

■ Living Wage Approach

1. Approach

Fast Retailing recognizes a living wage as a worker's right and strives to not only ensure a legal minimum wage for workers in our supply chain, but also a living wage that provides workers with a comfortable standard of living. Since joining the Fair Labor Association (FLA) in 2015, an organization committed to fair compensation, we have collaborated to analyze wage compensation data at our partner factories to identify gaps between worker wages and a living wage, seeking solutions to any gaps we identify. Most apparel brands, including brands in the Fast Retailing group of companies, outsource production to suppliers. Those suppliers determine the wages of the workers by considering multiple factors including the local minimum wage, the local cost of living, wage levels at neighboring factories and factory's business performance. While understanding the challenge of those suppliers in defining and guaranteeing workers' living wage, we are committed to the following actions towards a living wage, in collaboration with our production partners and stakeholders:

- By engaging with production partners, we comply with legal requirements and strive to build sound industrial relations, enhance human resource management capacity and improve performance and efficiency of factory and individual workers, and share best practices.
- Pursuing responsible procurement practices.
- Advocating improved social security systems in sourcing countries to mitigate the impact of unexpected worker circumstances such as illness, injury, unemployment etc.

2. Definition and benchmark

In the Fast Retailing Code of Conduct for Production Partners, we state that wages should be at a level which not only satisfies workers' basic needs for clothing, food and housing, but which also enables workers to lead decent lives. Such a wage should be earned from normal working hours as legally provided without overtime.

We use the Global Living Wage Coalition's estimates, where available, and the FLA's Fair Compensation Dashboard and tools to measure living wage progress for workers.

3. Key actions towards achieving a living wage

A) Legal compliance on wage and benefits

Fulfilling legally required wages and benefits is the starting point for achieving a living wage. We only start business with production partners having a firm commitment on wages and benefits of their workers. Our

workplace monitoring program is designed to ensure that the rights of workers at our production partners are upheld in relation to the payment of wages and benefits, including minimum wage, overtime wages and legally required benefits. If violations of these rights are found, we require remediation and verify its compliance.

Related Link

▶ [Monitoring and Evaluation of Production Partner Factories](#)

B) Responsible procurement practice

We believe that responsible procurement practices enable our production partners to operate in an efficient manner and promote decent working conditions, including ensuring a living wage. To promote responsible procurement, we have formulated guidelines and provide regular training to employees in our procurement-related departments, covering these guidelines and other matters. Furthermore, we update our guidelines and practices regularly based on dialogue with production partners and our workplace monitoring program.

Related link

▶ [Responsible Purchasing](#)

C) Engagement with key production partners

Since 2018, we have collected wage data from a representative sample of production partner's factories using the FLA's Fair Compensation tools, which tracks wages paid by factories globally. In 2022, we will expand the number of factories included in this sample and engage with our production partners to identify barriers and areas where we might be able to provide support that helps increase wages of their workers. Based on this data sampling, including through dialogue with factories, we have initiated programs at factories where we identify a wide gap to living wage exists.

I. Building sound Industrial relations

Genuine trusting dialogue between workers and employers helps improve working conditions and wage-setting mechanisms through cooperation and collective bargaining. To help build sound industrial relations at the factory level, we became a global partner of Better Work, a collaboration between the United Nations' International Labour Organization (ILO) and the International Finance Corporation (IFC) in 2015, and we encourage partner factories to participate in the program. Better Work establishes bipartite (worker-management) committees that are a stepping stone to meaningful social dialogue at the factory level. As of December 2022, there are 90 partner factories under the Better Work program. This represents 69% of our sewing factories where Better Work operates and an increase by 6% from last year. To further expand

this approach, in 2020 we enrolled in the Better Work Academy and have provided the same support at factories where Better Work is not operating. These programs engage union members based on guidance from Better Work, rather than by-passing union activities and collective bargaining. To date seven factories in China, Vietnam, Bangladesh and Indonesia have completed the program and another 12 factories will enroll in 2023.

II. Improving performance and efficiency

Performance and efficiency at both the factory and individual worker level are key factors in determining wage levels. Since 2020, we have developed programs to standardize worker skill assessment and skill training and conducted pilot programs. The programs help workers improve their skills and increase their efficiency. Our progress and planning toward improving worker skills for 2023 includes:

- Implemented the program in 12 factories in China, with a plan to introduce to factories in Vietnam and Bangladesh.
- Received training focusing on Human Resource Management and Wage Management from the Better Work Academy to contribute to further efficiency, with an aim to develop a suitable training curriculum for our partner factories.

D) Social protection

The rapid spread of COVID-19 and its significant impact on the economy, employment and public health illustrates the importance of social protection. Social protection provides a safety net including emergency income support in the case of unexpected situations or events that negatively impact workers. We work with the International Labour Organization (ILO) and other stakeholders to improve social security systems in our sourcing countries. Our efforts to help protect workers include:

- We endorse the International Labour Organization's (ILO) Call to Action, a coalition of more than 125 brands who have come together to mitigate the negative impacts of the pandemic and to establish sustainable systems of social protection in the garment industry. We have supported activities led by the coalition.
- We partnered with the ILO to improve social security systems and working environments in Asia from 2019. This unique partnership project successfully guided the establishment of unemployment insurance in Indonesia, where the ILO has been providing technical support for implementation.
- We have supported a new pilot program seeking to provide income protection and medical care for workers in Bangladesh following employment-related injuries from 2022. The pilot for the Employment Injury Scheme (EIS) marks the first ever scheme of its kind to protect workers from loss of income arising from workplace-related injuries in Bangladesh. Initially planned for four years, the ultimate

objective for the pilot is the permanent implementation of the EIS in the country.

Related link

- ▶ [Fast Retailing Partners with International Labour Organization for Social Protection and Improved Environments for Asian Workers](#)
- ▶ [Fast Retailing Partners with ILO to Support First-Ever Employment Injury Insurance Program for Workers in Bangladesh](#)

E) Stakeholder engagement

We recognize the importance of engaging with stakeholders to make progress in an inclusive and well-balanced manner. We send an annual questionnaire to our major business partners to ensure we engage in fair business practices and since fiscal 2022, we have partnered with the Better Buying Institute, a global NPO that promotes responsible purchasing practice by brands, to roll out the annual questionnaire anonymously and at scale, with an aim to leverage better data to strengthen supplier-buyer relationships and drive improvements in our practices.

4. Review and reporting framework

Our approach towards a living wage and its progress have been reviewed annually with the head of sourcing and production and the head of sustainability. We periodically publish updates about our actions and progress towards a living wage.