar would not be seen when worn under a coat.

Each of the many comments collected from customers are carefully reviewed and relevant products are improved accordingly. In that way, initiatives for designing high-quality clothes that give people greater satisfaction is passed on to the company's product development teams.



#### Items of clothing collected annually



The total volume of garments collected annually rose greatly in 2016 due to the contribution of the 10 Million Ways to Help global recycling campaign, which boosted support of second-hand clothing donation to refugees.





## Connecting stores with the community

### The responsibility of business to tackle global issues

The world is confronting serious challenges, from threats to the natural environment to poverty, discrimination, regional conflicts and refugee crises. Against that backdrop, the Fast Retailing (FR) Group is doing business in various parts of the world with an underlying mission to help those places grow and develop sustainably. Communities must address global challenges, such as refugee issues, depending on the circumstances in their respective country. In order to realize a more sustainable world, in addition to the work done by government bodies, NGOs, NPOs, and international organizations, we must also make use of the diverse technologies, products, services, capital, and management capabilities of the private sector to help achieve sustainable growth.

### The Group's approach to stores and communities

Leveraging the strengths of its apparel businesses, the FR Group donates clothing to refugees and displaced people as well as disaster victims through its global partnership with the United Nations High Commissioner for Refugees. It also provides emergency aid, promotes educational initiatives, and helps people become self-sufficient. Indeed, for communities to develop sustainably, conditions must be in place for people to be self-reliant. The FR Group takes advantage of its network of stores around the world to provide opportunities for employment and job training targeting society's vulnerable and disadvantaged as well as supporting the education of children and aspiring young people. Furthermore, to ensure that the stores themselves operate sustainably, the Group is working to reduce their environmental footprint, maintain safety, and become deeply rooted in the community and culture through dialogue and cooperation with local residents.





# Connecting stores with the community

## Making stores more sustainable

### Stores rooted in the community

Each country in which the FR Group's stores operate has its own unique history, culture and geography. Similarly, preferences for clothing in terms of color, design, and size vary from country to country. Product lineups reflect regional demand and sales trends, and store staff serve customers in the spirit of meeting or exceeding their needs. At the same time, the FR Group operates and manages stores to minimize environmental impacts while finding ways to address social needs. Accordingly, it has set global guidelines for stores to be managed in an environmentally and socially sustainable manner while growing their business by meeting the distinct needs of their respective communities.

### Three principles for reducing environmental impacts at stores

The FR Group created its Store Design & Operations Policy for the purpose of reducing environmental impacts at stores. Activities related to the three principles are described as follows.

### Improving energy efficiency at stores

The policy calls for the reduction of CO<sub>2</sub> emissions and energy consumption by more efficiently using and upgrading store lighting and temperature control systems. Accordingly, UNIQLO stores in Japan have committed to cutting CO<sub>2</sub> emissions per unit of floor space by 10% by the end of fiscal 2020 compared with the fiscal 2013 level.

### Managing and recycling waste at stores

The policy also calls on stores to manage and recycle their waste, 99% of which comes from product packaging. In Japan, UNIQLO and GU street-front "roadside" stores aim to recycle 100% of all waste material, while other stores located in shopping malls or large buildings strive to keep waste to an absolute minimum.

### Switching to more sustainable store materials

Finally, the policy calls for stores to become more sustainable by promoting reuse and recycling of fixtures, and use of more sustainable materials. For example, when UNIQLO stores are closed or remodeled, many of the store fixtures and equipment are reused at new stores. This initiative is being expanded from Japan to China and South Korea.

## Connecting stores with the community

### Supporting people with disabilities in Singapore

UNIQLO Singapore has been actively hiring people with disabilities since 2009, and has continued to hold a series of related events at its stores, including a T-shirt design event that made use of a UNIQLO app. In 2017, it launched a new job training program aimed at helping the disabled secure employment. Through the program, the trainees gain experience as store salespeople at a mock UNIQLO store set up in a vocational training facility in Singapore, enabling them to acquire the skills needed for working in the retail industry.

## Donating clothing to people in need

### Expanding the All-Product Recycling Initiative

Clothes symbolize human dignity and allow people to be self-reliant in various ways. In order to maximize these benefits and provide clothing to people in need, UNIQLO has been carrying out the All-Product Recycling Initiative since 2006, through which second-hand clothing collected from customers at stores is donated to refugees and other displaced people in partnership with the United Nations High Commissioner for Refugees (UNHCR).

Initially, UNIQLO recycled second-hand clothing as fuel, but later shifted its focus to re-use after FR formed the partnership with the UNHCR. FR entered into a global partnership with the UNHCR—the first time for an Asian company—in 2011, and began collecting clothing in earnest at stores around the world. As of August 31, 2017, clothing was being collected at UNIQLO and GU stores in 16 countries and regions. About 80% of the collected items were suitable for donations, while the remaining 20% were recycled as high-calorific solid fuel.

### Matching clothing with needs together with UNHCR

In order to ensure that the clothing donated to refugees and displaced people is distributed as effectively as possible, it is important to accurately match the types of clothing with recipients' needs, taking into account religious and cultural factors, and what clothes are best suited to the surrounding environment. Members of the FR Group review the type and quantities of clothing as well as their destinations through discussions with the UNHCR. Furthermore, Group employees regularly visit refugee camps and other locations to see how the items are received and to speak with the recipients about the types of clothing they need most.

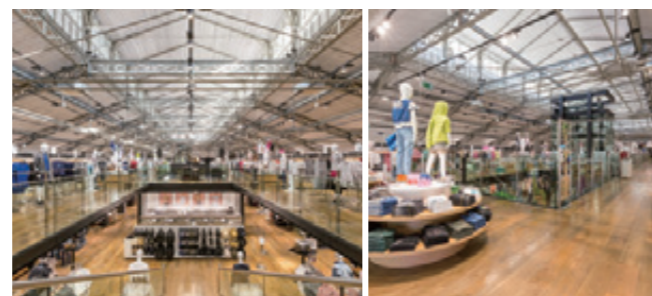
## Spotlight

### Heritage building a new home for UNIQLO's store in Montpellier

A new UNIQLO store opened in the city of Montpellier in Southern France in March 2017. The store is housed in a prominent heritage building situated in the city's historic district, which was built in the 19th century. The city government strictly reviews new stores in the area to ensure heritage buildings are preserved, and continues to monitor building maintenance after a store has opened. Representatives of UNIQLO Europe's operations in France held several meetings with the city government before opening the store. Eventually they put forward a plan in cooperation with the government, in which the building's façade and roof truss structure would remain unchanged, with energy-efficient LED lighting installed throughout the building. In that way, the plan combined traditional architecture and modern fixtures. Within its first year of opening, business was brisk not only for UNIQLO, but for the surrounding shopping district, which saw a 10% rise in overall sales according to local government authorities.



The façade today compared with the building in the 19th century



The roof truss structure, the building's most distinctive feature, was preserved.

## Environmental impact of stores and offices in Japan

Stores comprise all UNIQLO and GU stores in Japan; HQ comprises the Roppongi, Ariake, and Yamaguchi offices

Energy Use		Carbon Emissions		Waste	
Store Electricity	272,424,374 kilowatt-hours	Store city gas and LPG	13,169 tCO <sub>2e</sub>	Store	55,543 tons
HQ Electricity	12,016,239 kilowatt-hours	HQ city gas	40 tCO <sub>2e</sub>	HQ	289 tons
Store city gas and LPG	3,086,825 cubic meters	Total scope 1	13,209 tCO <sub>2e</sub>		
HQ city gas	6,073 cubic meters				
		Store electricity	159,913 tCO <sub>2e</sub>	Target for carbon emissions of UNIQLO stores in Japan (based on total floor space) <b>10%</b> reduction compared with the 2013 level by 2020	
		HQ electricity	6,158 tCO <sub>2e</sub>		
		Total scope 2	166,071 tCO <sub>2e</sub>		



In 2017, FR worked with the UNHCR to establish a framework for managing large-scale donations targeting areas in need of long-term support and areas requiring urgent assistance, and held a workshop at its Roppongi Office for global UNHCR members. As a result, the Group increased the amount of clothes it donated to refugees and displaced people in South Sudan, Afghanistan, and Columbia. As of August 31, 2017, the Group had donated approximately 25.6 million items of clothing in 65 countries.

### Initiatives for supporting children

**■ Visiting schools to raise awareness of refugee issues**  
 UNIQLO has been teaming up with schools in an effort to spark interest in refugee issues among children and allow them to make a difference through its Power of Clothing Project since 2009. Employees visit schools to give presentations to children, who learn about the harsh living conditions inside refugee camps and the importance of donated clothing. The students then organize their own clothing donation drives, and ultimately receive photo reports from Group employees delivering the clothes in refugee camps, helping them see the direct connection of how the clothes they collected were beneficial to refugees in other parts of the world.

In 2017, about 30,600 students from 322 schools across Japan participated, collecting children's clothing, which is desperately needed in refugee camps worldwide. The project has also begun in South Korea and the United States.

**■ Student work experience program at stores**  
 UNIQLO and GU stores in Japan host a work experience program for elementary, junior high and high school students. Through the program, store managers and employees plan activities suited to the ages of the students so that they can experience all aspects of store operations, including the importance of teamwork and customer satisfaction. The activities also include opportunities for students to independently think about and complete challenging tasks, thereby improving their problem-solving abilities while helping them build communication skills. These activities also give participating employees valuable learning opportunities. In 2017, 2,066 students and 735 schools nationwide participated in the program.

### ■ Scholarship program initiated for educating future leaders

In the hopes of creating more opportunities for young people to succeed in Hong Kong, UNIQLO launched a scholarship program to educate future leaders in 2015. Since then, five-year scholarships have been awarded to 10 students each year. Eligibility for the scholarships was originally open to college and university students, but was extended to staff and students working at UNIQLO Hong Kong stores in 2017.

### Helping refugees become self-reliant

#### ■ Providing job opportunities for refugees

Since 2011, UNIQLO has been actively creating job opportunities for refugees and their family members who have received long-term residency status in Japan in cooperation with the Refugee Assistance Headquarters and other organizations. While aiming to increase the number of people hired each year, UNIQLO has been training store managers and employees who will act as trainers in order to enhance awareness among both store employees and the newly hired refugees.

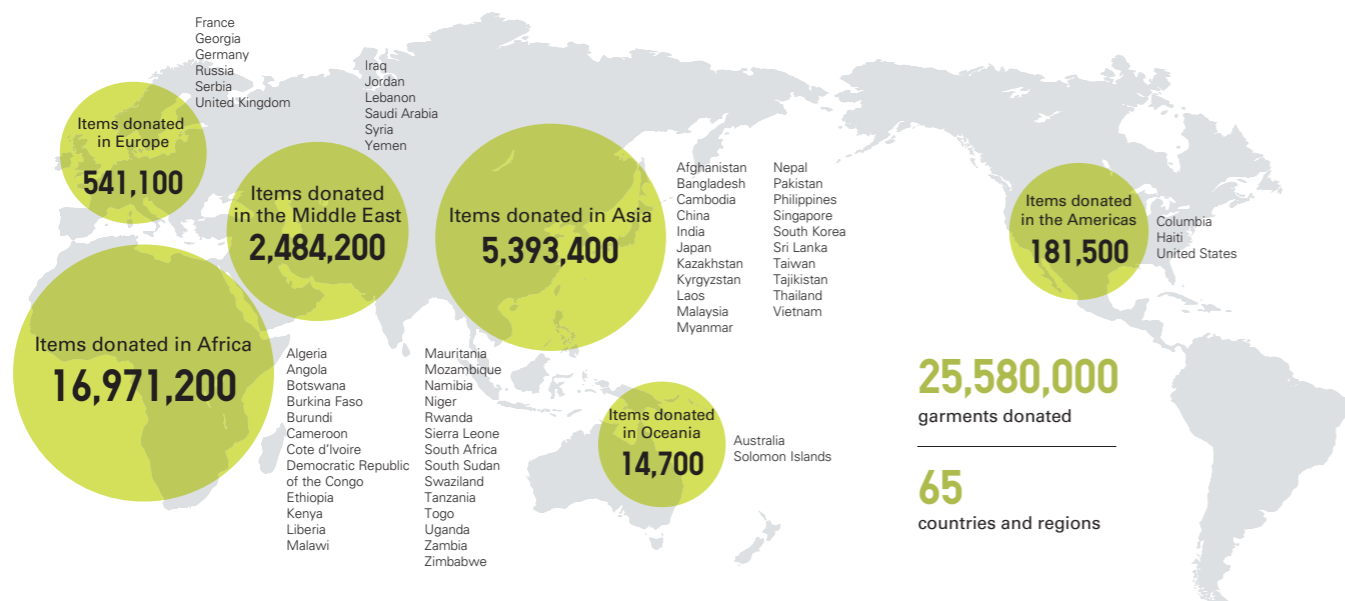
UNIQLO is also hiring refugees in Germany and France. As of October 31, 2017, a total of 57 refugees were

employed across the FR Group. FR is aiming to increase this number to 100 in the future.

#### ■ Helping refugees become self-reliant in partnership with the UNHCR

Since 2016, FR has donated USD 5.5 million to the UNHCR to support programs that assist refugees in becoming self-sufficient. In five countries in Asia, the programs provide occupational training covering skills needed locally, such as dressmaking and computer skills, thereby creating opportunities for earning income through self-employment.

Items of clothing donated through the All-Product Recycling Initiative (as of August 31, 2017)



Participation in the Power of Clothing Project and student work experience program in Japan in 2017



Power of Clothing Project  
 Approximately **30,600** students from **322** schools

Student work experience program  
**2,066** students from **735** schools

Number of people participating in self-sufficiency programs coordinated by UNHCR and UNIQLO in 2016



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Iran	<b>3,220</b>	India	<b>1,267</b>
Malaysia	<b>1,015</b>	Nepal	<b>351</b>

Note: Support was provided in Pakistan beginning in 2017.



MESSAGE

Message from United Nations High Commissioner for Refugees Filippo Grandi



Filippo Grandi (right) and Fast Retailing CEO Tadashi Yanai

**A worsening crisis**

The region facing the most critical situation with regard to refugees is Africa. Aside from the eight conflicts engulfing that region, there are two major crises in Asia. One of them is Afghanistan — a country that continues to deal with hardship along with a significant population of second-generation of refugees who were born in refugee camps. Another is Bangladesh, where there are thousands of Rohingya refugees that have fled from Myanmar. Globally, we estimate that more than 66 million people have had to abandon their homeland due to civil war, conflict, violence, or persecution.

The refugee crisis is also undergoing heated debate in more affluent countries such as the United States, Australia, and the countries in Europe. Unfortunately some have cast the refugee crisis in a negative light for their own political gain. We should never

forget that refugees are people fleeing danger or persecution, requiring our help and protection until they can safely go back to their homes.

**Seeking support from the corporate sector**

UNHCR works with every country with the needs of refugees in mind first and foremost. The situation is becoming more serious, and increasingly, governments and aid agencies cannot address the challenges alone. We are looking for greater involvement from the corporate sector and the resources that they can provide. Global companies often have the ability to employ refugees and promote awareness of their plight. They also have the resources to alleviate problems, and have expertise in fields such as distribution and IT. We hope more companies can make a difference by leveraging their strengths.

**Applauding FR's support**

Our collaboration with Fast Retailing sets a good example for other companies to follow. FR supports refugees not just financially, but also through the efforts of their employees, business partners and customers. The All-Product Recycling initiative is a good example.

Not only do UNIQLO and GU make efforts to raise refugee awareness among their employees and customers, but they support refugees by donating their products. FR also provides work experience programs for refugees that lead to employment.

The company believes that refugees are a precious human resource, and they employ a total of 57 refugees in Japan, Germany, and France (as of October, 2017). FR plans to increase the number of refugee employees to 100. Since 2011, FR has encouraged its employees to participate in refugee support programs with UNHCR staff members. These types of initiatives improve refugee's lives.

We hope every FR employee can further raise awareness of refugees among the customers, or even their family and friends, to develop new and innovative solutions that address the challenges refugees face.

**Coming together to make a difference**

Lastly, we would like to remind you that refugees face some of the greatest difficulties in the world. They are just like us. However, they have had to leave everything behind: their home, jobs or school, their friends or loved ones. Refugees are not a threat. They are people who have fled dangerous or life-threatening circumstances and require our help. We truly hope more people will understand their story, and find ways to take part in refugee support programs like those undertaken by the private sector or other organizations. Programs like those supported by FR.

Enriching people's lives through social business initiatives

Grameen UNIQLO in Bangladesh

Bangladesh is an important production center for the FR Group. The country has experienced remarkable economic development in recent years, posting an economic growth rate of 7% in 2016, but serious social problems persist, including poverty and a lack of educational opportunities. With the goals of helping resolve such problems and developing the country's textile industry, FR set up a social business in 2010 in partnership with the Grameen Bank Group, which was founded by Nobel Peace Prize Laureate Muhammad Yunis. In 2011, they launched Grameen UNIQLO as a joint venture in Bangladesh.

Grameen UNIQLO handles every aspect of business in Bangladesh, from manufacturing through to sales. High-quality and comfortable apparel products are sold at prices that local people can afford, and the profits are reinvested back into the business. As the company grows, it aims to strengthen the business of its production partners and increase the skills of their workers. To make use of the know-how and experience built up through UNIQLO's operations, FR provided training to designers from Grameen UNIQLO at UNIQLO's Product Development Department in

Japan, and invited local personnel in charge of store development to UNIQLO's global conference to discuss FR's policies and approach to expanding its network of stores.

Grameen UNIQLO has established five new stores over the past two years, bringing its total to 14 as of December 31, 2017. It also appointed its first female store manager. Looking ahead, the company intends to proactively develop new products, create employment opportunities, open new stores and expand sales, thereby enriching the lives of people in Bangladesh.





## Promoting healthy workplaces that empower all employees

### Employee needs in a globalized economy

Workplace-related laws and standards differ by country and region. Therefore, to operate sustainably, global companies must not only comply with local laws and regulations but also respect the human rights of all stakeholders across their business activities. Furthermore, to become more competitive, it is essential for companies to raise the skills of their employees, create career opportunities for employees to demonstrate those skills, establish effective evaluation and remuneration systems, and ensure that each employee can realize his or her potential as the company grows.

### Fast Retailing's approach to its employees

The growth of the Fast Retailing (FR) Group is driven by its employees worldwide. From that standpoint, FR recognizes that making its workplaces comfortable for all employees is critical in allowing each individual to demonstrate his or her skills. FR has also set objectives to provide employees with opportunities for personal growth and skills development. To achieve that, FR carries out various programs related to career advancement and training, and has put in place a global evaluation and remuneration system. FR established its Global Human Resources Department to implement global programs and policies across the Group. It also created the Fast Retailing Group Code of Conduct, which stipulates guidelines for employees to follow, including human rights, compliance, environmental conservation, and information management. Through various training programs, the Group works to ensure that all of its members always perform their duties in an ethical manner.





# Promoting healthy workplaces that empower all employees

## Respect for human rights

### Priority on human rights

Covering compliance, respect for human rights and business ethics, the Fast Retailing Group Code of Conduct was established as a set of basic requirements and guidelines for all FR employees to follow. To ensure that the Code of Conduct is fully understood and put into practice group-wide, FR provides training programs to all employees of the Group. After receiving training, each employee is requested to sign a pledge declaring his or her intention to comply with the code. In addition, employees also participate in training courses covering sustainability and business ethics, which explain the importance of ethical business practices and compliance.

In response to growing concerns over human rights issues around the world, FR began formulating a human rights policy in 2017 to strengthen initiatives aimed at ensuring greater respect for human rights.

### Ethics and compliance hotline

FR has set up ethics and compliance hotlines for group companies around the world to allow employees in each country to voice problems in the workplace or report on cases that potentially violate the company Code of Conduct.

Hotline personnel investigate reported cases while protecting the privacy of the callers. If a violation appears to have occurred, the Code of Conduct Committee or related department convenes in an effort to address the matter.

The most common issues reported via the hotline were communication problems with supervisors and career-related concerns. In many cases, these problems were attributed to the treatment of employees by inexperienced store managers and supervisors. In response, FR will enhance its training programs for employees promoted to management positions going forward.

## Valuing diversity and equal opportunity

### Advancing the careers of female employees

Given that the majority of products it sells are for women, the FR Group recognizes that advancing the careers of female employees is vital for the growth of its business. Accordingly, FR created its Diversity and Inclusion Office in March 2015 with the goal of having women in at least 30% of all management positions group-wide by 2020. To that end, various initiatives are being carried out, including Women's Direct Meetings, which bring female store and administrative managers together with outside experts for discussions, as well as conferences for female store

managers with children, which allows working mothers to share their experience and advice. There is also a program for female store managers to be mentored by women in senior management positions. FR encourages women who are taking maternity and childcare leave to participate in these programs, helping alleviate their concerns about returning to work.

As a result of these initiatives, FR's goal was achieved in 2017, when the ratio of women in all management positions reached 31.3%. Looking ahead, FR will work to continue increasing the ratio of women who serve as managers as well as general managers and executive officers. To that end, it plans to enhance all relevant support mechanisms, select a broader range of employees as management candidates, and systematically support career development.

### Promoting greater work-life balance

For the FR Group to grow in the future, it is essential that workplaces allow employees to thrive over the long term. FR has introduced various systems for supporting work-life balance and encourages all employees—both women and men—to make use of them. These systems enable employees experiencing significant life events and responsibilities, such as the birth of a child, childcare, or

nursing care, to shorten their working hours and take maternity or caregiving leave. In addition, FR in Japan adopted a work-at-home system for head office employees in 2017.

### Employing people with disabilities

With a vision of having employees learn and grow together as members of a team that transcends physical and intellectual differences, UNIQLO stores in Japan began hiring people with disabilities in 2001, and set a target of employing one such person per store. That target has almost been attained since 2012, and as of end of fiscal 2017, the percentage of people with disabilities employed by group companies in Japan reached 5.35%, far exceeding the statutory requirement of 2.0% set by the national government.

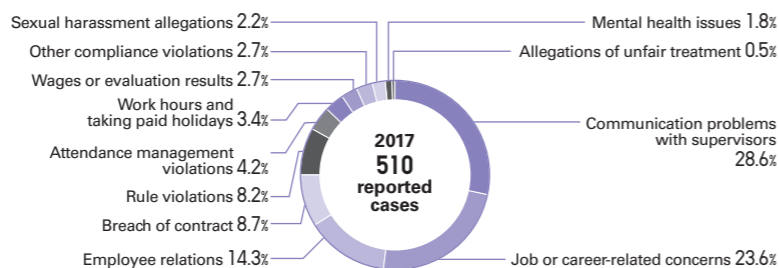
As of August 31, 2017, a total of 1,613 people with disabilities were employed by FR in 16 countries and regions.

## Fast Retailing Group Employees Worldwide

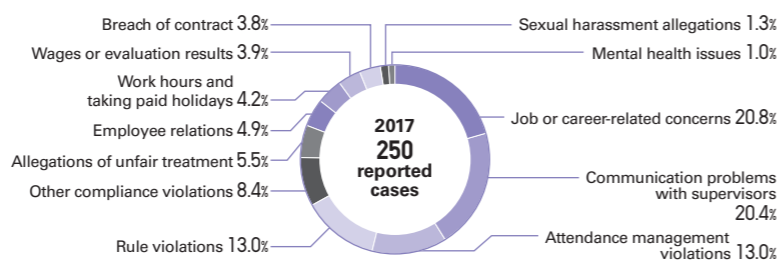
Japan	63,000	Malaysia	1,100
China	21,300	United Kingdom	700
United States	5,000	Canada	600
South Korea	4,600	Germany	200
Hong Kong	3,100	Bangladesh	200
Taiwan	3,000	Spain	200
France	3,000	Belgium	100
Thailand	1,700	Vietnam	90
Russia	1,600	Italy	70
Philippines	1,500	Switzerland	50
Indonesia	1,300	India	10
Singapore	1,200	Turkey	10
Australia	1,200		

Total employees  
**114,830**

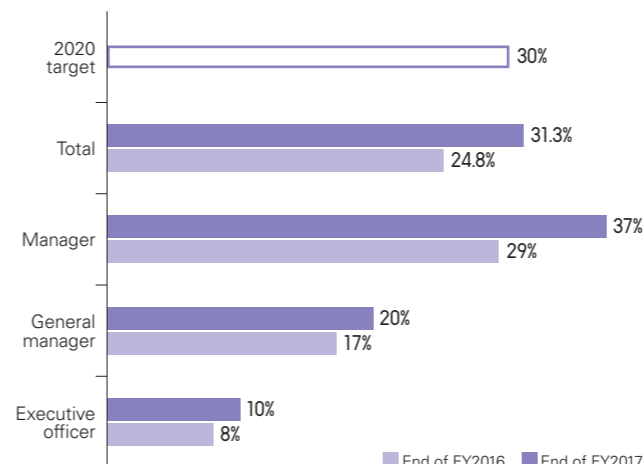
## Breakdown of issues reported by group company employees in Japan



## Breakdown of issues reported by employees in China, Taiwan, and South Korea



## Ratio of women in management positions



**31.3%** of all management positions are held by women

**6.5** percentage point increase year on year

## Employees using child-care or nursing-care programs in Japan

	Child-care program		Nursing-care program	
	Leave	Reduced work hours	Leave	Reduced work hours
Full-time	992	618	38	12
Other	650	32	7	0
Men	9	2	3	0
Women	1,633	648	42	12
Total	1,642	650	45	12

## Number of employees with disabilities

**1,613** employees in **16** countries and regions  
Of the total, 1,266 are employed at group companies in Japan.



### Occupational health and safety management

#### Occupational health and safety programs

To ensure that working environments are safe and healthy for FR Group employees in Japan, 50 occupational physicians have been contracted around the country. Moreover, a Wellness Center has been established at three workplaces in Japan. The centers make it easy for employees to receive medical checkups, periodic information about mental and physical health, and advice from occupational health nurses and counselors. In addition, FR's Central Safety and Health Committee meets monthly under the direction of a general physician to confirm the progress of occupational health and safety programs and discuss issues that need to be resolved.

In 2017, medical checkups and doctor appointments for the growing number of Japanese personnel being transferred to worksites overseas were scheduled in advance of their departures, and physicians located in the countries they will work in were also selected. In the future, these measures will be expanded to worksites outside Japan.

#### Preventative measures for reducing the number of accidents in the workplace

Most accidents in stores happen when employees use stepladders or move fixtures during layout changes. In an effort to decrease the number of accidents, FR began providing instructions on the correct usage of stepladders to employees in photographs and videos available on its intranet in fiscal 2017.

### Facilitating career advancement

#### Sharing a common vision

As the global apparel market grows increasingly diverse, for employees to demonstrate their capabilities and be empowered in the workplace, it is essential that they share a common vision. To provide opportunities for management to explain the FR Group's vision and policies, FR holds a convention in Japan twice every year, attended by about 5,000 store managers and head office personnel.

#### Helping employees advance their careers

As part of its efforts to help employees advance their careers, FR has established a personal career planning system that allows employees to directly inform human resources about their career ambitions, as well as an internal recruitment system that lets employees apply for a transfer

to another store or head office department. Meanwhile, human resources personnel together with managers and department heads of each company in the FR Group have been organizing human resources development conferences since August 2017 to discuss employee career planning, and systematically appointing, transferring, and promoting individuals. Moreover, a database integrating information on the skills, evaluations, and career tracks of every employee in the Group was created in 2017 and the Global Human Resources Department was set up to optimally reassign employees from a global standpoint.

#### Evaluation system to support career advancement

The FR Group adopted a new employee evaluation system in October 2017 to more accurately assess the job performance of employees. The system not only grades personnel on their observable accomplishments but also incorporates a 360-degree review process through which they are evaluated by supervisors, peers, and subordinates. To ensure fair and transparent employee evaluations and remuneration group-wide, FR also adopted a global grading system that clearly specifies the prerequisites and skills required for all types of job positions. Standardized evaluation guidelines have been used across the Group since 2015 in order to minimize national or regional biases,

evaluator bias, and performance bias in evaluations.

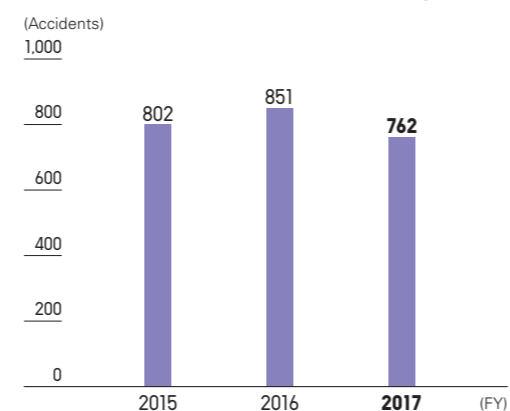
### Skills development and training

#### Integrating personnel systems with training programs

To broaden career opportunities for employees, general training programs need to be supplemented by training tailored to individuals and their specific goals. Furthermore, to enable global leaders to deal with complex business conditions, it is essential for training programs to be integrated with human resources systems. For these reasons, the Fast Retailing Management and Innovation Center, the Group's main training facility, together with the Human Resources Department have created a 10-year curriculum for training personnel. They also launched two programs for developing global leaders: the Future Global Leaders Program, which has managerial candidates recommended by workplaces around the world solve important business-oriented issues involving brands as well as national and regional operations, and the Mirai Project, a program that gives employees opportunities to solve business-related problems and develop, propose, and implement new business ideas. FR is now verifying the results of these initiatives while working to create even more effective programs going forward.



Number of work-related accidents in Japan



10-year training curriculum

	Introductory Year 1	Basics Years 1 - 2	Intermediate Years 2 - 6	Advanced Years 6 - 10
Fast Retailing's values	New hire training New store manager training		Fast Retailing Convention Store manager meetings with CEO/CEO seminars for aspiring managers	
Fast Retailing's philosophy	Fast Retailing's philosophy (introductory to advanced)			
Problem solving	Problem identification and causal analysis	Problem-solving models	Goal setting and decision making	
Applying information	Information collection	Information analysis	Applied information	Business problem solving
Creative thinking	Exploring creativity	Basic ideation methods	Application of ideas in business	
Business communication	Basic skills	Speaking and listening skills	Explanation and persuasion skills	Consensus building skills
Cross-cultural communication	Cross-cultural communication skills			
Sales strategies	Sales strategies (introductory to advanced)			
Training subordinates	Training subordinates (introductory to advanced)			



### Fast Retailing's approach to corporate governance

Fast Retailing (FR) has been working to enhance the independence and supervisory functions of board meetings, facilitate responsive and transparent management, and raise its standards of corporate governance. As part of its efforts to strengthen its corporate governance system, FR has adopted a delegate-based executive director system, in which individuals selected by the Board of Directors and the president are given specified ranges of authority over business operations, and separated administrative and decision-making functions to improve performance. The board is mainly comprised of external directors in order to strengthen its independence and supervisory functions.

FR has adopted a corporate auditor system, and to provide support for the Board of Directors, maintains committees dedicated to overseeing human resources, sustainability initiatives, information disclosure, IT investment, compliance with the Fast Retailing Code of Conduct, and ethical issues.

#### Number of committee meetings held in fiscal 2017

Sustainability Committee: 2 times  
 Business Ethics Committee: 12 times  
 Code of Conduct Committee: 10 times

### Information security

With countries around the world enacting and enforcing stricter laws for protecting personal privacy and information, the FR Group recognizes the importance of information security, especially since its business is increasingly globalized and a growing percentage of its sales are being made through e-commerce.

In May 2014, a new team reporting to FR's chief security officer was set up to strengthen the Group's information security. In addition, procedures for managing personal information have been established for all relevant departments, including departments involved in IT and business operations, to facilitate assessments and improvements of information security across all operations.

FR revised its rules on information security in order to bring them up to date with recent trends, and distributed basic rules for information security and the handling of personal information to employees in February 2017. An e-learning training program was also

carried out to enhance employees' understanding of the new information security policies.

FR intends to continue working with information security and legal teams around the world to strengthen its information management systems while providing related training and educational programs to employees. In the event a problem related to information security arises, FR will ensure that the details are promptly and properly disclosed in accordance with applicable laws and regulations, and all departments involved will cooperate to quickly implement countermeasures for preventing such a problem from recurring.

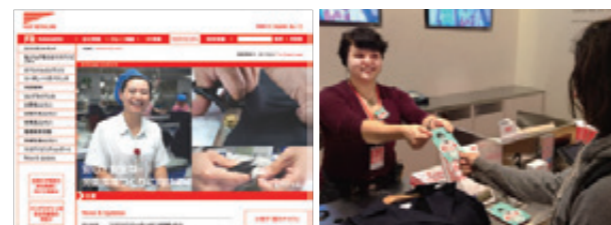
### Inclusion in sustainability indices

For two consecutive years, FR has been listed in the Dow Jones Sustainability Index Asia/Pacific, which is designed to measure the performance of leading companies in the Asia-Pacific region. The index is a regional group of the Dow Jones Sustainability Index, the world's leading ESG criteria for responsible investment.



### Communication

FR is committed to disclosing all types of information and facilitating communication with various stakeholders through the publication of this sustainability report, as well as company websites, booklets, in-store leaflets and posters, and posts on social networking services.



Website:  
<http://www.fastretailing.com/eng/sustainability/>

As an apparel manufacturer and retailer operating globally, FR organizes its operations under three main business segments: UNIQLO Japan, UNIQLO International, and Global Brands. The UNIQLO International segment, especially, is now a major growth driver for the FR Group, accounting for about 38% of consolidated net sales. Outside Japan, the first UNIQLO store opened in the United Kingdom in 2001, and by August 2017, this number had grown to 1,089 stores—surpassing the 837 stores operating in Japan.

### Company profile

**Name:** Fast Retailing Co., Ltd.  
**Established:** May 1, 1963  
**Headquarters:** 717-1 Sayama, Yamaguchi City, Yamaguchi Prefecture, 754-0894, Japan  
**Roppongi office:** Tokyo Midtown Tower, Akasaka 9-7-1, Minato-ku, Tokyo 107-6231, Japan  
**Ariake office:** 6F UNIQLO CITY TOKYO, 1-6-7 Ariake, Koto-ku, Tokyo 135-0063, Japan  
**Paid-in capital:** 10,273,950,000 yen  
**Business:** Control and management of all FR Group operations as the owner and holding company

(Fiscal year)	2015	2016	2017
Consolidated net sales (billion yen)	1,681.7	1,786.4	1,861.9
Consolidated operating profit (billion yen)	164.4	127.2	176.4
Number of employees group-wide (including full-time, contract, and part-time employees)	99,500	100,130	114,830

(Fiscal year)	2015	2016	2017
UNIQLO Japan	841	837	831
UNIQLO International	798	958	1,089
Global Brands	1,339	1,365	1,374
<b>Total</b>	<b>2,978</b>	<b>3,160</b>	<b>3,294</b>

**Disclaimer:**  
 This report provides factual information on Fast Retailing Co., Ltd., and its Group companies, as well as plans and items to be reviewed as of the date of publication. The report also includes forecasts based on management policies and strategies. These forecasts are based on assumptions or judgments made using information available at the time of publication. Actual results and future business activities may differ from these forecasts due to changes in business conditions and other factors.

### Business segments

#### UNIQLO Japan

The UNIQLO Japan segment includes 831 stores nationwide (the largest network of apparel retail stores in Japan) and posted net sales of more than 810.7 billion yen in fiscal 2017.

- Net sales: 810.7 billion yen
- Operating profit: 95.9 billion yen



www.uniqlo.com

#### UNIQLO International

The UNIQLO International segment includes stores in China, Hong Kong, Taiwan, South Korea, Singapore, Malaysia, Thailand, Philippines, Indonesia, Australia, the U.S., Canada, the U.K., France, Germany, Belgium, Spain and Russia.

- Net sales: 708.1 billion yen
- Operating profit: 73.1 billion yen



www.uniqlo.com

#### Global Brands

The Global Brands segment includes the following retail store operators: GU, an affordably priced fashion brand built on UNIQLO business expertise; Theory, a collection of men's and women's brands launched in New York; Comptoir des Cotonniers, a French fashion retailer for women; Princesse tam.tam, a lingerie brand also from France; and J Brand, a specialty denim retailer based in Los Angeles.

- Net sales: 340.1 billion yen
- Operating profit: 14.0 billion yen



PRINCESSE tam.tam PARIS

Theory

J BRAND

COMPTOIR DES COTONNIERS





