Corporate Governance

Our Approach to Corporate Governance

Fast Retailing enacts corporate governance to ensure proper management, a responsive and transparent management structure and growth to be the world’s number one manufacturer and retailer of apparel. We have initiated various measures to ensure independence and strengthen the surveillance powers of the Board. Accordingly, we introduced the entrusted officer system to separate the decision-making and execution functions of management. Also, we appointed a majority of external directors to the Board, which heightened the Board’s independence and surveillance functions.*1

The Group has adopted the corporate auditor governance model, which assigns responsibility for the oversight of corporate governance to the Board of Auditors,*2 and has established discretionary governance committees to augment the functions of the Board of Directors. Committees have been formed to oversee human resources, corporate social responsibility (CSR), disclosure, information technology (IT) investment, business ethics and the Code of Conduct (CoC). To fulfill their responsibility, these committees conduct expeditious and open discussions, making decisions in their respective areas of expertise. External Director Toru Hambayashi serves as the chairperson of the Human Resources Committee. Other committees consist of corporate auditors, external professionals, lawyers and operating officers.

*1. External directors as provided for in Article 2-15 of Japan’s Company Law.

*2. Under Japan’s Company Law, large, listed companies may select either the corporate auditor governance model or the “company-with-committees” governance model. Fast Retailing has adopted the corporate auditor governance model.

Activities of the Board of Directors

The Board of Directors makes decisions pertaining to management and supervises the activities of the CEO and operating officers. Through the appointment of a majority of external directors, the board obtains highly professional and objective advice on a range of areas.

Brief backgrounds of external directors are as follows. Toru Hambayashi was president of one of Japan’s general trading companies for years and is very familiar with the retail apparel industry. Nobumichi Hattori’s experience includes work at a U.S.-based financial institution. He is presently a visiting professor at the Graduate School of Hitotsubashi University. Toru Murayama boasts a range of management-related knowledge and experience and is currently a corporate advisor to a leading U.S.-based consulting company. Specializing in management design, he also serves as a professor at Waseda University. Masaaki Shintaku has held top management positions at a U.S.-based information systems firm.

Topics discussed during fiscal 2010 included: approval of the annual budget and financial statements, Japan risk and the inherent risks of globalization, the FR Group Profit Sharing System, UNIQLO operations in Malaysia, the establishment of a joint social business venture with Grameen Bank in Bangladesh and medium to long-term strategies for UNIQLO global operations. In particular, board members received detailed briefings and thoroughly discussed M&A proposals, which will be important in securing future growth. The board enjoyed 100% attendance at the 13 meetings held in fiscal 2010.

Director Remuneration Policy

Compensation for the Board of Directors is calculated within the amount limit for directors as approved at the general shareholders’ meeting. In deliberating and deciding the compensation for individual board members, the Human Resources Committee considers a range of factors, including occupational duties, responsibilities, actual performance and contributions. Auditor compensation is calculated within the limits determined at the general shareholders’ meeting, with individual compensation decided through mutual consultation between the auditors. Fiscal 2010 compensation to the five-member Board of Directors totaled 337 million yen, of which 37 million yen was paid to external directors, while compensation to the five auditors totaled 55 million yen, of which 40 million yen was paid to statutory auditors.

Activities of the Auditors

Auditors serve to supervise the Board of Directors. The auditors also attend committee meetings as members or as observers to ensure that activities are being conducted appropriately and in accordance with the law, as well as to provide advice. The Board of Auditors consists of five members, four of whom are external auditors.*3 Takaharu Yasumoto is a certified public accountant, Norihiko Shimizu is a visiting professor at the Graduate School of Hitotsubashi University, and Akira Watanabe is an attorney at law. All external auditors provide objective opinions based on their expertise. In fiscal 2010, the average auditor attendance for the 13 meetings held by the Board of Directors was 93.8%, and the average attendance of auditors at the 13 meetings held by the Board of Auditors was 90.8%.

*3. Pursuant to Article 2-16 of Japan’s Company Law
Corporate Governance at Fast Retailing

Shareholders (General Meeting of Shareholders) (As of December 1, 2010)

Elect/dismiss

Elect/dismiss

Consult/report

Board of Auditors
(3 out of 4 are external)

Accounting Auditors

Board of Directors
(4 out of 5 are external)

Human Resources Committee

CSR Committee

Disclosure Committee

IT Investment Committee

Code of Conduct Committee

Business Ethics Committee

Internal Audit Department

Entrusted Operating Officers

Chief Executive Officer

Committees and Their Responsibilities

Human Resources Committee
Chaired by External Director Toru Hambayashi, this committee is responsible for providing proposals and recommendations to the board regarding major organizational changes impacting the Fast Retailing Group and for revising personnel systems. In addition, the committee discusses and makes proposals and recommendations to the board concerning the election, dismissal, performance and compensation of directors, operating officers and the representative directors of Group companies.

CSR Committee
The CSR Committee discusses and makes decisions concerning CSR issues, including CSR activities and policies, CSR publications, environmental protection initiatives, community service activities, compliance and diversity issues. The head of the CSR Department chairs the committee, which is made up of members including experts from outside the company, statutory auditors and operating officers.

Disclosure Committee
Chaired by the individual responsible for disclosing information to the Tokyo Stock Exchange (TSE), committee meetings are held to enhance the transparency of management by providing timely, fair and simply stated disclosure of information. The committee makes decisions regarding information that is required to be disclosed to the TSE on a statutory or discretionary basis that could have a material impact on the judgment of investors.

IT Investment Committee
This committee discusses IT investment issues at a management level to achieve the optimal use of information system resources and to encourage reform of business operations. In addition, the committee assesses reports on the IT investment budget, verifies the suitability of investments with the help of external experts and evaluates the potential return on investment proposals.

Code of Conduct Committee
This committee is responsible for deliberations regarding responses to violations of the Fast Retailing Group Code of Conduct (CoC), giving advice related to the operation of the Compliance Hotline and increasing awareness about the CoC among officers and employees.

Business Ethics Committee
This committee aims to prevent the abuse of any potential superior bargaining power at Group companies. Examples of this include improper pressure on production plants, suppliers or other business partners. To this end, the committee calls on external experts to conduct surveys and implement questionnaire surveys to suppliers. The committee issues warnings and advice to various departments based on the survey results. The CSR Department head chairs the committee, which is made up of auditors and legal advisors.

Composition of Committees

<table>
<thead>
<tr>
<th>Committee</th>
<th>Internal Director</th>
<th>External Directors</th>
<th>Full-time Auditor</th>
<th>External Auditors</th>
<th>Officers and other external professionals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Committee</td>
<td>Yanai</td>
<td>Chairperson</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR Committee</td>
<td>Hambayashi</td>
<td>Hatton</td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Disclosure Committee</td>
<td>Hattori</td>
<td>Murayama</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>IT Investment Committee</td>
<td>Hattori</td>
<td>Shintaku</td>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Code of Conduct Committee</td>
<td>Yanai</td>
<td>Chairperson</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Business Ethics Committee</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

Notes:
1. The individual in charge of information disclosure to the Tokyo Stock Exchange chairs the Disclosure Committee.
2. The individual in charge of the CSR Department chairs the CSR Committee, the CoC Committee and the Business Ethics Committee.
Messages from Our External Directors

Transitioning from ‘My Company’ to ‘Your Company’

Today Fast Retailing is at a stage where it is very important for it to transition from being a less-private “my company” under founder, CEO and major shareholder Tadashi Yanai, to becoming what I call “your company”—a more public corporation. As external directors, our task is to evaluate, on behalf of the various stakeholders, whether Fast Retailing is generating sound results. Given our varied backgrounds, we four external directors can voice valuable opinions unfettered by retail industry convention. While CEO Yanai is undeniably an amazing businessman he, nevertheless, sometimes needs to be subject to frank feedback, regardless of how unpalatable it might be.

The next few years will be key to the future of Fast Retailing. At the same time, this period will also test our powers as external directors. Opening new stores in the fast-growing Chinese market is a key growth strategy, but risks must be controlled. I will follow this dynamic closely by drawing on my experience as the CEO of a general trading company. The road ahead will be tough as the Group seeks further robust growth both domestically and internationally. That is precisely why it is imperative that Fast Retailing fosters a better corporate culture and pushes on with its aim of ZEN-IN KEIEI, where every employee adopts the mindset of a business manager.
Objective Evaluation from a Capital Markets Perspective

Given my background managing M&A activities at a leading U.S. financial institution, I see my role as evaluating the corporate value of Fast Retailing from the perspective of capital markets and suggesting ways to improve that value. I constantly focus on how best to convey the Company’s growth potential to the markets, how to improve the corporate Group, whether an M&A candidate would boost corporate value and how to attain steady gains in the share price.

During fiscal 2010, the transformation of Theory into a fully consolidated subsidiary came under my area of expertise. Before finally deciding on the appropriateness of the Theory acquisition, I had to clarify several issues including future levels of profit, potential growth and post-acquisition management systems. With recent profits expanding steadily, the Theory acquisition has proven successful. In the future, I will draw upon my experience, learning from past successes and failures when considering future large-scale M&A candidates. Fast Retailing is a company that aims to achieve unprecedented levels of growth. As such, the board as a whole plays an important role in ensuring that potential downside risks are considered.

Building a Global Management Platform

Fast Retailing is a leading Japanese company taking its first steps toward becoming a global retailer. If the Company is to secure firm growth in world markets based on its superior UNIQLO business platform, we need a management framework that will be effective globally—covering business, services and human resources—and a management vision that can be shared by all employees. It is my role as an external director to provide different ideas and inspiration in pursuit of this aim.

I believe that one of the ironclad rules of management is having “big aspirations and acting cautiously,” and that the role of external directors is to give accurate advice regarding resource allocation priorities, including personnel and time required. The Board of Directors is constantly debating and prioritizing the various means of generating growth. In the past, I have managed growth businesses for an international corporation, and have 30 years of experience as a consultant implementing business reforms across a wide range of industries. I plan to use that experience in various venues, including the IT Investment Committee, to debate and help craft a structural framework to serve the Company in the future.

Seek Solutions to Facilitate Long-term Growth

Fast Retailing is embarking on a new chapter as a global company. Having served as an external director for over a year now, I am keenly aware of the need to contribute to the company’s long-term vision. I am intent on fulfilling the role that I expected of external directors when I managed a company. This entails striving to avoid potential risks, and help solve any risks that do emerge.

A company’s performance is always compared to the previous year’s results. Naturally performance fluctuates from year to year. But valuable experience can be gained from this volatility, and middle management is important when times are tough. Fast Retailing is a company looking to expand its business worldwide, and its employees should proudly embrace the challenges inherent in this. Don’t be swayed by fluctuations in short-term performance, but be aware of the broader possibilities and how to realize them. The external directors come from varying backgrounds, making for lively debate. Mr. Yanai is always attentive and it is incumbent on the board to continue to work as a team to support him.
Managing overall risks to the company is a vital role of the statutory auditor. The board is well-balanced with external directors from varying backgrounds contributing their different perspectives on risk management. My past experience as a consultant on business strategy means that I offer advice on the hidden risks to long-term corporate growth and development. Management resources are limited, and so the process of choosing and concentrating those resources is very important. By focusing expansion in specific areas of strength, you can create an overwhelming competitive advantage. I offer opinions from a risk perspective, focusing on risks that management may have overlooked, or suggesting alternative means of pursuing growth involving less risk.

The Human Resources Committee discusses the evaluation of and compensation extended to top management and submits proposals and recommendations to the Board. Chaired by a very talented external director, and with other external auditors among its members, this committee is crucial to ensuring transparent governance. The lively exchange of views between external directors and statutory auditors is extremely beneficial in this important decision-making process.
Fast Retailing has put in place a number of internal controls to ensure that business activities are conducted in accordance with the law and the guiding principles of the Group. These include enhancing corporate ethics and compliance through strict adherence to basic Group policies and rules, including the Group’s management principles, the Fast Retailing Way (FR Way) and the Fast Retailing Code of Conduct (CoC), which were designed to constantly improve our corporate ethics and compliance. In conjunction with this, we have also established internal control systems for financial reporting and information disclosure. Our Internal Audit Department, which is entirely separate from Group business activities, and the Legal Department, which oversees compliance issues, work to ensure the smooth operation of this system. These departments regularly conduct risk analyses to manage risk.

**Code of Conduct for Officers and Employees**

The Fast Retailing Group CoC is implemented at each Group company. We strive to heighten awareness of the CoC by explaining it to all new employees, while officers and employees are required each year to confirm and sign a written pledge committing to comply with the CoC.

Each Group company has an internal reporting system, or “hotline.” These hotlines can be accessed via telephone, e-mail or post by employees wanting to report or discuss any potential violation of the CoC or any concerns about their work. Employees receive confidential advice via the hotline pertaining to communication problems with managers, sexual harassment, working hours and paid vacation, or issues including problems related to the renewal of employment contracts. In addition, in some cases it is possible to receive advice from external legal counsel. The reports and concerns received are held in the strictest confidence and the circumstances behind consultations are investigated. When necessary, the CoC Committee\(^1\) will consider specific solutions and take action to make improvements.

---

**Guidelines to Prevent the Abuse of Superior Bargaining Power**

We believe one of our most important tasks is to build equal and amicable relationships with our business partners.

UNIQLO is in a particularly strong position in terms of bargaining leverage, given that it operates approximately 950 stores worldwide and orders more than 500 million items annually. For this reason, Fast Retailing established its Business Ethics Committee\(^3\) in 2004 and takes a preventive approach seeking to avoid violations by requiring strict compliance with the Guidelines to Prevent the Abuse of Superior Bargaining Power.

The Business Ethics Committee annually administers a questionnaire survey to principal business partners. It also conducts a survey of all departments in the Fast Retailing Group four times a year in order to identify and, if necessary, to clarify any problems relating to transaction partners.

In fiscal 2010, we received survey responses from 177 businesses with which we have transactions. The replies covered a wide range of issues. Some were business-related matters, such as problems meeting delivery deadlines when orders were placed belatedly, or strong demands during price negotiations, while others related to business etiquette, including the clothes worn or the language used by our employees.

The CSR Department closely examines the results of these surveys and refers any potential problems to the Business Ethics Committee. In fiscal 2010, the committee investigated 10 problems.

---

**CoC and Monitoring Workplace Conditions at Partner Factories**

UNIQLO works with approximately 70 manufacturing partner companies, principally in China and other countries in Asia. We endeavor to manage product safety and quality, and improve working conditions at factories. We regularly check working conditions at partner factories for inappropriate or unethical practices, such as child or forced labor. We encourage improvements and seek full disclosure of information. In 2004, UNIQLO instituted a Code of Conduct for Production Partners and called on specialized external institutions to monitor operations, particularly working conditions, at core partner factories which had signed a pledge to abide by the Code of Conduct for Production Partners. In addition to UNIQLO, other Group companies and brands including g.u., Cabin, Comptoir Des Cotonniers, and Princessse tam.tam began monitoring partner factories using uniform standards in 2010.\(^2\)

---

\(^1\) For more information on the CoC Committee, see page 21.

\(^2\) For more information on monitoring activities, see page 59.

\(^3\) For more information on the Business Ethics Committee, see page 21.