Unlocking the Power of Clothing

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.
Strict Environmental Standards Across the Supply Chain

- Minimize environmental impact through supply chain processes
- Reduce water and energy use at materials factories
- Reduce emissions of harmful chemical substances to zero
- Reduce CO₂ emissions and energy use in stores
- Remove boundaries between companies for a united approach to sustainability
- Promote joint initiatives with industry organizations and NGOs

Reducing Harmful Chemical Emissions to Zero by 2020

Fast Retailing aims to reduce its emissions of harmful chemical substances to zero by 2020. It has already published a list of target chemicals on its website. As we work toward our goal, we ask partner factories to reduce their emissions and we conduct regular monitoring to evaluate progress. If we discover an issue, we immediately dispatch a takumi team of dyeing and materials manufacturing experts to offer support and carry out improvements.

In 2012, we added alkylphenol ethoxylates (APEOs), widely used as detergents in the textile industry, to our restricted substance list. We use strongly worded contracts and visit factories directly to emphasize the importance of stopping the use of APEOs. In 2016, we reduced the use of perfluorinated compound (PFC) durable water repellents to approximately 2% of retailed products. We ceased all PFC use from the 2017 Fall Winter season.
Reducing CO₂ Emissions at UNIQLO Stores

UNIQLO Japan has set a FY2020 target to reduce shop-floor area CO₂ emissions by 10% compared to levels from FY2013. To achieve this, we are providing training on how to reduce electricity usage in stores and working with manufacturers to develop smarter air conditioner controllers that better regulate in-store temperatures. We are switching all store signage to LEDs and aim to introduce LED lighting inside all our stores as well. We introduced a similar initiative at GU Japan and UNIQLO Mainland China stores in FY2015.

Cutting Environmental Impact of Major UNIQLO Materials Producers

Fast Retailing makes approximately 1.2 billion items of clothing each year, so we are serious about reducing the environmental impact of clothing manufacturers. In 2014, Fast Retailing joined the Sustainable Apparel Coalition (SAC). In 2015, FR introduced the SAC’s Higg Index for environmental appraisal standards at major UNIQLO partner factories. The Higg Index evaluates environmental standards such as greenhouse gas emissions, waste water, energy use and level of chemical substances. We use the results to become better at helping partner factories minimize their environmental impact.
Ensure partner factory environments are healthy, safe and respectful of worker rights

Protect fundamental employee rights, respect all personnel and promote human resource training

Promote work-life balance and high employee satisfaction

Expand hiring of people with disabilities and support of refugees

Donated 5.25 million items of clothing in FY2017 through our All-Product Recycling Initiative (25.58 million items to date)
Monitoring Working Environments Across the Supply Chain

Fast Retailing has an established Partner Factory Code of Conduct and it works with manufacturing partners to ensure that the places UNIQLO clothing is made are safe, appropriate working environments. UNIQLO began monitoring working conditions in primary partner garment factories in 2004. We extended the system in 2015 to include working conditions and environmental impacts at fabric suppliers, which constitute 70% of UNIQLO’s production volume. Fast Retailing encourages partner factories to appoint specialized inspectors, and create proper inspection systems to improve the monitoring of working environments.

Monitoring Results (As of August 31, 2017)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
<th>FR Group (UNIQLO)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>FY2014</td>
</tr>
<tr>
<td>A</td>
<td>No violations</td>
<td>1 (1)</td>
</tr>
<tr>
<td>B</td>
<td>One or more minor violations</td>
<td>175 (115)</td>
</tr>
<tr>
<td>C</td>
<td>One or more major violations</td>
<td>72 (32)</td>
</tr>
<tr>
<td>D</td>
<td>One or more severe violations</td>
<td>77 (17)</td>
</tr>
<tr>
<td>E</td>
<td>Highly unethical, serious offense (immediate review of contract)</td>
<td>7 (3)</td>
</tr>
</tbody>
</table>

In FY2017, direct visits from Fast Retailing (FR) Sustainability Department experts and improved support increased the number of A-grade partner factories. FR plans to offer stronger guidance after finding many D-grade partner factories were having trouble responding to changes in laws related to employee compensation and benefits. We requested partner factories that received an E grade in FY2016 to improve the things stipulated during the monitoring process, and, at times, we either revised or ceased production orders following discussions by the business ethics committee. We are asking factories receiving E grades for FY2017 to make similar improvements.
Strengthen the Board’s independence and oversight ability by having a majority of directors from outside the company.

Promote swift, open debate and decision-making in the individual committees that support the Board.

Use a delegated authority system to ensure management decision-making and business execution are separate functions.

Outline of Corporate Governance (Year ended August 31 2017)

<table>
<thead>
<tr>
<th>Form of Organization</th>
<th>Corporate auditor governance model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman of the Board</td>
<td>Tadashi Yanai</td>
</tr>
<tr>
<td>Number of Directors</td>
<td>6, including 5 external directors</td>
</tr>
<tr>
<td>Number of Auditors</td>
<td>5, including 3 statutory auditors</td>
</tr>
</tbody>
</table>

**Board of Directors Meetings in Fiscal 2017**
- **Number of Meetings**: 13
- **Director Attendance**\(^*1\): 100%
- **Auditor Attendance**\(^*2\): 98.5%
- **Sample Agenda**: Fiscal year budget, Approval of corporate results, Approval of executive appointments, UNIQLO USA business, Ariake Project

**Board of Auditors Meetings in Fiscal 2017**
- **Number of Meetings**: 13
- **Auditor Attendance**\(^*2\): 96.9%
- **Sample Agenda**: Auditing policy, Auditing planning, Discussion with Executive Board, Current distribution department challenges and issues, Key labor issues, Accounting compliance, Auditing of UNIQLO Japan and UNIQLO International stores

Main Meetings Requiring Auditor Attendance
- Board of Directors meetings, Human Resources Committee, Sustainability Committee, Disclosure Committee, IT Investment Committee, Code of Conduct Committee, Business Ethics Committee

Election of Independent Directors
- 4 external directors and 3 statutory auditors elected

Determination of Individual Director Remuneration
- Overall limit approved at the general shareholders’ meeting. Individual remuneration determined by the Executive Board to reflect occupational duties, responsibilities, actual performance and contributions. Fiscal 2017 compensation to the six directors totaled 290 million yen, including 50 million yen to external directors.

Determination of Individual Auditor Remuneration
- Overall limit determined at the general shareholders’ meeting. Individual compensation decided through mutual consultation between auditors. Fiscal 2017 compensation to the five auditors totaled 65 million yen, including 29 million yen to statutory auditors.

Accounting Auditor
- Ernst & Young ShinNihon LLC

\(^*1\) Average attendance of each director
\(^*2\) Average attendance of each auditor

Corporate Governance at Fast Retailing (As of August 31, 2017)

General Meeting of Shareholders
Our Approach to Corporate Governance

As we at Fast Retailing seek to become the world’s number one digital consumer retail company, we undertake corporate governance to foster growth, proper management and a responsive and transparent corporate structure. We have implemented measures to ensure the independence and robust oversight powers of the Board.

Fast Retailing operates under a delegated authority system, in which the CEO and the Board delegate discretion over the execution of business administration to specific corporate officers. This is done to separate the decision-making and executive functions and encourage dynamic management. The majority of directors on the Board are external, to heighten the Board’s independence and its surveillance ability.

The Group has adopted the corporate auditor governance model, which assigns responsibility for the oversight of corporate governance to a Board of Auditors. Fast Retailing has separate governance committees which support the decision-making duties of the Board in the following areas: human resources, sustainability, disclosure, IT investment, our Code of Conduct and business ethics.

Fast Retailing Encourages Forward-thinking Governance

Fast Retailing’s governance is forward-thinking in several respects, including the fact that five out of the six Board members are external directors—the lone exception is Fast Retailing President Tadashi Yanai. In addition, three out of five auditors are external statutory auditors. These external directors and auditors have diverse professional backgrounds and expertise, so they are able to offer a wide range of opinions on proposals submitted to the Board.

Fast Retailing is still a relatively young company pursuing fast growth. It’s no exaggeration to say that Mr. Yanai is a management genius, and I am often extremely impressed by his business judgments. However, when I think we need to apply the brakes and take time to review a situation, I make sure to voice my candid opinion. Improvements can cost money and hinder speedy management, but if they are necessary for the sake of the company, it is important that directors and auditors speak frankly to ensure these improvements are made smoothly.

Mr. Yanai may be the founder of the company, but he always asks directors and auditors for their honest opinions when weighing different options. There are directors and auditors who have served on the Board for a long time and have a deep understanding of company processes, and sometimes their views are diametrically opposed to Mr. Yanai’s. However, we all enjoy a strong relationship of trust, and Mr. Yanai listens carefully to directors and auditors and considers all issues from multiple angles. Mr. Yanai also assesses his own management decisions in an unbiased way by asking what other companies are doing and checking if our company’s actions are unusual. He is always objective about management and receptive to the opinions of others. These might seem like easy things to do, but they are exceptionally difficult.

I intend to continue working hard as an external auditor to strengthen Fast Retailing’s governance.

Keiko Kaneko
External Statutory Auditor
Roles and Activities of the Committees

- **Human Resources Committee**
The human resources committee, chaired by an external director, discusses important organizational changes and adjustments to human resource systems across the Group, and offers views and suggestions to the Board.

- **Sustainability Committee**
Discusses and determines Fast Retailing’s overall sustainability strategy, the compilation and publication of the annual sustainability report, environmental protection, social responsibility activities, compliance and diversity. The head of the sustainability department chairs the committee, which is also attended by external directors and auditors, as well as others.

- **Disclosure Committee**
The disclosure committee, chaired by the individual in charge of disclosing information to the Tokyo Stock Exchange (TSE), boosts management transparency by disclosing information that is timely, accurate, fair and easy to understand. The committee is responsible for timely disclosure to the TSE and the Stock Exchange of Hong Kong as well as voluntary disclosure of information that may materially impact investor and shareholder investment decisions.

- **IT Investment Committee**
This committee debates and advises on the IT investments that will best achieve the Group’s digital innovation targets, deliberating on the efficacy of individual investments, and checking whether IT investment budgets submitted by external specialist organizations are reasonable and appropriate.

- **Code of Conduct Committee**
The Code of Conduct committee considers how best to resolve any violations of the Fast Retailing Group Code of Conduct (CoC), and make improvements. It advises on educating executives and employees about the CoC and on operating the internal reporting system (hotline). The committee is chaired by the head of the legal and compliance department and committee members include a lawyer acting in the capacity of an external auditor.

- **Business Ethics Committee**
This committee ensures the Group does not use an advantageous position to exert undue pressure on business counterparts such as partner factories and suppliers. The committee provides advice and counsel to departments based on external field inspections and partner company surveys. The committee is chaired by the head of the sustainability department and committee members include a lawyer acting in the capacity of an external auditor.

## Composition of Committees (As of January 11, 2018)

<table>
<thead>
<tr>
<th></th>
<th>Human Resources Committee</th>
<th>Sustainability Committee</th>
<th>Disclosure Committee</th>
<th>IT Investment Committee</th>
<th>Code of Conduct Committee</th>
<th>Business Ethics Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Director</strong></td>
<td>Yanai ● Chairperson</td>
<td></td>
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<tr>
<td><strong>External Directors</strong></td>
<td>Hambayashi  ● Chairperson</td>
<td>Hattori</td>
<td>Murayama Observer</td>
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<td></td>
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<tr>
<td></td>
<td>Shibata Observer</td>
<td></td>
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<tr>
<td></td>
<td>Nawa ● ●</td>
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<tr>
<td><strong>Internal Full-time Auditors</strong></td>
<td>Tanaka ● ●</td>
<td>Shinjo ● ●</td>
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<tr>
<td><strong>External Statutory Auditors</strong></td>
<td>Yasumoto ● ●</td>
<td>Watanabe ● ●</td>
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<tr>
<td></td>
<td>Kaneko ● ●</td>
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</tr>
<tr>
<td><strong>Number of Group Officers, External Experts, etc.</strong></td>
<td>4 7 4 6 6 5</td>
<td></td>
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</tr>
</tbody>
</table>

Notes:
The head of the sustainability department chairs both the sustainability committee and the business ethics committee.
The disclosure committee is chaired by the individual responsible for disclosing information to the Tokyo Stock Exchange.
The head of the legal and compliance department chairs the Code of Conduct committee.
The required notification pertaining to independent directors has been submitted to the Tokyo Stock Exchange for Toru Hambayashi, Nobumichi Hattori, Masaaki Shintaku, Takashi Nawa, Takaharu Yasumoto, Akira Watanabe and Keiko Kaneko.
Internal Control

Fast Retailing seeks to improve its corporate ethics and compliance through a number of internal controls designed to ensure strict adherence to Group policies and rules, including the Group’s management principles, the Fast Retailing Way and the Fast Retailing Group Code of Conduct. Fast Retailing is committed to developing Group-wide compliance systems and problem resolution mechanisms. The internal audit division oversees the Fast Retailing Group internal control system. The legal and compliance department deals with compliance issues, and the executive officer for legal affairs is responsible for overall compliance.

Fast Retailing Code of Conduct (CoC) for Officers and Employees

We teach the Fast Retailing Group CoC principles to all officers and employees through a mandatory online course and strongly encourage everyone to sign a written commitment to them. Anyone can report a potential violation of the CoC or discuss work concerns via our internal reporting system (hotline). Employees receive confidential advice pertaining to communication problems with managers, sexual harassment, working hours and paid vacations, renewal of employment contracts, etc. In some cases, advice can be sought from external legal counsel. The Code of Conduct committee regularly monitors the compliance system and hotline operation and may offer advice or recommendations to relevant departments if necessary.

Guidelines to Prevent the Abuse of Superior Bargaining Power

Building equal and amicable relationships with our business partners is extremely important. The Fast Retailing Group is in a particularly strong position in terms of bargaining power given that it operates approximately 3,300 stores worldwide and has annual sales of ¥1.8619 trillion. As a preemptive measure, the business ethics committee established the Guidelines to Prevent the Abuse of Superior Bargaining Power, which ensure that our partner factories and suppliers do not consider themselves under inappropriate pressure from us. The business ethics committee sends surveys to the Group’s principal business partners on an annual basis, and advises the relevant departments if any issues arise.

Stronger Compliance Training for Officers and Employees

The legal and compliance department aims to cultivate stronger ethical values and crisis response capabilities among all Group officers and employees by offering online courses and other training opportunities. The courses offer detailed step-by-step advice on concrete considerations that are likely to emerge in daily business activities. Online courses in FY2017 focused on a variety of topics including social media and information handling; insider trading regulations; information display guidelines; and subcontracting law and preventing abuse of a dominant bargaining position.