

Fast Retailing Group TCFD Report 2021

■LifeWear = A New Industry

The Fast Retailing Group's corporate philosophy is: Changing clothes. Changing conventional wisdom. Change the world. We have pursued our business activities based on the conviction that we can help make the world a better place by making and selling good clothes. For us, the definition of "good clothing" is simple, high-quality, long-lasting clothing that can enrich the lives of all people, everywhere. Clothing that is based on a quest to coexist with nature by utilizing innovative technologies across production processes to ensure minimum impact on the planet. Clothing that is made and delivered by a diverse range of people who are able to work enthusiastically in working environments in which health, safety, and human rights are firmly protected. LifeWear is the ultimate concrete representation of this approach.

We firmly believe that the pursuit of clothes creation that prizes this LifeWear concept will help create a sustainable society and generate operational growth. We intend to contribute to a sustainable society by creating a "new industry" called LifeWear, which not only creates clothes as products, but also probes deeply into production processes and sales methods and enables us to present the world with unprecedented and pioneering new forms of clothing and clothing production.

Fast Retailing has determined four promises and six key areas of sustainability activities based on this fundamental approach, and we are currently working hard to achieve these commitments.

Four promises:

1. Completely overhaul the supply chain to further increase the value of LifeWear.
2. LifeWear must continue to respect the individuality and diversity of all people around the world.
3. Contribute to the stability and sustainable development of society on a global scale by further utilizing the unique power of LifeWear to make the world a better place that we have believed in for over 20 years.
4. Develop and provide new services and technologies that allow LifeWear to be worn for even longer.

Six key areas of sustainability activities:

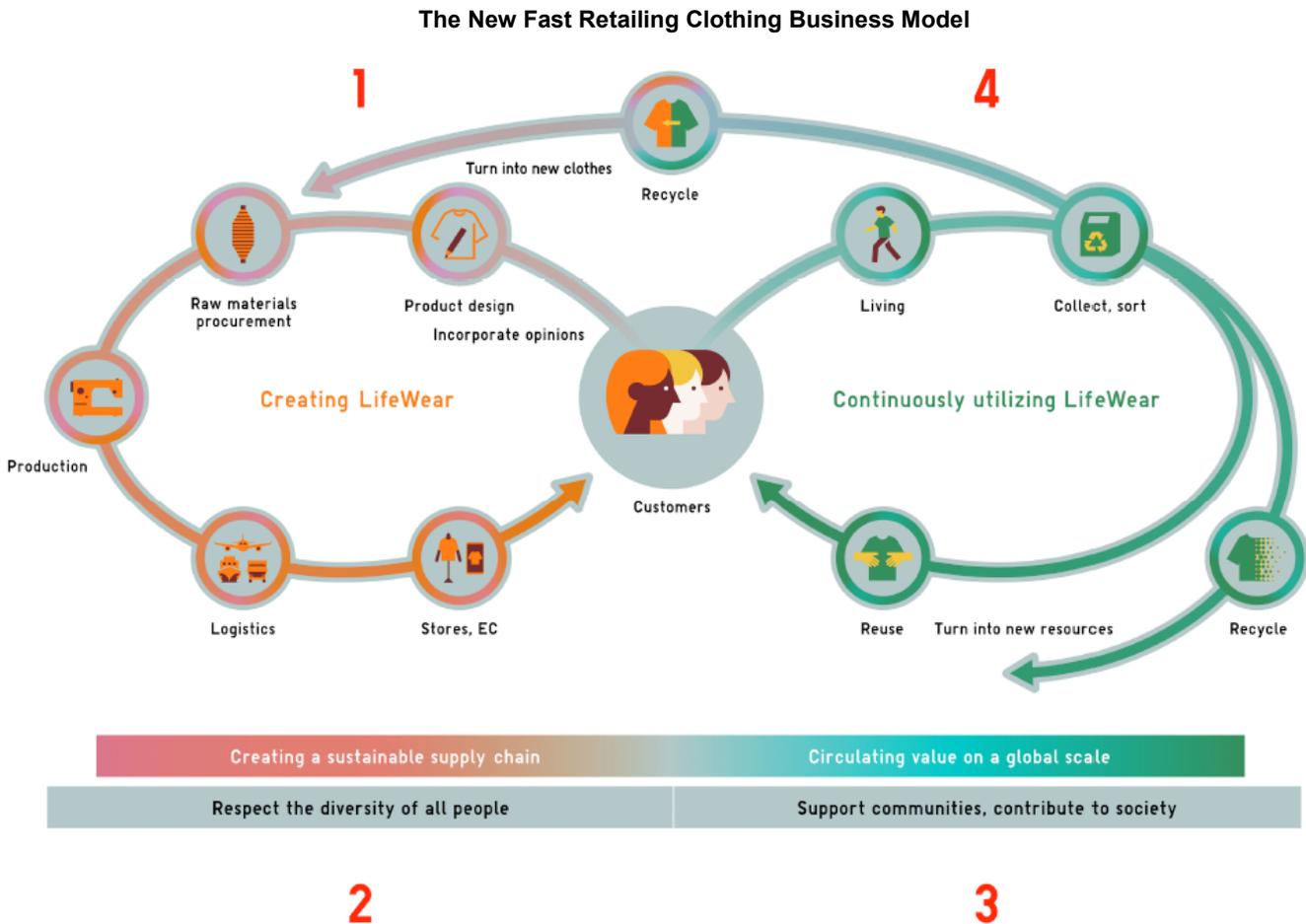
1. Create new value through products and services
2. Respect human rights in our supply chain
3. Respect the environment
4. Strengthen communities
5. Support employee fulfillment
6. Corporate governance

See the following webpage for details of the six key areas and how they were identified:

<https://www.fastretailing.com/eng/sustainability/vision/priority-areas.html>

■ Climate Change Initiatives and Strategies

Fast Retailing intends to accelerate its transition to a new business model that pursues operational activities and sustainability activities in tandem based on the LifeWear concept.



More specially, that means implementing to an even higher degree our Ariake Project objectives of only making and selling apparel that customers truly want when creating LifeWear. At the same time, we are aiming to achieve a product-creation system that has little impact on the environment by thoroughly eliminating greenhouse gas (GHG) emissions and waste across all processes from clothing manufacturing to transportation and retail, and building a supply chain that safeguards human rights and allows customers to purchase our products with trust. Furthermore, we will develop new reuse and recycling services and technologies to extend the life and utility of LifeWear after it has been purchased. We also intend to expand our diversity initiatives and efforts to contribute to society through our clothing business on a global scale in order to help solve increasingly complex social issues.

Climate change is one of those complex issues. In recognition of the enormous impact that climate change is exerting on society, we will continue to strengthen our efforts to curb the rise in average global

temperature and achieve the Paris Agreement goals. We will continue to seek to fully grasp the impact of climate-related risks and opportunities on business operations and to formulate and implement relevant strategies.

Targets

- Create ultimate LifeWear that enriches customers lives and to make and sell only what our customers truly need
- Thoroughly reduce GHG and waste emissions and realize product manufacturing that does not exert any environmental impact
 - ✓ Reduce GHG emissions from our own operations such as stores and main offices (Scope 1 and Scope 2) by 90% by fiscal 2030 (compared to fiscal 2019)
 - ✓ Reduce GHG emissions from raw materials, fabric and garment production for UNIQLO and GU products (Scope 3, Category 1) by 20% by fiscal 2030 (compared to fiscal 2019)
 - ✓ Achieve 100% sourcing of renewable electricity in Fast Retailing global stores and main offices by fiscal 2030
 - ✓ Substitute approximately 50% of total materials used with recycled materials by fiscal 2030
 - ✓ Achieve zero waste as soon as possible in the product delivery process by reducing, substituting, reusing, and recycling materials* used in that process
 - *product packaging, cardboard boxes and plastic bags used during transportation, hangars, etc.
 - ✓ Finalize our Fast Retailing Biodiversity Policy by the end of fiscal 2022

Initiatives Designed to Achieve the Above Targets

The Creation of **LifeWear**

• Promoting the Ariake Project

Fast Retailing's Ariake Project aims to continually revolutionize working practices and supply chains in order to ensure that only the necessary amount of products that customers want is made, transported, and sold, at the necessary time. Specifically, that means analyzing huge amounts of information, such as customer requests and demands gathered through our global stores and e-commerce operations, and creating products centered around customer needs. We have already developed and provided highly functional clothing, such as AIRism, Ultra Light Down, and HEATTECH products. These functional clothes not only enable customers to feel comfortable in their daily lives, but are also expected to reduce energy consumption for air conditioning and heating. We are also focusing on developing products using new technologies and recycled materials. These include our Blue Cycle Jeans made using innovative technology to reduce water usage during the finishing process, fleece items and polo shirts made using polyester recycled from collected PET bottles, and recycled down jackets made from down and feathers collected from secondhand down products for reuse in new products.

The Ariake Project utilizes artificial intelligence (AI), algorithms, and other digital technologies to generate more accurate demand and volume forecasting, and to build supply chains that facilitate the production of just the right amount of products for delivery and sale at the right places, at exactly the right time. By promoting and implementing the Ariake Project at an even higher level, we hope to realize the Project's goal of never making, transporting, or selling anything that is not necessary in order to improve customer satisfaction and lessen the environmental impact of our business.

· **Reducing GHG Emissions**

Fast Retailing's own operations (stores, main offices)

We are working to conserve energy in stores by reducing the use of electricity itself. We are targeting an approximate 40% reduction in energy use at roadside stores and an approximate 20% reduction in energy use in stores located within shopping malls. To achieve that, we have started designing highly energy-efficient new stores by reviewing store layouts to facilitate a reduction in the number of lighting fixtures, introducing more effective natural light, and improving the efficiency of air-conditioning installations. Eight UNIQLO Japan stores have now acquired Gold Level LEED® (Leadership in Energy & Environmental Design) certification in the Building Operations and Maintenance (O+M) category. Going forward, we plan to introduce new stores that are even more energy efficient from the design stage onwards, and we want to introduce some prototype new stores in 2023.

We are also working steadily towards our goal of 100% sourcing of renewable electricity by fiscal 2030. We have already completed the switchover to renewable energy in all 64 UNIQLO stores located in nine countries across Europe. We expect North America and some markets in Southeast Asia will also be able to achieve 100% renewable energy use by the end of August 2022.

Supply Chain

Our targets for reducing GHG emissions in the supply chain cannot be achieved without the cooperation of partner factories. For many years, Fast Retailing has considered it our job to stand alongside partner factories and help solve any problems they are facing together, and we have always pursued growth together with our partner factories. The strong, long-term partnerships that have been cultivated as a result of that approach are now one of our key strengths.

We have held multiple dialogues with individual factories to ensure we have a clear understanding of each factory's individual circumstances and issues. We then got together with the partner factories that account for 90% of our production volume to formulate plans for reducing GHG emissions that include measures to save energy, eliminate coal, and introduce renewable energy. We intend to incorporate more concrete measures into these plans and ensure they are thoroughly implemented. We will also consider extending financial support if requested to do so by any of our partner factories.

Raw Materials

In order to reduce GHG emissions in raw materials production, we are aiming to switch approximately 50% of the materials used in our products to recycled materials by fiscal 2030.

Currently, we are making some headway with our polyester initiatives, having now switched approximately 15% of all polyester fabrics used in UNIQLO's 2022 Spring/Summer season products to recycled polyester made from recycled PET bottles. We already market our fluffy fleece full zip jackets and Dry-EX polo shifts as products made from recycled polyester. Given the fact that recycling technology for synthetic fibers is comparatively advanced, we plan to start by substituting synthetic fibers, such as rayon and nylon. We are also participating in joint research and development projects with business partners to develop new materials that could serve as alternatives to cotton, wool, and other natural fibers and that can achieve the same level of quality and comfort as our existing products.

Promoting the Constant Evolution of **LifeWear**

- Promoting **RE.UNIQLO**

Fast Retailing's pillar UNIQLO operation has started promoting RE.UNIQLO initiatives involving customers by collecting secondhand clothes that customers no longer need and giving them new value and a fresh purpose. We started our All-Product Recycling Campaign in 2006 to provide clothing support for refugees and internally displaced persons (REUSE). More recently, we have been promoting the recycling of secondhand clothing collected from customers more actively into new clothing and other materials (RECYCLE). We started selling Recycled Down Jackets in 2020 as our first clothes-to-clothes recycling item which involves extracting, cleaning, and reusing down and feathers from collected secondhand down items. These and other initiatives help reduce excess waste, GHG emissions, and resource consumption across the product lifecycle (REDUCE).

To further expand our RE.UNIQLO initiatives, Fast Retailing does extend the venues for collecting secondhand clothing beyond collection boxes in UNIQLO stores. We will accept clothing through our Power of Clothing student participation projects that we pursue together with the United Nations High Commissioner for Refugees (UNHCR) targeting elementary, junior-high, and high-school students, as well as at venues hosting JFA UNIQLO Soccer Kids events, the mini soccer festival for preschoolers aged six and under that we hold in conjunction with the Japan Football Association (JFA). In addition, we will strengthen our circular initiatives to turn collected clothes into new clothes and build frameworks to recycle clothes into materials other than clothing. We intend to further strengthen collaboration with business partners to achieve these aims. Indeed, we are scheduled to open a specialist research and development facility in 2022 together with our strategic partner Toray Industries, Inc. for promoting clothes-to-clothes recycling and the development of new materials. We are also starting to discuss the possibility of working together with automobile manufacturers, construction and materials manufacturers, and other retailing companies to build systems for recycling clothes into non-clothing materials.

See the following webpages for details of our initiatives and environmental impact data:

- Respect the Environment

<https://www.fastretailing.com/eng/sustainability/environment/>

- Sustainability Data Book

<https://www.fastretailing.com/eng/sustainability/report/data.html>

Scenario Analysis of Climate Change-related Risks and Opportunities

Fast Retailing believes identifying actual and potential risks to business and then preempting, appropriately managing, and responding to risks is an essential part of ensuring sustainable operational growth. In 2021, we reviewed the risks and opportunities that climate change will pose to our company and our supply chain through 2030 with specific regard to our pillar UNIQLO operation, which accounts for approximately 80% of total Group sales. When conducting the review, we referred to the following two scenarios, namely what impact a rise of 1) less than 2°C in average global temperature by 2100 (B2DS) and 2) a rise of 4°C in average global temperature by 2100 would have on UNIQLO operations through the year 2030 (RCP8.5).

- “Sustainable Development Scenario” and “Beyond 2°C Scenario (B2DS)” by the International Energy Agency: Scenarios for climate-related countermeasures, such as energy policy, associated with the transition to a decarbonized society.
- “Representative Concentration Pathway (RCP) 8.5 by the Intergovernmental Panel on Climate Change Fifth Assessment Report”: A scenario on the potential spread of natural disasters (floods, droughts, heat damage, etc.) due to rising temperatures etc.

The results of the review helped us recognize the fact that changes in global temperatures, an increase in extreme weather events such as floods and droughts, stricter regulations on GHG emissions, and the conversion to renewable energy could all potentially impact every aspect of the UNIQLO, such as stores and supply chain, and are therefore to be classified as operational risks. However, at the same time, we recognize that developing appropriate responses to these risks will ultimately increase our business competitiveness and create new types of demand.

Table of Fast Retailing Climate Change Risks

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| Transition risk | Regulation | 1. Carbon tax, carbon pricing, emissions regulation |
| | Market | 2. Changes in customer values |
| | Reputation | 3. Stricter ESG evaluation standards or disclosure requirements 4. Stricter investment decision-making standards for investors |
| Physical risk | Acute, chronic | 5. Increased natural disasters 6. Rising temperatures |

At less than 2°C

| | Risks | Opportunities | Countermeasures |
|---|---|---|---|
| 1. Carbon tax, carbon pricing, emissions regulation | <ul style="list-style-type: none"> • The risk of cost increases in the supply chain caused by stronger carbon tax and other taxation systems or tighter regulations, which would result in higher production costs | <ul style="list-style-type: none"> • Control cost rises in the supply chain by promoting energy conservation and introducing renewable energy, which would result in lower production costs | <ul style="list-style-type: none"> • Seek to reduce GHG emissions by encouraging thorough energy conservation and accelerating the introduction of renewable energy at Fast Retailing's main fabric and garment manufacturing partner factories • We are targeting a 20% reduction in GHG emissions from the production of raw materials, fabrics and garment manufacture for UNIQLO and GU products by fiscal 2030. To that aim, we have determined plans for partner factories that account for 90% of our production volume to reduce their GHG emissions by conserving energy, eliminating the use of coal, and introducing renewable energy. Going forward, we intend to develop more concrete measures for these plans and make sure they are implemented |
| | <ul style="list-style-type: none"> • The risk of higher costs at Fast Retailing stores caused by stronger carbon tax and other taxation systems or tighter regulations | <ul style="list-style-type: none"> • Control cost rises at Fast Retailing stores by introducing renewable energy and promoting energy conservation, which would result in lower costs • Improve brand image by improving reputation among customers | <ul style="list-style-type: none"> • Completed the switch to renewable energy at all 64 UNIQLO stores across nine European countries by the end of fiscal 2021. We will promote thorough energy conservation and accelerate the introduction of solar panels and renewable energy at our stores in Japan and all other regions going forward. We intend to reduce emissions from our own operations, such as our stores and main offices, by 90% by fiscal 2030 |

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| | <ul style="list-style-type: none"> • The risk of an increase in distribution costs relating to EU fuel economy and emissions regulations, or a tightening in regulations in the markets where our production bases are located, such as China, Vietnam, Bangladesh, and Indonesia, or the markets where we retail clothing, such as Japan, Southeast Asia, and the EU | <ul style="list-style-type: none"> • Realize more efficient distribution through the promotion of our Ariake Project business model transition | <ul style="list-style-type: none"> • As part of our response to EU fuel economy and emissions regulations, we are diversifying transportation fleets by transitioning to hybrid vehicles and using water transport, and we are also pursuing low-cost management by improving truck loading rates • To help reduce GHG emissions, we are reducing transport volumes in each market by encouraging customers to pick up their online purchases from our stores, and offering other services • We aim to reduce volume of goods by promoting the Ariake Project and improving inventory efficiency, and strengthen delivery efficiency through the joint use of trucks across several of our clothing brands |
| 2. Changes in customer values | <ul style="list-style-type: none"> • The risk of a decline in sales and reputation if Fast Retailing customers start to prefer materials, products, and services that have a low environmental impact and we are not able to meet those changing needs | <ul style="list-style-type: none"> • Create new demand and improve our reputation among customers by developing new materials with low GHG emissions | <ul style="list-style-type: none"> • Accelerate the incorporation of recycled raw materials and other materials with low GHG emissions. We are already selling recycled down jackets and DRY-EX polo shirts that use recycled polyester made from recycled PET bottles |
| | | <ul style="list-style-type: none"> • Increased demand for products that address environmental change | <ul style="list-style-type: none"> • Strengthen the development of products that respond to climate change such as HEATTECH, AIRism, UV-cut parkas, and BLOCKTECH parkas |

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| | | <ul style="list-style-type: none"> • Create new demand and improve our reputation among customers by accelerating recycling activities | <ul style="list-style-type: none"> • Help reduce GHG emissions and strengthen our customer appeal by reusing and recycling products through our RE.UNIQLO and other initiatives. Our customer-participation RE.UNIQLO initiatives encourages customers to put clothes they no longer need in our collection boxes, so that we can add new value to those clothes and give them a new purpose |
| | | <ul style="list-style-type: none"> • Improve our reputation among customers by strengthening our sustainability activities | <ul style="list-style-type: none"> • Strengthen our sustainability initiatives by employing UNIQLO Global Brand Ambassadors, LifeWear Ambassadors, and Sustainability Ambassadors • Convey our corporate approach to sustainability through the publication of our sustainability reports, LifeWear Magazine, and Power of Clothing articles, etc. |

At 4°C

| | Risks | Opportunities | Countermeasures |
|--------------------------------|--|--|--|
| 5. Increased natural disasters | <ul style="list-style-type: none"> The impact of natural disasters on raw materials, damage to production facilities, production stoppages caused by supply chain disruptions | <ul style="list-style-type: none"> Fast Retailing has the capacity to mount a strong response as a specialty retailer of private-label apparel (SPA) that manages the whole clothes-making process from materials procurement through planning, production, distribution, sales and inventory management, etc. That enables us to minimize and reduce risk, and to maintain and potentially create demand Minimize damage in the event of a disaster (build a resilient business) by building strong partnerships with suppliers and business partners and seeking to strengthen our adaptation strategies | <p>【Raw Materials】</p> <ul style="list-style-type: none"> We disperse procurement risk globally by creating separate production areas for each material. We also disperse risk for products that are difficult to disperse regionally by sourcing from dispersed suppliers We reserve the raw materials we use at an early stage through long-term engagement with materials partners. That enables us to switch to alternative materials if a particular raw material cannot be procured <p>【Factories】</p> <ul style="list-style-type: none"> We prevent delays or stoppages in product supply by dispersing suppliers and securing stockpiles in preparation for the occurrence of a sudden or unexpected event based on long-term contracts with selected and concentrated business partners. For example, we ensure any one particular product can be produced at multiple factories <p>【Logistics】</p> <ul style="list-style-type: none"> In addition to our moves to create multiple bases in terms of major ports, warehouses, and distribution routes, we incorporate business continuity planning (BCP) perspectives into the selection of ports, warehouses, and distribution routes in order to minimize physical risks as we proceed with our regional production dispersal and automated warehousing strategies |

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| | | | <ul style="list-style-type: none"> · As a countermeasure against typhoons and water damage, we set global standards regarding the location and specifications of our warehouses that consider the elevation of the foundations and platforms based on hazard maps · As we continue to automate our warehouses around the world, we are using base-isolation structures to prevent strong winds from impacting the internal machinery operation · We are diversifying our transportation by utilizing ships, trucks, rail, and other methods of transportation in order to help shorten product lead times and ensure thorough low-cost management. This also serves to provide us with alternative transportation routes in the event of a natural disaster <p>【Stores】</p> <ul style="list-style-type: none"> · We have at least 800 stores in Japan for our UNIQLO brand alone. There, we are pursuing determined new store opening plans using hazard maps and we are also strengthening measures to prevent flooding using water-stopping plates and sandbags at existing stores in high-risk areas · We are also standardizing countermeasures for existing and new stores in areas without hazard maps or for stores that are not on the hazard map. We will also gradually develop similar measures for international stores · We have also created disaster-prevention measures and equipment manuals. Our head offices and stores work together to |
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| | | | ensure the prescribed practices are thoroughly implemented and we also conduct disaster drills |
| 6. Rising temperatures | <ul style="list-style-type: none"> • A decline in sales caused by a product mix that does not respond sufficiently to changing temperatures | <ul style="list-style-type: none"> • Create new demand with new functional materials | <ul style="list-style-type: none"> • We recognize the changing needs of customers caused by global climate change. As such, we ensure consistent inventory of year-round products, such as UNIQLO's high-functioning AIRism cotton T-shirts and sportswear, to enable us to respond flexibly to sudden changes in temperature or late-summer heatwaves. • In preparation for generally warmer winters going forward, we have reduced the proportion of coats and other heavy winter clothing and have instead increased the proportion of lightweight clothing such as our Ultra Light Down ranges and light fleece jackets, so that we can create a product lineup that offers a variety of different coordination options for our customers • We are strengthening the development of functional products that can satisfy customer needs during severe winters, warm winters, intense heat, or intense cold spells caused by climate change. Major examples include HEATTECH (extra warm and ultra warm), AIRism, BLOCKTECH outerwear, and hybrid down outerwear |

The Impact of Climate Change and Our Response Strategies

We believe that demand for clothing, especially LifeWear clothing, will not change in both the IEA's B2DS and the scenario where the global rise in temperature reaches as high as 4°C. We also believe that developing products that satisfy customers needs, such as materials with lower GHG emissions, circular products, and HEATTECH, AIRism and other products that respond to climate change will help increase market competitiveness and expand sales.

In the B2DS, our supply chain could be impacted by the risk of higher production and store-related costs due to carbon tax and other taxation, stricter regulations, or higher electricity prices. However, promoting energy savings would lead to a reduction in this risk. There is a risk that distribution costs will increase if regulations on automobile and truck fuel economy and emissions are tightened in the EU and other countries around the world. However, it is possible to reduce this risk by promoting the transition to hybrid vehicles, improving distribution efficiency, and pursuing other measures.

If the increase in global temperature follows the 4°C rise by 2100 scenario, physical risks, such as droughts, heavy rains and other extreme weather patterns as well as water shortages, are expected to have a significant impact on our entire supply chain from production through distribution and retail. However, these risks can be mitigated by diversifying our raw materials, partner factories and other suppliers, and through long-term contracts and partnerships. With regards to distribution and stores, physical risk can be minimized through regional dispersion, the selection of locations from a BCP perspective, and disaster-preparedness training.

The Fast Retailing Group is able to respond flexibly to potential and actual risks because we are a specialty manufacturer and retailer of private-label apparel (SPA) that manages the whole clothes-making process from materials procurement through planning, production, distribution, retail, inventory management, etc. We have already begun taking measures based on the assumption that climate change countermeasures do not progress as planned and the rise in global temperature cannot be more strictly controlled. These measures include making clothes that respond to changing customer needs, and incorporating BCP perspectives into the dispersion of raw materials, production factories, and other suppliers, the diversification of transportation methods, the selection of distribution bases, and the location of our retail stores.

We believe we can sustainably enhance our corporate value by disclosing appropriate information on the validity and progress of these strategies, engaging in dialogue with institutional investors and other stakeholders, and responding to ESG evaluation indicators.

Governance

Fast Retailing regards climate change to be one of our most important management issues and, as such, we pursue business activities and sustainability initiatives in tandem. This approach is not just pursued by our Sustainability Department, but by all departments involved in the production, distribution, retail, marketing, and other parts of our supply chain, together. We established our Sustainability Committee to help promote appropriate decision-making on integrated business and sustainability activities. The committee is attended by the president and representative director, directors, auditors, and external experts, and is chaired by the internal director in charge of the Sustainability Department. It meets three or four times a year to discuss and determine the direction of our climate-change and other sustainability policies, and to advise, recommend, and supervise the departments that executive our business. In fiscal 2021, the committee concentrated on discussing our climate change response and determining concrete initiatives and targets.

To ensure the steady implementation of sustainability activities across the Fast Retailing Group, we aim to promote regular cooperation, primarily through the Sustainability Department, with relevant departments in the head office and with managers around the world, and we have assigned sustainability officers in our main global bases to strengthen our sustainability promotion systems. In addition to regular communication via weekly meetings, we also hold global conferences every six months where global representatives meet online or at our Tokyo head office to discuss issues and activities in individual markets and regions.

See the following webpage for more details on Fast Retailing's systems for promoting sustainability:

<https://www.fastretailing.com/eng/sustainability/vision/organization.html>

Risk Management

Fast Retailing has established a Risk Management Committee to support the functioning of the Board of Directors by periodically identifying latent climate change and other latent risks in our operational activities, specifying significant risks, and strengthening our risk management frameworks. The Risk Management Committee, chaired by the Group Chief Financial Officer (CFO), is a centralized organization that manages risk across the Group. The committee seeks to analyze and evaluate the extent and frequency of impact of any risk on our business, discuss countermeasures in order of risk priority, and control risks before they occur. The committee also reports any significant risks to the Board of Directors and extends concrete support to individual departments regarding risk management measures.

See the following webpage for more details on Fast Retailing's risk management frameworks and operational risks.

<https://www.fastretailing.com/eng/ir/direction/risk.html>