FAST RETAILING

Fast Retailing Co., Ltd.

Consolidated Financial Statements

for the year ended 31 August 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FAST RETAILING CO., LTD. and consolidated subsidiaries
31 August 2018 and 2017

	Millions of yen		Thousands of U.S. dollars*
	2017	**2018**	**2018**
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 683,802	**¥ 999,697**	**$ 9,001,414**
Trade and other receivables	48,598	**52,677**	**474,315**
Other financial assets	30,426	**35,359**	**318,378**
Inventories	289,675	**464,788**	**4,185,021**
Derivative financial assets	6,269	**35,519**	**319,819**
Income taxes receivable	1,518	**1,702**	**15,331**
Other assets	17,307	**28,353**	**255,300**
Total current assets	1,077,598	**1,618,097**	**14,569,580**
Non-current assets:			
Property, plant and equipment	136,979	**155,077**	**1,396,336**
Goodwill	15,885	**8,092**	**72,868**
Intangible assets	36,895	**46,002**	**414,210**
Financial assets	77,608	**79,476**	**715,614**
Investments in associates accounted for using the equity method	13,473	**14,649**	**131,906**
Deferred tax assets	25,303	**26,378**	**237,518**
Other assets	4,742	**5,691**	**51,250**
Total non-current assets	310,888	**335,368**	**3,019,705**
Total assets	¥1,388,486	**¥1,953,466**	**$17,589,286**
LIABILITIES			
Current liabilities:			
Trade and other payables	¥ 204,008	**¥ 214,542**	**$ 1,931,773**
Other financial liabilities	11,844	**171,854**	**1,547,404**
Derivative financial liabilities	6,083	**6,917**	**62,290**
Current tax liabilities	25,864	**21,503**	**193,622**
Provisions	8,780	**11,868**	**106,869**
Other liabilities	54,840	**72,722**	**654,805**
Total current liabilities	311,421	**499,410**	**4,496,766**
Non-current liabilities:			
Financial liabilities	273,467	**502,671**	**4,526,125**
Provisions	15,409	**18,912**	**170,287**
Deferred tax liabilities	10,000	**13,003**	**117,088**
Other liabilities	16,144	**16,690**	**150,281**
Total non-current liabilities	315,022	**551,277**	**4,963,783**
Total liabilities	626,443	**1,050,688**	**9,460,549**
EQUITY			
Capital stock	10,273	**10,273**	**92,508**
Capital surplus	14,373	**18,275**	**164,553**
Retained earnings	698,584	**815,146**	**7,339,695**
Treasury stock, at cost	(15,563)	**(15,429)**	**(138,928)**
Other components of equity	24,102	**34,669**	**312,172**
Equity attributable to owners of the Parent	731,770	**862,936**	**7,770,001**
Non-controlling interests	30,272	**39,841**	**358,735**
Total equity	762,043	**902,777**	**8,128,736**
Total liabilities and equity	¥1,388,486	**¥1,953,466**	**$17,589,286**

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥111.06 to US $1.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FAST RETAILING CO., LTD. and consolidated subsidiaries
For the years ended 31 August 2018 and 2017

	Millions of yen		Thousands of U.S. dollars*
	2017	2018	2018
Revenue	¥1,861,917	**¥2,130,060**	**$19,179,363**
Cost of sales	(952,667)	**(1,080,123)**	**(9,725,584)**
Gross profit	909,249	**1,049,936**	**9,453,779**
Selling, general and administrative expenses	(725,215)	**(797,476)**	**(7,180,595)**
Other income	6,321	**3,385**	**30,487**
Other expenses	(14,567)	**(20,244)**	**(182,282)**
Share of profit and loss of associates accounted for using the equity method	625	**611**	**5,505**
Operating profit/(loss)	176,414	**236,212**	**2,126,894**
Finance income	19,917	**9,693**	**87,281**
Finance costs	(2,932)	**(3,228)**	**(29,065)**
Profit/(loss) before income taxes	193,398	**242,678**	**2,185,110**
Income taxes	(64,488)	**(73,304)**	**(660,045)**
Profit/(loss) for the year	128,910	**169,373**	**1,525,064**
Profit/(loss) for the year attributable to:			
Owners of the Parent	119,280	**154,811**	**1,393,942**
Non-controlling interests	9,630	**14,562**	**131,122**
	¥ 128,910	**¥ 169,373**	**$ 1,525,064**
Earnings per share			
Basic (yen, dollar)	1,169.70	**1,517.71**	**13.67**
Diluted (yen, dollar)	¥ 1,168.00	**¥ 1,515.23**	**$ 13.64**

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥111.06 to US $1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FAST RETAILING CO., LTD. and consolidated subsidiaries
For the years ended 31 August 2018 and 2017

	Millions of yen		Thousands of U.S. dollars*
	2017	2018	2018
Profit/(loss) for the year	¥128,910	**¥169,373**	**$1,525,064**
Other comprehensive income/(loss), net of income/(loss)	—	**—**	**—**
Items that will not be reclassified subsequently to profit or loss			
Total items that will not be reclassified subsequently to profit or loss	—	**—**	**—**
Items that may be reclassified subsequently to profit or loss			
Net fair value gain/(loss) on available-for-sales financial assets during the period	(245)	**34**	**313**
Exchange differences on translating foreign operations	26,285	**(6,285)**	**(56,597)**
Cash flow hedges	47,109	**17,735**	**159,696**
Total items that may be reclassified subsequently to profit or loss	73,148	**11,484**	**103,412**
Other comprehensive income/(loss), net of income tax	73,148	**11,484**	**103,412**
Total comprehensive income/(loss) for the year	¥202,059	**¥180,858**	**$1,628,476**
Attributable to:			
Owners of the Parent	190,566	**165,378**	**1,489,091**
Non-controlling interests	11,493	**15,480**	**139,385**
Total comprehensive income/(loss) for the year	¥202,059	**¥180,858**	**$1,628,476**

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥111.06 to US $1.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FAST RETAILING CO., LTD. and consolidated subsidiaries
For the years ended 31 August 2018 and 2017

Millions of yen

					Other components of equity						
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Available-for-sale reserve	Foreign currency translation reserve	Cash-flow hedge reserve	Total	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
As at 1 September 2016	¥10,273	¥13,070	¥613,974	¥(15,633)	¥248	¥ (2,811)	¥(44,619)	¥(47,183)	¥574,501	¥23,159	¥597,661
Net changes during the year											
Comprehensive income/(loss)											
Profit/(loss) for the year	—	—	119,280	—	—	—	—	—	119,280	9,630	128,910
Other comprehensive income/(loss)	—	—	—	—	(245)	24,618	46,913	71,285	71,285	1,862	73,148
Total comprehensive income/(loss)	—	—	119,280	—	(245)	24,618	46,913	71,285	190,566	11,493	202,059
Transactions with the owners of the Parent											
Acquisition of treasury stock	—	—	—	(6)	—	—	—	—	(6)	—	(6)
Disposal of treasury stock	—	642	—	75	—	—	—	—	718	—	718
Dividends	—	—	(34,670)	—	—	—	—	—	(34,670)	(3,994)	(38,664)
Share-based payments	—	754	—	—	—	—	—	—	754	—	754
Others	—	(94)	—	—	—	—	—	—	(94)	(385)	(480)
Total transactions with the owners of the Parent	—	1,303	(34,670)	69	—	—	—	—	(33,297)	(4,379)	(37,677)
Total net changes during the year	—	1,303	84,610	69	(245)	24,618	46,913	71,285	157,268	7,113	164,381
As at 31 August 2017	¥10,273	¥14,373	¥698,584	¥(15,563)	¥2	¥21,806	¥ 2,293	¥ 24,102	¥731,770	¥30,272	¥762,043
Net changes during the year											
Comprehensive income/(loss)											
Profit/(loss) for the year	**—**	**—**	**154,811**	**—**	**—**	**—**	**—**	**—**	**154,811**	**14,562**	**169,373**
Other comprehensive income/(loss)	**—**	**—**	**—**	**—**	**34**	**(6,376)**	**16,909**	**10,567**	**10,567**	**917**	**11,484**
Total comprehensive income/(loss)	**—**	**—**	**154,811**	**—**	**34**	**(6,376)**	**16,909**	**10,567**	**165,378**	**15,480**	**180,858**
Transactions with the owners of the Parent											
Acquisition of treasury stock	**—**	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**	**(1)**	**—**	**(1)**
Disposal of treasury stock	**—**	**1,169**	**—**	**136**	**—**	**—**	**—**	**—**	**1,306**	**—**	**1,306**
Dividends	**—**	**—**	**(38,248)**	**—**	**—**	**—**	**—**	**—**	**(38,248)**	**(7,840)**	**(46,088)**
Share-based payments	**—**	**857**	**—**	**—**	**—**	**—**	**—**	**—**	**857**	**—**	**857**
Increase/(decrease) in equity due to capital increase of consolidated subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**173**	**173**
Changes in ownership interests in subsidiaries without losing control	**—**	**1,874**	**—**	**—**	**—**	**—**	**—**	**—**	**1,874**	**1,754**	**3,629**
Total transactions with the owners of the Parent	**—**	**3,901**	**(38,248)**	**134**	**—**	**—**	**—**	**—**	**(34,212)**	**(5,911)**	**(40,124)**
Total net changes during the year	**—**	**3,901**	**116,562**	**134**	**34**	**(6,376)**	**16,909**	**10,567**	**131,165**	**9,568**	**140,734**
As at 31 August 2018	**¥10,273**	**¥18,275**	**¥815,146**	**¥(15,429)**	**¥ 37**	**¥15,429**	**¥ 19,202**	**¥ 34,669**	**¥862,936**	**¥39,841**	**¥902,777**

See accompanying notes to consolidated financial statements.

Thousands of U.S. dollars*

	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Other components of equity: Available-for-sale reserve	Foreign currency translation reserve	Cash-flow hedge reserve	Total	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
As at 1 September 2017	$92,508	$129,422	$6,290,150	$(140,139)	$ 23	$196,349	$20,650	$217,023	$6,588,965	$272,578	$6,861,543
Net changes during the year	—	—	—	—	—	—	—	—	—	—	—
Comprehensive income/(loss)											
Profit/(loss) for the year	—	—	**1,393,942**	—	—	—	—	—	**1,393,942**	**131,122**	**1,525,064**
Other comprehensive income/(loss)	—	—	—	—	**313**	**(57,417)**	**152,252**	**95,149**	**95,149**	**8,263**	**103,412**
Total comprehensive income/(loss)	—	—	**1,393,942**	—	**313**	**(57,417)**	**152,252**	**95,149**	**1,489,091**	**139,385**	**1,628,476**
Transactions with the owners of the Parent											
Acquisition of treasury stock	—	—	—	**(16)**	—	—	—	—	**(16)**	—	**(16)**
Disposal of treasury stock	—	**10,533**	—	**1,227**	—	—	—	—	**11,761**	—	**11,761**
Dividends	—	—	**(344,397)**	—	—	—	—	—	**(344,397)**	**(70,593)**	**(414,990)**
Share-based payments	—	**7,719**	—	—	—	—	—	—	**7,719**	—	**7,719**
Increase/(decrease) in equity due to capital increase of consolidated subsidiary	—	—	—	—	—	—	—	—	—	**1,562**	**1,562**
Changes in ownership interests in subsidiaries without losing control	—	**16,877**	—	—	—	—	—	—	**16,877**	**15,802**	**32,679**
Total transactions with the owners of the Parent	—	**35,130**	**(344,397)**	**1,211**	—	—	—	—	**(308,055)**	**(53,228)**	**(361,284)**
Total net changes during the year	—	**35,130**	**1,049,544**	**1,211**	**313**	**(57,417)**	**152,252**	**95,149**	**1,181,035**	**86,156**	**1,267,192**
As at 31 August 2018	**$92,508**	**$164,553**	**$7,339,695**	**$(138,928)**	**$336**	**$138,932**	**$172,903**	**$312,172**	**$7,770,001**	**$358,735**	**$8,128,736**

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥111.06 to US $1.

CONSOLIDATED STATEMENT OF CASH FLOWS

Fast Retailing Co., Ltd. and consolidated subsidiaries
For the years ended 31 August 2018 and 2017

		Millions of yen	Thousands of U.S. dollars*
	2017	**2018**	**2018**
Cash flows from operating activities:			
Profit/(loss) before income taxes	¥ 193,398	**¥ 242,678**	**$ 2,185,110**
Depreciation and amortization	39,688	**45,055**	**405,687**
Impairment losses	9,324	**12,376**	**111,435**
Increase/(decrease) in provisions	1,674	**4,654**	**41,911**
Interest and dividend income	(6,124)	**(7,560)**	**(68,076)**
Interest expenses	2,932	**3,169**	**28,538**
Foreign exchange losses/(gains)	(13,318)	**(2,132)**	**(19,204)**
Share of profit and loss of associates accounted for using the equity method	(625)	**(611)**	**(5,505)**
Losses on disposal of property, plant and equipment	1,915	**1,176**	**10,589**
Decrease/(increase) in trade and other receivables	(1,442)	**(2,852)**	**(25,686)**
Decrease/(increase) in inventories	(5,955)	**(179,469)**	**(1,615,969)**
Increase/(decrease) in trade and other payables	9,949	**9,758**	**87,869**
Decrease/(increase) in other assets	(290)	**(13,053)**	**(117,534)**
Increase/(decrease) in other liabilities	6,417	**142,212**	**1,280,504**
Others, net	(1,682)	**1,819**	**16,380**
Cash generated from operations	235,861	**257,220**	**2,316,050**
Interest and dividend income received	6,124	**7,409**	**66,716**
Interest paid	(2,966)	**(2,393)**	**(21,554)**
Income taxes paid	(47,691)	**(86,725)**	**(780,885)**
Income taxes refunded	20,840	**892**	**8,034**
Net cash generated by operating activities	212,168	**176,403**	**1,588,361**
Cash flows from investing activities:			
Amounts deposited into bank deposits with original maturities of three months or longer	(114,330)	**(63,490)**	**(571,679)**
Amounts withdrawn from bank deposits with original maturities of three months or longer	282,667	**59,185**	**532,911**
Payments for property, plant and equipment	(33,600)	**(31,962)**	**(287,791)**
Payments for intangible assets	(12,266)	**(16,532)**	**(148,860)**
Payments for lease and guarantee deposits	(3,211)	**(4,773)**	**(42,985)**
Proceeds from collection of lease and guarantee deposits	1,789	**3,064**	**27,595**
Payments for construction assistance fund	(1,045)	**(1,261)**	**(11,361)**
Returns of construction assistance fund	1,713	**2,057**	**18,529**
Others, net	1,072	**(3,467)**	**(31,220)**
Net cash generated by/(used in) investing activities	122,790	**(57,180)**	**(514,862)**
Cash flows from financing activities:			
Proceeds from short-term loans payable	7,091	**1,767**	**15,911**
Repayment of short-term loans payable	(10,314)	**(1,596)**	**(14,374)**
Repayment of long-term loans payable	(2,915)	**(3,308)**	**(29,793)**
Proceeds from issuance of corporate bonds	—	**249,319**	**2,244,904**
Dividends paid to owners of the Parent	(34,671)	**(38,244)**	**(344,357)**
Capital contributions from non-controlling interests	—	**3,803**	**34,243**
Dividends paid to non-controlling interests	(3,965)	**(7,827)**	**(70,479)**
Repayments of lease obligations	(6,052)	**(5,918)**	**(53,294)**
Others, net	(8)	**224**	**2,019**
Net cash generated by/(used in) financing activities	(50,836)	**198,217**	**1,784,778**
Effect of exchange rate changes on the balance of cash held in foreign currencies	14,248	**(1,545)**	**(13,918)**
Net increase/(decrease) in cash and cash equivalents	298,371	**315,894**	**2,844,359**
Cash and cash equivalents at the beginning of year	385,431	**683,802**	**6,157,054**
Cash and cash equivalents at the end of year	¥ 683,802	**¥ 999,697**	**$ 9,001,414**

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥111.06 to US $1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FAST RETAILING CO., LTD. and consolidated subsidiaries

1 Reporting Entity

FAST RETAILING CO., LTD. (the "Company" or "Parent") is a company incorporated in Japan. The locations of the registered headquarters and principal offices of the Company are disclosed at the Group's website (https://www.fastretailing.com/eng/).

The principal activities of the Company and its consolidated subsidiaries (the "Group") are the UNIQLO business (casual wear retail business operating under the "UNIQLO" brand in Japan and overseas), GU business and Theory business (apparel designing and retail business in Japan and overseas), etc.

2 Basis of Preparation

(1) Compliance with International Financial Reporting ("IFRS")

The consolidated financial statements of the Group have been prepared in compliance with IFRS issued by the International Accounting Standards Board ("IASB").

The Group meets all criteria of a "specified company" defined under Article 1-2 of the Rules Governing Term, Form, and Preparation of Consolidated Financial Statements accordingly, applies Article 93 of the Rules Governing Term, Form, and Preparation of Consolidated Financial Statements.

(2) Approval of the Consolidated Financial Statements

The consolidated financial statements were approved on 29 November 2018 by Tadashi Yanai, Chairman, President, and CEO, and Takeshi Okazaki, Group Executive Vice President and CFO.

(3) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain assets, liabilities, and financial instruments which are measured at fair value as indicated in "3. Significant Accounting Policies."

(4) Functional Currency and Presentation Currency

The presentation currency for the Group's consolidated financial statements is the Japanese yen (in units of millions of yen), which is also the Company's functional currency. All values are rounded down to the nearest million yen, except when otherwise indicated.

(5) Use of Estimates and Judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the accounting period in which the estimates were reviewed and in future accounting periods.

Information about important estimation and judgments that have significant effects on the amounts recognized in the consolidated financial statements is as follows:

- Valuation of inventories (3. Significant Accounting Policies (6) and Note 10. Inventories)
- Recoverable amounts from cash-generating units for impairment tests (3. Significant Accounting Policies (10) and Note 15. Impairment Losses)
- Useful lives of property, plant and equipment, and intangible assets (3. Significant Accounting Policies (7)(8), Note 13. Property, Plant and Equipment and 14. Goodwill and intangible Assets)
- Recoverability of deferred tax assets (3. Significant Accounting Policies (14) and Note 19. Deferred Tax and Income Taxes)
- Recoverability of trade and other receivables (3. Significant Accounting Policies (4), Note 9. Trade and Other Receivables) and Note 31. Financial Instruments.
- Accounting treatment and valuation of provisions (3. Significant Accounting Policies (11) and Note 21. Provisions)
- Fair value measurement of financial instruments (3. Significant Accounting Policies (4) and Note 31. Financial Instruments)
- Fair value measurement for unit price for share-based payments (3. Significant Accounting Policies (12) and Note 30. Share-based Payments)

(6) Basis of Financial Statement Translation

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into United States (U.S.) dollars at the rate of ¥111.06=$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market at 31 August 2018. This translation should not be construed as a representation that any amounts shown could be converted into U.S. dollars at that or any other rate.

3 Significant Accounting Policies

(1) Basis of Consolidation

(i) Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the company. The Group controls enterprises when it is exposed, or has rights, to variable returns arising from its involvement in those enterprises or when the Group has rights to variable returns in those enterprises and is able to have an impact on said variable returns through its power over those enterprises. A subsidiary's financial statements are incorporated into the Group's consolidated financial statements from the date on which the Group, obtains control until the date that control ceases.

The subsidiaries adopted the consistent accounting policies as the Company in the preparation of their financial statements. All intra-group balances, transactions within the Group as well as unrealized profit and loss resulting from transactions within the Group are eliminated at the time of preparation of the consolidated financial statements.

The reporting dates for FAST RETAILING (CHINA) TRADING CO., LTD., UNIQLO TRADING CO., LTD., FAST RETAILING (SHANGHAI) TRADING CO., LTD. and eleven other companies are 31 December, 31 March or 30 June. The management accounts of these subsidiaries are used for the Group's consolidation purpose. The financial statements of other subsidiaries are prepared using the same reporting period as the parent company.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the adjustment to the non-controlling interest and the fair value of the consideration received is recognized directly in equity as interests attributable to owners of the parent.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The number of consolidated subsidiaries as at 31 August 2018 is 130.

(ii) Investments in associates

An associate is an entity in which the Group has significant influence over the financial and operating policies. If the Group holds 20% or more of the voting rights of another enterprise, it is presumed that the Group has a significant influence over the other enterprise. Investments in associates are accounted by applying the equity method, and measured at historical cost at the time of acquisition.

Thereafter the carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since acquisition date.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The number of associates as at 31 August 2018 is four.

(2) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregation of the acquisition date fair values of assets transferred, liabilities assumed, and equity interests issued by the Company in exchange for control of the acquired company.

If the cost of an acquisition exceeds the fair value of the identifiable assets and liabilities, it is recorded as goodwill on the consolidated statement of financial position. If it is below the fair value, this is immediately recorded as gains on the consolidated statement of profit or loss.

Acquisition-related costs are expensed as incurred. Additional acquisitions of non-controlling interests are accounted for as equity transactions, and no goodwill is recognized.

Contingent liabilities of acquired companies are recognized in a business combination only if they are present obligations, were incurred as a result of a past event, and their fair value can be reliably measured.

For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

If the initial accounting for a business combination is incomplete by the reporting date of the fiscal year in which the business combination occurs, the items for which the acquisition accounting is incomplete are reported using provisional amounts. Those amounts provisionally recognized on the acquisition date are retrospectively adjusted to reflect new information as if the acquisitions took place during the measurement period, had facts and circumstances that existed at the acquisition date been known at that time, they would have affected the amounts recognized on that date. Additional assets and liabilities are recognized if new information results in the recognition of additional assets or liabilities. The measurement period should be within one year.

(3) Foreign currencies

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non—monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

(ii) Foreign operations

On consolidation, the assets and liabilities of foreign operations are translated into Japanese yen at the rate of exchange prevailing at each reporting date and their statements of profit or loss are translated at average exchange rates during the period. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

(4) Financial instruments

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategy for undertaking the hedge. The documentation includes identification of the specific hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group has designated forward currency contracts as cash flow hedges and are accounted for as described below:

Cash flow hedges

When derivatives are designated as a hedging instrument to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with recognized assets or liabilities or highly probable forecast transactions which could affect profit or loss, the effective portion of changes in the fair value of the derivatives is recognized in other comprehensive income and included in "Cash flow hedges" in other components of equity. The balances of cash flow hedges are subtracted from "other comprehensive income" on the consolidated statement of comprehensive income for the same period when the hedged cash flows would affect profit or loss, and reclassified as profit or loss in the same line items as the hedging instruments. The gain or loss relating to the ineffective portion of changes in the fair value of the derivatives is recognized immediately in profit or loss. When a hedged item gives rise to the recognition of a non-financial asset or non- financial liability, the amount recognized as other comprehensive income is treated as an adjustment to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, cumulative profit or loss amounts previously recognized in equity through other comprehensive income are reclassified as profits or losses. If the hedging instrument expires or is sold, is terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognized in equity through other comprehensive income are recorded as equity until the forecast transaction occurs or firm commitment is met.

Non-derivative financial instruments

(i) Initial recognition and measurement

All purchases and sales of financial assets that take place through ordinary methods (purchase or sale of a financial asset requiring delivery within the time frame established by market regulation or convention) are recognized or derecognized, and measured at the initial fair value plus transaction costs, on the trade date.

Financial assets are classified, at initial recognition, into the following three categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(ii) Financial assets at fair value through profit or loss

Financial assets are classified as "financial assets at fair value through profit or loss" if they are held for trading or if they are designated as financial assets at fair value through profit or loss.

Financial assets other than financial assets held for trading may be designated as "financial assets at fair value through profit or loss" at initial recognition if any of the following applies:

(a) If such designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch");

(b) If the financial assets are part of a "group of financial assets or financial liabilities (or both)" which are managed and have their performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on a fair value basis; or

(c) If the contract contains at least one embedded derivative (International Accounting Standards ["IAS"] 39 allows the entire hybrid (combined) contract (assets or liabilities) to be designated as a "financial assets at fair value through profit or loss"), unless they are designated as an effective hedging instrument.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of profit or loss. Recognized profit or loss, including the above, are presented in the consolidated statement of profit or loss as dividend income, interest income, or gain or loss on changes in fair value. Fair value is determined using the method described in "31. Financial Instruments."

(iii) Loans and receivables

Trade receivables, loans, and other receivables that are not quoted in an active market are classified as "loans and receivables." After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate ("EIR") method, less impairment. The EIR amortization is included in finance income in the statement of profit or loss.

(iv) Available-for-sale financial assets

Any non-derivative financial assets classified as "available-for-sale financial assets" are those that are neither classified as "financial assets at fair value through profit or loss" nor "loans and receivables," or those that are designated as "available- for-sale financial assets."

Available-for-sale listed equity securities that are traded on a market are measured using quoted market prices. Fair value is determined using the method described in "31. Financial Instruments." Profits or losses arising from changes in fair value are recognized as other comprehensive income. Impairment losses or foreign currency gains or losses associated with monetary assets are treated as exceptions and recognized in profit or loss.

When available-for-sale financial assets are derecognized, or when an impairment loss is recognized, the cumulative profits or losses that have been recognized as other comprehensive income up to that time are reclassified to profit or loss for the period.

Dividends associated with available-for-sale financial assets are recognized in profit or loss when the Group's right to receive dividends is established. The fair value of available-for-sale financial assets denominated in foreign currencies is translated at the respective exchange rate prevailing at each reporting date. The effects of changes in exchange rates on foreign currency denominated monetary assets is recognized in foreign exchange gains or losses, while the effect of changes in exchange rates on other foreign currency denominated available-for-sale financial assets is recognized in other comprehensive income.

(v) Impairment of financial assets

Financial assets other than "Financial assets at fair value through profit or loss" pursuant to International Accounting Standards 39 ("IAS 39"), are evaluated at each reporting date to determine whether there is objective evidence of impairment. If there is objective evidence that one or more events having a negative impact on the estimated future cash flows has occurred subsequent to the initial recognition of the financial asset, an impairment loss is recognized.

For listed and unlisted equity securities classified as "available-for-sale financial assets," a significant or prolonged decline in the fair value of the investment below its historical cost is considered to be objective evidence of impairment. For all other financial assets, including redeemable securities and finance lease receivables classified as available-for-sale financial assets, objective evidence of impairment may include the following:

(a) Significant deterioration in the financial condition of the issuer or counterparty;
(b) Default or delinquency in interest or principal payments; or
(c) Probability that the issuer will enter bankruptcy or financial reorganization.

Certain categories of financial assets, such as trade receivables, are assessed for impairment on a collective basis even if they are not impaired individually. Objective evidence of impairment for a portfolio of receivables could include changes in national or local economic conditions that correlate with default on receivables or an increase in the number of delinquent payments in the portfolio past the average credit period.

For financial assets carried at amortized cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original EIR. An asset's carrying amount is reduced directly by the impairment loss amount, with the exception of trade and other receivables, and other financial assets where the impairment loss is posted by using the allowance for doubtful accounts. An allowance for doubtful accounts is established when it is determined that receivables are uncollectable, including receivables for which the due date has been changed, and the allowance for doubtful accounts is reduced if the receivables are subsequently abandoned or collected. Changes in the allowance for doubtful accounts are recognized in profit or loss except for decreases related to receivables that were written off. Except for available-for-sale financial assets, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment after reversing the impairment loss does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale financial assets, impairment losses previously recognized in profit or loss cannot be reversed through profit or loss. Any change in fair values after an impairment loss is recognized through other comprehensive income as long as this does not give rise to an additional impairment loss.

(vi) Derecognition of financial assets

The Group derecognizes a financial asset only if the contractual rights to the cash flows from the financial asset expire or if the Group has transferred almost all risks and rewards of ownership. If the Group maintains control of the transferred financial asset, it recognizes the asset and associated liabilities to the extent of its continuing involvement.

Non-derivative equity instruments and financial liabilities

(i) Equity instruments (stocks)

An equity instrument is a contract that evidences ownership of a residual interest in the assets of a company after deducting all of its liabilities.

(ii) Financial liabilities

Financial liabilities are classified as either "financial liabilities at fair value through profit or loss" or "other financial liabilities".

(iii) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as "financial liabilities at fair value through profit or loss" if they are held for trading or if they are designated as financial liabilities at fair value through profit or loss.

A financial liability is classified as being held for trading purposes if any of the following applies:
(a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial liabilities other than financial liabilities held for trading may be designated as "financial liabilities at fair value through profit or loss" at initial recognition if any of the following applies:
(a) If such designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") is likely to arise;
(b) If the financial liabilities are part of a "group of financial assets or financial liabilities (or both)" which are managed and have their performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on a fair value basis; or
(c) If the contract contains at least one embedded derivative (IAS 39 allows the entire hybrid (combined) contract (assets and liabilities) to be designated as "financial liabilities at fair value through profit or loss").

Financial liabilities designated as "financial liabilities at fair value through profit or loss" are measured at fair value, with any changes recognized in profit or loss. Recognized profits and losses, including the above, are recognized in the consolidated statement of profit or loss as interest expenses or gain or loss on change in fair value. Fair value is determined using the method described in "31. Financial Instruments."

(iv) Other financial liabilities

Other financial liabilities, including loans payable, are initially measured at fair value, net of directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the EIR method, and interest expenses are recognized using the EIR method.

(v) Derecognition of financial liabilities

The Group derecognizes a financial liability when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled, or expired.

(vi) Fair value of financial instruments

The fair value of financial instruments that are traded on an active financial market at each reporting date are based on quoted market prices and dealer prices.

The fair value of financial instruments for which there is no active market are calculated using appropriate valuation techniques.

(vii) Offsetting financial Instruments

Financial assets and financial liabilities are only offset when there is an enforceable legal right to offset the recognized amounts and when there is an intention to either settle on a net basis, or realize the asset and settle the liability simultaneously; and the net amount is reported on the consolidated statement of financial position.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank deposits available for withdrawal on demand, and short-term, highly liquid investments due with a maturity of three months of the acquisition date or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

(6) Inventories

Inventories are valued at the lower of cost and net realizable value; the weighted average method is principally used to determine cost. Net realizable value is based on the estimated selling price in the ordinary course of business less any estimated costs to be incurred to sell the goods.

(7) Property, plant and equipment (other than leased assets)

(i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

(ii) Depreciation

Assets other than land and construction in progress are depreciated using the straight-line method over the estimated useful lives shown below:

Buildings and structures	3-50 years
Furniture, equipment and vehicles	5 years

The useful lives, residual values, and depreciation methods are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

(8) Goodwill and intangible assets (other than leased assets)

(i) Goodwill

Goodwill is stated at the carrying amount, which is the acquisition cost after deducting accumulated impairment losses. Goodwill represents the excess amount of the historical cost of an interest acquired by the Group over the net amount of the fair value of the identifiable assets acquired and liabilities assumed.

Goodwill is not amortized but is allocated to identifiable cash-generating units based on the geographical region where business takes place and the type of business conducted, and then tested for impairment each year or when there is an indication that it may be impaired. Impairment losses on goodwill are recognized in the consolidated statement of profit or loss and cannot be subsequently reversed in future periods.

(ii) Intangible assets

Intangible assets are measured at cost, with any accumulated amortization and accumulated impairment losses deducted from the historical cost to arrive at the stated carrying amount.

Intangible assets acquired separately are measured at cost at initial recognition, and the cost of intangible assets acquired in a business combination is measured as fair value at the acquisition date.

For internally generated intangible assets, the entire amount of the expenditure is recorded as an expense in the period in which it arises, except for development expenses that meet the requirements for capitalization.

Intangible assets with finite useful lives are amortized over their respective estimated useful lives using the straight-line method, and they are tested for impairment when there is an indication that they may be impaired. The estimated useful life and amortization method for an intangible asset with a finite useful life is reviewed at the end of each reporting period, and any changes are applied prospectively as a change in accounting estimate.

The estimated useful lives of the main intangible assets with finite useful lives are as follows:

• Software for internal use	Length of time it is usable internally (3 to 5 years)

Intangible assets with indefinite useful lives and intangible assets that are not yet available for use are not amortized. They are tested for impairment annually or when there is an indication that they may be impaired, either individually or at the cash-generating unit level.

(9) Leases

The determination of whether an arrangement is, or contains, a lease is made based on the substance of the arrangement on the inception date of the lease, or in other words, whether the fulfillment of the arrangement depends on the use of a specific asset or group of assets and whether the arrangement conveys the right to such asset (whether explicitly stated in the contract or not).

If the lease agreement substantially conveys the risks and rewards of the ownership of the asset to the lessee, the lease is classified as a finance lease. Leases other than finance leases are classified as operating leases.

Finance leases are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the shorter of the estimated useful life of the asset and the lease term on a straight-line basis.

Operating lease payments as lessee are recognized as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Operating lease income as lessor is recognized as an operating revenue in the consolidated statement of profit or loss on a straight-line basis over the lease term.

(10) Impairment

The carrying amounts of the Group's non-financial assets, excluding inventories and deferred tax assets, are reviewed to determine whether there is any indication of impairment at each reporting date. If there is any indication of impairment, the recoverable amount for the asset is estimated. For goodwill, intangible assets with indefinite useful lives, and intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount for an asset or cash-generating unit ("CGU") is the higher of value-in-use and fair value less costs of disposal. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

A CGU is the smallest group of assets which generates cash inflows from continuing use which are largely independent of the cash inflows from other assets or groups of assets.

The CGU (or group of CGUs) for goodwill is determined based on the unit by which the goodwill is monitored for internal management purposes and must not be larger than an operating segment before aggregation.

Because the corporate assets do not generate independent cash inflows, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the CGU to which the corporate assets belong.

If the carrying amount of an asset or a CGU exceeds the recoverable amount, an impairment loss is recognized in profit or loss for the period. Impairment losses recognized in relation to a CGU are first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then allocated to the other assets of the CGU pro rata on the basis of their carrying amounts.

An impairment loss related to goodwill cannot be reversed in future periods. Previously recognized impairment losses on assets other than goodwill are reviewed at each reporting date to determine whether there is any indication that a loss has decreased or no longer exists. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

(11) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are recognized as the best estimate of the expenditure required to settle the present obligation (future cash flows), taking into account the risks and uncertainties surrounding the obligation at each reporting date.

If the time value of money is material, provisions are measured as the estimated future cash flows discounted to the present value using a pre-tax rate that reflects, when appropriate, the time value of money and the risks specific to the liability. When discounting is used, the increase due to the passage of time is recognized as a finance cost.

Provision is described below:

Asset retirement obligations

The obligations to restore property to its original state under real estate leasing agreements for offices, such as corporate headquarters and stores, are estimated and recorded as a provision. The expected length of use is estimated as the time from acquisition to the end of the useful life, and discount rates ranging between 0.00-1.00% are generally used in calculations.

(12) Employee benefits

1. Defined contribution system

We have adopted a defined contribution pension plan for employees of the Company and certain subsidiaries.

The defined contribution pension plan is a post-retirement benefit plan in which the employer contributes a certain amount of contributions to the plan administered by other independent companies and is not subject to legal or presumptive obligation on payment beyond those contributions.

Contributions to the defined contribution pension plan are charged to expense during the period in which employees provide services.

2. Short-term employee benefits

For short-term employee benefits, no estimate is accrued for and expenses are recorded when employees provide services.

For bonuses and paid leave expenses, we have legal or presumptive obligations to pay them and recognize as liabilities the amount estimated to be paid based on those plans if reliable estimates are possible.

3. Share-based payments

The Group grants share-based payments in the form of share subscription rights (stock options) to employees of the Company and its subsidiaries. In doing so, the Group aims to heighten morale and motivate employees to improve the Group's business performance, thereby increasing shareholder value by reinforcing business development that is focused on the interests of the shareholders. These share-based payments do this by rewarding contributions to the Group's profit and by connecting the benefits received by these individuals to the Company's stock price.

Stock options are measured at fair value based on the price of the Company's shares on the grant date. Fair value of stock options is further disclosed in "30. Share-based Payments."

The fair value of the stock options determined at the grant date is expensed, together with a corresponding increase in capital surplus in equity, over the vesting period on a straight-line basis, taking into consideration the Group's best estimates of the number of stock options that will ultimately vest.

(13) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable by the Group, less returns, trade discounts, and rebates. If a single transaction has multiple identifiable elements, the transaction is apportioned among the elements and revenue is recognized for each element. When two or more transactions make commercial sense only when linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole, revenue is recognized for the transactions together. The recognition standards and method of presentation for revenue are described below.

(i) Revenue recognition standards

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Method of presentation for revenue

If the Group is acting as a principal in a transaction, revenue is measured at the fair value of the consideration received or receivable from the customer.

(14) Income taxes

Income taxes comprise current and deferred taxes and these are recognized in profit or loss, except taxes arising from items that are recognized as other comprehensive income.

Current taxes are measured at the amount expected to be paid to (or recovered from) taxation authorities on taxable income or loss for the current year, using the rates that have been enacted or substantively enacted by each reporting date in the countries where the Group operates and generates taxable income, with adjustments to tax payments in past periods.

Through the use of an asset and liability approach, deferred tax assets and liabilities are recorded for the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts of assets and liabilities for tax purposes. Deferred tax assets and liabilities are not recognized for temporary differences under any of the following circumstances:

- Temporary differences arising from goodwill;
- Temporary differences arising from the initial recognition of an asset/liability which, at the time of the transaction, does not affect either the accounting profit or the taxable income (other than in a business combination); or
- Temporary differences associated with investments in subsidiaries, but only to the extent that it is possible to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future.

The consolidated taxation system is applied for the Company and 100% owned subsidiaries in Japan.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is realized or settled, based on tax laws that have been enacted or substantively enacted by each reporting date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when income taxes are levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend either to settle current tax assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized.

(15) Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to common shareholders of the parent by the weighted-average number of common stocks outstanding during the period, adjusted for treasury stock. Diluted earnings per share is calculated by adjusting for all dilutive potential ordinary shares having a dilutive effect.

4 Application of New and Amended Standards and Interpretations

The Group adopted the following standards and amendments from the beginning of the current fiscal year.

IFRS	Title	Summary
IAS 7 (Amendments)	Statement of Cash Flows	Request for disclosure of changes in liabilities related to financing activities
IAS 12 (Amendments)	Income Taxes	Recognition of deferred tax assets for unrealized losses

The effect of adopting the above standards and amendments on the consolidated financial statements of the Group is immaterial.

5 Issued but Not Yet Effective IFRS

At the date of authorization of these consolidated financial statements, certain new standards, amendments, and interpretations to existing standards were issued but not yet effective and have not been early adopted by the Group.

The Company assesses that the impact of the adoption of IFRS 9 and IFRS 15 is immaterial. The Company is in the process of assessing the impact of the adoption of IFRS 16 and IFRIC 23 but is not yet in a position to state whether these new and revised IFRS would have a significant impact on the Group's results of operation and financial position.

IFRS	Title	Mandatory adoption date (year beginning on)	The Group's adoption date	Summary
IFRS 9	Financial Instruments	1 January 2018	Year ending 31 August 2019	Replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. Amendments for the classification and measurement of financial instruments, adoption of expected credit loss impairment model for financial assets, and hedge accounting.
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Year ending 31 August 2019	Revised accounting standard for revenue recognition and disclosures.
IFRS 16	Leases	1 January 2019	Year ending 31 August 2020	Amendments to accounting treatment for lease arrangements
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	Year ending 31 August 2020	Clarifies the accounting for uncertainties in income taxes.

IFRS 16 does not require a lessee classify the leases as a financial lease or operating lease, and introduces a single lessee accounting model. A lessee recognizes, for all leases, a right-of-use asset representing its right of use to the underlying leased asset and a lease liability representing its obligation to make lease payments. However a lessee may elect not to apply the above requirement to short-term (12 months or less) and low value leases. After the initial recognition of a right-of-use asset and a lease liability, an entity recognizes depreciation cost of the right-of-use asset and interest expense of the lease liability.

6 Segment Information

(1) Description of reportable segments

The Group's reportable segments are components for which discrete financial information is available and reviewed regularly by the Board to make decisions about the allocation of resources and to assess performance.

From the current consolidated fiscal year, the operations of GU, which were previously included as a part of the Global Brands segment, have been included in the GU segment (newly created segment). The Group now discloses the GU reportable segment as a result of the Board's increased focus as its scale of operations expands.

The Group's main retail clothing business is divided into four reportable operating segments: UNIQLO Japan, UNIQLO International, GU and Global Brands, each of which is used to frame and form the Group's strategy.

The main businesses covered by each reportable segment are as follows:

UNIQLO Japan	UNIQLO clothing business within Japan
UNIQLO International	UNIQLO clothing business outside of Japan
GU	GU brand clothing business in Japan and overseas
Global Brands	Theory, COMPTOIR DES COTONNIERS, PRINCESSE TAM.TAM, and J Brand clothing operations

(2) Method of calculating segment revenue and results

The methods of accounting for the reportable segments are the same as those stated in "3. Significant Accounting Policies."

The Group does not allocate assets and liabilities to individual reportable segments.

(3) Segment Information

Year ended 31 August 2017

(Millions of yen)

	Reportable segments				Total	Others (Note 1)	Adjustments (Note 2)	Consolidated statement of profit or loss
	UNIQLO Japan	UNIQLO International	GU	Global Brands				
Revenue	¥810,734	¥708,171	¥199,139	¥141,003	¥1,859,048	¥2,868	¥ —	¥1,861,917
Operating profit/(losses)	95,914	73,143	13,542	500	183,101	285	(6,972)	176,414
Segment income/(losses) (i.e., profit before income taxes)	97,868	72,814	13,583	340	184,608	285	8,504	193,398
Other disclosure:								
Depreciation and amortization	8,966	17,214	3,776	2,701	32,659	153	6,875	39,688
Impairment losses	284	1,603	5	3,848	5,741	—	3,583	9,324

Notes: 1. "Others" includes the real estate leasing business, etc.
2. "Adjustments" primarily includes revenue and corporate expenses which are not allocated to individual reportable segments. Please refer to "15. Impairment Losses" for details of impairment loss on IT system investments, which is allocated to "Adjustments."

Year ended 31 August 2018

(Millions of yen)

	Reportable segments				Total	Others (Note 1)	Adjustments (Note 2)	Consolidated statement of profit or loss
	UNIQLO Japan	UNIQLO International	GU	Global Brands				
Revenue	**¥864,778**	**¥896,321**	**¥211,831**	**¥154,464**	**¥2,127,395**	**¥2,664**	**¥ —**	**¥2,130,060**
Operating profit/(losses)	**119,040**	**118,897**	**11,774**	**(4,115)**	**245,596**	**240**	**(9,624)**	**236,212**
Segment income/(losses) (i.e., profit before income taxes)	**119,685**	**119,172**	**11,572**	**(4,248)**	**246,182**	**250**	**(3,755)**	**242,678**
Other disclosure:								
Depreciation and amortization	**9,448**	**18,693**	**5,463**	**3,137**	**36,744**	**12**	**8,298**	**45,055**
Impairment losses	**415**	**944**	**268**	**9,962**	**11,590**	**—**	**785**	**12,376**

Notes: 1. "Others" includes the real estate leasing business, etc.
2. "Adjustments" primarily includes revenue and corporate expenses which are not allocated to individual reportable segments.

(4) Geographic Information

Year ended 31 August 2017

1. External Revenue

(Millions of yen)

Japan	PRC	Overseas (Others)	Total
¥1,053,970	¥260,039	¥547,908	¥1,861,917

2. Non-current assets
(excluding financial assets, Investments in associates accounted for using the equity method and deferred tax assets)

(Millions of yen)

Japan	PRC	United States of America	Overseas (Others)	Total
¥73,133	¥25,258	¥27,565	¥68,544	¥194,502

Year ended 31 August 2018

1. External Revenue

(Millions of yen)

Japan	PRC	Overseas (Others)	Total
¥1,121,186	**¥346,873**	**¥662,000**	**¥2,130,060**

2. Non-current assets
(excluding financial assets, Investments in associates accounted for using the equity method and deferred tax assets)

(Millions of yen)

Japan	PRC	United States of America	Overseas (Others)	Total
¥99,720	**¥26,804**	**¥26,868**	**¥61,469**	**¥214,863**

7 Business Combination

Not applicable.

8 Cash and Cash Equivalents

The breakdown of cash and cash equivalents as at each year end is as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Cash and bank balances	¥562,656	**¥853,380**
Money market funds (MMF), negotiable certificates of deposits	121,146	**146,316**
Total	¥683,802	**¥999,697**

9 Trade and Other Receivables

The breakdown of trade and other receivables as at each year end is as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Accounts receivable—trade	¥43,096	**¥46,008**
Notes receivable	154	**—**
Other accounts receivable	6,009	**7,256**
Allowance for doubtful accounts	(661)	**(587)**
Total	¥48,598	**¥52,677**

See note “31. Financial Instruments” for credit risk management and the fair value of trade and other receivables.

10 Inventories

The breakdown of inventories as at each year end is as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Products	¥286,499	**¥460,751**
Materials and Supplies	3,176	**4,036**
Total	¥289,675	**¥464,788**

Note: As at 31 August 2018, the Group had inventories attributable to UNIQLO Japan, UNIQLO International and GU segment amounting to 434,850 million yen in aggregate.

No inventories were pledged as collateral to secure debt.

Write-down of inventories to net realizable value is as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Write-down of inventories to net realizable value	¥3,433	**¥4,254**

Note: As at 31 August 2018, the Group had write-down of inventories attributable to UNIQLO Japan, UNIQLO International and GU segment amounting to 2,044 million yen in aggregate.

11 Other Financial Assets and Other Financial Liabilities

The breakdowns of other financial assets and other financial liabilities as at each year end are as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Other financial assets:		
Available-for-sale financial assets	¥ 303	**¥ 2,674**
Loans and receivables		
Loans and receivables	107,998	**112,462**
Allowance for doubtful accounts	(267)	**(301)**
Total loans and receivables	107,731	**112,160**
Total	108,034	**114,835**
Other current financial assets total	30,426	**35,359**
Other non-current financial assets total	77,608	**79,476**

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Other financial liabilities:		
Financial liabilities measured at amortized cost		
Interest-bearing debts	¥281,512	**¥544,502**
Deposits	2,176	**128,509**
Deposits/guarantees received	1,623	**1,513**
Total	285,312	**674,526**
Other current financial liabilities total	11,844	**171,854**
Other non-current financial liabilities total	273,467	**502,671**

12 Other Assets and Other Liabilities

The breakdowns of other assets and other liabilities as at each year end are as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Other assets:		
Prepayments	¥13,084	**¥13,503**
Long-term prepayments	4,742	**5,691**
Others	4,223	**14,849**
Total	22,050	**34,045**
Current	17,307	**28,353**
Non-current	4,742	**5,691**

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Other liabilities:		
Accruals	¥47,290	**¥64,089**
Employee benefits liabilities	5,931	**6,348**
Others	17,763	**18,975**
Total	70,984	**89,413**
Current	54,840	**72,722**
Non-current	16,144	**16,690**

13 Property, Plant and Equipment

Increase/(decrease) in acquisition costs, accumulated depreciation and impairment of property, plant and equipment are as follows:

(Millions of yen)

Acquisition costs	Buildings and structures	Furniture, equipment, and vehicles	Land	Construction in progress	Leased assets	Total
At 31 August 2016	¥195,986	¥39,253	¥1,962	¥ 11,029	¥ 24,757	¥272,990
Additions	13,009	5,144	—	13,437	9,631	41,223
Disposals	(9,718)	(1,391)	—	—	(2,942)	(14,051)
Transfers	18,404	—	—	(18,404)	—	—
Effect of change in exchange rate., etc	13,929	3,132	—	761	9	17,832
At 31 August 2017	231,612	46,139	1,962	6,824	31,455	317,994
Additions	9,316	8,380	—	28,242	31,922	77,860
Disposals	(4,412)	(6,606)	—	(2)	(14,911)	(25,933)
Transfers	18,885	4,639	—	(25,074)	1,549	—
Effect of change in exchange rate., etc	(2,794)	(787)	—	(438)	(42)	(4,063)
At 31 August 2018	**252,606**	**51,765**	**1,962**	**9,550**	**49,973**	**365,858**

(Millions of yen)

Accumulated depreciation and impairment losses	Buildings and structures	Furniture, equipment, and vehicles	Land	Construction in progress	Leased assets	Total
At 31 August 2016	¥(114,226)	¥(25,520)	¥ —	¥—	¥(11,389)	¥(151,136)
Depreciation provided during the year	(22,766)	(5,748)	—	—	(5,143)	(33,658)
Impairment losses	(1,491)	(571)	(34)	—	(55)	(2,153)
Reversal of impairment losses	695	—	—	—	—	695
Disposals	7,635	1,003	—	—	2,824	11,464
Effect of change in exchange rate., etc	(4,680)	(1,545)	—	—	(1)	(6,226)
At 31 August 2017	(134,833)	(32,381)	(34)	—	(13,765)	(181,015)
Depreciation provided during the year	(26,231)	(6,534)	—	—	(5,433)	(38,199)
Impairment losses	(2,029)	(205)	—	—	(99)	(2,335)
Disposals	3,029	878	—	—	3,867	7,775
Effect of change in exchange rate., etc	2,132	621	—	—	239	2,993
At 31 August 2018	**(157,933)**	**(37,622)**	**(34)**	**—**	**(15,191)**	**(210,781)**

(Millions of yen)

Net carrying amount	Buildings and structures	Furniture, equipment, and vehicles	Land	Construction in progress	Leased assets	Total
At 31 August 2017	¥96,778	¥13,757	¥1,927	¥6,824	¥17,690	¥136,979
At 31 August 2018	**94,673**	**14,143**	**1,927**	**9,550**	**34,782**	**155,077**

Note: As at 31 August 2018, the Group had store assets attributable to UNIQLO Japan, UNIQLO International and GU segment amounting to 40,933 million yen, 79,448 million yen and 15,558 million yen, respectively.

Net carrying amounts of finance-leased assets are as follows:

(Millions of yen)

Net carrying amount	Buildings and structures	Furniture, equipment, and vehicles	Others	Total
At 31 August 2017	¥ 3,333	¥14,356	¥—	¥17,690
At 31 August 2018	**19,335**	**15,447**	**—**	**34,782**

There are no restrictions on ownership rights and no pledges on the Group's property, plant and equipment.

14 Goodwill and Intangible Assets

(1) The increase/(decrease) in acquisition costs, accumulated amortization, and impairment of goodwill and intangible assets are as follows:

(Millions of yen)

Acquisition costs	Goodwill	Intangible assets other than goodwill				Goodwill and Intangible assets total
		Software	Trademarks	Other intangible assets	Total	
At 31 August 2016	¥38,146	¥40,871	¥20,058	¥21,075	¥82,006	¥120,152
External purchases	—	11,511	—	924	12,435	12,435
Disposals	—	(436)	—	(535)	(972)	(972)
Effect of change in exchange rate., etc	5,023	513	1,366	884	2,764	7,788
At 31 August 2017	43,170	52,460	21,425	22,348	96,234	139,404
External purchases	—	19,082	3	166	19,252	19,252
Disposals	—	(1,643)	(0)	(310)	(1,953)	(1,953)
Effect of change in exchange rate., etc	(3,429)	842	120	(30)	932	(2,497)
At 31 August 2018	**39,740**	**70,741**	**21,549**	**22,174**	**114,465**	**154,206**

(Millions of yen)

Accumulated amortization and impairment losses	Goodwill	Intangible assets other than goodwill				Goodwill and Intangible assets total
		Software	Trademarks	Other intangible assets	Total	
At 31 August 2016	¥(20,237)	¥(23,319)	¥(10,488)	¥(13,992)	¥(47,800)	¥ (68,038)
Amortization provided during the year	—	(5,899)	—	(130)	(6,029)	(6,029)
Impairment losses	(2,196)	(2,912)	(772)	(681)	(4,366)	(6,562)
Disposals	—	44	—	535	579	579
Effect of change in exchange rate., etc	(4,850)	(32)	(644)	(1,044)	(1,722)	(6,573)
At 31 August 2017	(27,285)	(32,118)	(11,906)	(15,314)	(59,339)	(86,624)
Amortization provided during the year	—	(6,727)	—	(129)	(6,856)	(6,856)
Impairment losses	(7,792)	(174)	(1,657)	(415)	(2,246)	(10,039)
Disposals	—	355	—	110	465	465
Effect of change in exchange rate., etc	3,429	(387)	(90)	(9)	(486)	2,942
At 31 August 2018	**(31,647)**	**(39,052)**	**(13,653)**	**(15,757)**	**(68,463)**	**(100,111)**

Note: Amortization of intangible assets is included in "selling, general and administrative expenses" on the consolidated statement of profit or loss.

(Millions of yen)

Net carrying amount	Goodwill	Intangible assets other than goodwill				Goodwill and Intangible assets total
		Software	Trademarks	Other intangible assets	Total	
At 31 August 2017	¥15,885	¥20,341	¥9,519	¥7,034	¥36,895	¥52,780
At 31 August 2018	**8,092**	**31,689**	**7,896**	**6,416**	**46,002**	**54,094**

(2) Goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets recorded in the consolidated statement of financial position are primarily for goodwill and trademarks related to the Theory business.

Trademarks and certain other intangible assets will continue to be used as long as the business remains viable; therefore, management estimated the useful lives as indefinite.

The carrying amount of the goodwill and intangible assets with indefinite useful lives by CGU is as follows:

(Millions of yen)

Net carrying amount	Goodwill				Intangible assets with indefinite useful lives			
	UNIQLO Japan	UNIQLO International	GU	Global Brands	UNIQLO Japan	UNIQLO International	GU	Global Brands
At 31 August 2017	¥—	¥—	¥—	¥15,885	¥—	¥—	¥—	¥15,797
At 31 August 2018	**—**	**—**	**—**	**8,092**	**—**	**—**	**—**	**13,601**

15 Impairment Losses

During the year ended 31 August 2018, the Group recognized impairment losses on certain store assets and goodwill etc., due to reductions in profitability of the respective cash-generating units.

The breakdown of impairment losses by asset type is as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Buildings and structures	¥1,491	**¥ 2,029**
Furniture, equipment and vehicles	571	**205**
Land	34	**—**
Leased assets (Note 1)	55	**99**
Subtotal impairment losses on property, plant and equipment	2,153	**2,335**
Software	2,912	**174**
Goodwill	2,196	**7,792**
Trademark (Note 2)	772	**1,657**
Other intangible assets	681	**415**
Subtotal impairment losses on intangible assets	6,562	**10,039**
Other current assets (short-term prepayments)	608	**0**
Other non-current assets (long-term prepayments)	—	**0**
Total impairment losses	9,324	**12,376**

Notes 1. Leased assets include furniture, equipment and vehicles.
2. 1,657 million yen represented impairment losses on the trademark of the Helmut Lang brand

The Group's impairment losses during the year ended 31 August 2018 amounted to 12,376 million yen, compared with 9,324 million yen during the year ended 31 August 2017, and are included in "other expenses" on the consolidated statement of profit or loss.

Year ended 31 August 2017

(1) Property, plant and equipment

Out of total impairment losses amounting to 9,324 million yen, 2,153 million yen represented write downs of the carrying amounts of store assets to the recoverable amounts, primarily due to a reduction in profitability of certain stores, including flagship stores.

The grouping of assets is based on the smallest cash-generating unit that independently generates cash inflow. In principle, each store, including flagship stores, is considered as an individual cash-generating unit and recoverable amounts thereon are calculated based on value in use.

The value in use is calculated based on the cash flow projections with estimates and growth rates compiled by management at a discount rate of 14.6%. Theoretically, the projected cash flows cover a five-year period, and do not use a growth rate that exceeds the long-term average market growth rate. The pre-tax discount rate calculation is based on the weighted-average cost of capital.

The main cash-generating units for which impairment losses were recorded are as follows:

Operating segment	Cash-generating unit	Type
UNIQLO Japan	UNIQLO CO., LTD. stores	Buildings and structures
UNIQLO International	UNIQLO USA LLC, etc., stores	Buildings and structures
Global Brands	PRINCESSE TAM.TAM S.A.S., etc., stores	Buildings and structures

(2) Goodwill and intangible assets, etc.

(i) Impairment losses related to the J Brand business

Out of the total impairment losses amounting to 9,324 million yen, 3,650 million yen represented impairment losses on goodwill, trademarks, and customer relationships of the J Brand business. The carrying amounts of cash-generating units related to the J Brand business after recognition of the impairment losses were written down to zero yen of goodwill and customer relationships, and 1,388 million yen of trademarks.

The recoverable amounts from goodwill and intangible assets relating to trademarks and customer relationships, related to the J Brand business were calculated based on fair value less cost of disposal.

Fair value less costs of disposal is determined by taking into account the following two approaches:

① The terminal value of the business plus the 10-year discounted cash flow projections were based on plans approved by management. The fair value measurement is calculated based on post-tax discount rate. The post-tax discount rate is calculated at 20.5% based on the weighted-average cost of capital of the cash-generating units (income approach).

In addition, deviation from the amount of future cash flows or the predictions about the implementation timing is primarily reflected in the discount rate. Furthermore, the cash flows beyond the 10-year period are extrapolated using a 3% growth rate taking into account the long-term average market growth rate.

② Calculation based on the market value of similar assets (market approach).

This measurement of fair value is classified as Level 3 in the fair value hierarchy based on significant inputs in used valuation techniques. Adverse change in key assumptions—lower estimated future cash flows or a higher discount rate would cause further impairment losses to be recognized.

See note “14. Goodwill and Intangible Assets” for impairment of goodwill, including goodwill related to the J Brand business.

(ii) Impairment losses related to IT system investment

Out of total impairment losses amounting to 9,324 million yen, 3,521 million yen is related to IT system investment for luxury brands. 3,521 million yen is comprised of impairment losses for software assets which amounted to 2,912 million yen and impairment losses for IT system assets, which are included in other current assets, which amounted to 608 million yen.

These impairment losses represented write downs of the carrying amounts of the aforementioned assets to the recoverable amounts in order to reflect the decreased profitability that resulted from replacing the system. The Company allocates the software, as corporate assets, to each luxury brand, whereby representing individual cash-generating units.

The recoverable amounts of each cash-generating unit, related to the luxury brands, are calculated based on their value in use. As a result, the carrying amounts of software after recognition of impairment losses were written down to zero yen.

(3) Reversal of impairment losses

Since recovery in profitability was identified in certain stores in the UNIQLO Japan business where impairment losses were recorded in the past (mainly buildings and structures), the total reversal of impairment losses amounting to 695 million yen was included in “Other income” in the consolidated statement of profit or loss. The recoverable amounts are based on value in use.

The calculation basis for value in use is cash flow projections based on estimates and growth rates compiled by management at discount rates ranging from 16.3% to 19.3%. Theoretically, the projected cash flows are based on the remaining estimated useful lives of the respective property, plant and equipment, and do not use a growth rate that exceeds the long-term average market growth rate. The pre-tax discount rate calculation is based on the weighted-average cost of capital.

Year ended 31 August 2018

(1) Property, plant and equipment

Out of total impairment losses amounting to 12,376 million yen, 1,725 million yen represented write downs of the carrying amounts of store assets to the recoverable amounts, primarily due to a reduction in profitability of certain stores, including flagship stores.

The grouping of assets is based on the smallest cash-generating unit that independently generates cash inflow. In principle, each store, including flagship stores, is considered as an individual CGU and recoverable amounts thereon are calculated based on value in use.

The value in use is calculated based on the cash flow projections with estimates and growth rates compiled by management at a discount rate of 7.5%. Theoretically, the projected cash flows cover a five-year period, and do not use a growth rate that exceeds the long-term average market growth rate. The pre-tax discount rate calculation is based on the weighted-average cost of capital.

The main cash-generating units for which impairment losses were recorded are as follows:

Operating segment	Cash-generating unit	Type
UNIQLO Japan	UNIQLO CO., LTD. stores	Buildings and structures
UNIQLO International	UNIQLO EUROPE LTD. etc., stores	Buildings and structures
GU	G.U. CO., LTD. etc., stores	Buildings and structures
Global Brands	COMPTOIR DES COTONNIERS S.A.S., etc stores	Buildings and structures

(2) Goodwill and intangible assets, etc.

(i) Impairment losses related to the COMPTOIR DES COTONNIERS business

Out of the total impairment losses amounting to 12,376 million yen, 7,792 million yen represented impairment losses on goodwill, of the COMPTOIR DES COTONNIERS business. The carrying amounts of cash-generating units related to the COMPTOIR DES COTONNIERS business after recognition of the impairment losses were written down to zero yen of goodwill.

The recoverable amounts from goodwill related to the COMPTOIR DES COTONNIERS business were calculated based on fair value less cost of disposal.

Fair value less costs of disposal is determined by taking into account the following two approaches:

The terminal value of the business plus the three year discounted cash flow projections were based on plans approved by management.

The fair value measurement is calculated based on post-tax discount rate. The post-tax discount rate is calculated at 13.6% based on the weighted-average cost of capital of the cash-generating units (income approach).

In addition, deviation from the amount of future cash flows or the predictions about the implementation timing is primarily reflected in the discount rate. Furthermore, the cash flows beyond the 10-year period are extrapolated using a 1% growth rate taking into account the long-term average market growth rate.

16 Investments in Associates Accounted for Using the Equity Method

(1) Information on associates accounted for using the equity method

Information on associates accounted for using the equity method is as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Share of profit and loss of associates accounted for using the equity method	¥ 625	**¥ 611**
Share of other comprehensive income of investments in associates	—	**—**
Share of comprehensive income of investments in associates	625	**611**
Carrying amount of investments in associates accounted for using the equity method	13,473	**14,649**

(2) Determination regarding significant influence and financial information on important associates

In June 2016, the Company invested in a domestic real estate investment trust aiming to own a distribution facility. The Company has significant influence over the financial and operating policy.

The Company's maximum exposure to losses due to its investments in the associates is limited to the amount of the investments by the Company and is included in the consolidated statement of financial position as "Investments in associates accounted for using the equity method," which amounted to 13,292 million yen. The Group's share of profit and comprehensive income of the associates was 611 million yen and was included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively.

Total assets of the associates amounted to 70,739 million yen, which mainly comprised non-current assets such as warehouse, etc. The Company invested in the associates at the time of incorporation and no goodwill is recognized.

The Company received dividends amounting to 612 million yen from the associates during the year ended 31 August 2018.

The Group has entered into lease contracts with one of the associates relating to warehouse rental, etc.

17 Finance Lease Obligations

The breakdown of finance lease obligations is as follows:

(Millions of yen)

	Future minimum lease payments		Present value of future minimum lease payments	
	As at 31 August 2017	**As at 31 August 2018**	As at 31 August 2017	**As at 31 August 2018**
Finance lease obligations				
Due within one year	¥ 5,820	**¥ 8,565**	¥ 5,596	**¥ 7,952**
Due after one year through five years	12,474	**23,509**	12,068	**22,432**
Due after five years	1,410	**5,442**	1,358	**5,258**
Total	19,706	**37,517**	19,023	**35,643**
Deductions—future finance costs	(682)	**(1,873)**	—	**—**
Total net finance lease payables	19,023	**35,643**	19,023	**35,643**
Current portion	—	**—**	5,596	**7,952**
Non-current portion	—	**—**	13,427	**27,690**

The Group has no sublease contracts, accrued variable lease fees or escalation clauses (clauses enabling upward revision of rental charges), and no limitations imposed by lease contracts (limitations regarding dividends, additional borrowing, or additional leases, etc.).

18 Operating Lease Commitments

(1) As lessee

The Group's total future minimum lease payments on non-cancellable operating leases as at each year end are as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Due within one year	¥ 47,901	**¥ 49,129**
Due after one year through five years	138,904	**137,288**
Due after five years	132,439	**107,617**
Total	319,246	**294,034**

The total minimum lease payments and contingent rents for operating lease contracts recognized as expenses during the year are as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Total minimum lease payments	¥ 94,258	**¥111,980**
Contingent rents	79,776	**79,832**
Total	174,034	**191,813**

Contingent rents are primarily for rents which move in tandem with sales, that are defined in the contracts for store open.

Contingent rents, renewal options, and escalation clauses (clauses enabling upward revision of rental charges) are included in the operating lease agreements.

There are no limitations imposed by lease contracts (limitations regarding dividends, additional borrowing, or additional leases, etc.).

(2) As lessor

The Company sub-leases some of the properties it leased through operating leases, and so while it pays rent to the property owner, it also receives rent from the sub-tenant.

A breakdown of the future minimum rental receivables under non-cancellable leases is as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Due within one year	¥ 3	**¥14**
Due after one year through five years	14	**14**
Due after five years	—	**—**
Total	18	**29**

The total of contingent rents recorded as revenue during each reporting period is as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Contingent rents	¥1,116	**¥1,088**

19 Deferred Taxes and Income Taxes

(1) Deferred taxes

The main factors in the increase/(decrease) of deferred tax assets and deferred tax liabilities are as follows:

(Millions of yen)

	As at 1 September 2016	Recognized in profit or loss (Note)	Recognized in other comprehensive income	As at 31 August 2017
Temporary differences				
Accrued business tax	¥ 1,129	¥ 99	¥ —	¥ 1,228
Accrued bonuses	3,385	299	—	3,685
Allowance for doubtful accounts	186	(23)	—	163
Impairment losses on non-current assets	3,553	(4)	—	3,549
Unrealized gains/(losses) on available-for-sale securities	(36)	—	35	(1)
Depreciation	6,419	1,212	—	7,632
Net gains/(losses) on revaluation of cash flow hedges	22,617	—	(22,981)	(364)
Temporary differences on shares of subsidiaries	(1,893)	—	—	(1,893)
Accelerated depreciation	(5,496)	(1,030)	—	(6,527)
Others	4,496	(3,578)	—	917
Subtotal	34,361	(3,024)	(22,946)	8,391
Tax losses carried forward	6,257	654	—	6,911
Net deferred tax assets/(liabilities)	40,618	(2,369)	(22,946)	15,303

Note: The difference between the total amount recognized in profit or loss and the amount of deferred tax is due to effect of change in exchange rate.

(Millions of yen)

	As at 1 September 2017	Recognized in profit or loss (Note)	Recognized in other comprehensive income	**As at 31 August 2018**
Temporary differences				
Accrued business tax	¥ 1,228	¥ 713	¥ —	**¥ 1,942**
Accrued for bonuses	3,685	562	—	**4,247**
Allowance for doubtful accounts	163	(32)	—	**130**
Impairment losses on non-current assets	3,549	616	—	**4,165**
Unrealized gains/(losses) on available-for-sale securities	(1)	—	(89)	**(91)**
Depreciation	7,632	487	—	**8,120**
Net gains/(losses) on revaluation of cash flow hedges	(364)	—	(7,485)	**(7,849)**
Temporary differences on shares of subsidiaries	(1,893)	—	—	**(1,893)**
Accelerated depreciation	(6,527)	2,320	—	**(4,206)**
Others	917	4,225	—	**5,143**
Subtotal	8,391	8,892	(7,574)	**9,708**
Tax losses carried forward	6,911	(3,245)	—	**3,666**
Net deferred tax assets/(liabilities)	15,303	5,646	(7,574)	**13,374**

Note: The difference between the total amount recognized in profit or loss and the amount of deferred tax is due to effect of change in exchange rate.

Tax effects of unrecognized tax losses carried forward and deductible temporary differences for which deferred tax assets were not recognized is as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Unrecognized tax losses carried forward	¥18,844	**¥14,862**
Deductible temporary differences	15,798	**11,706**
Total	34,642	**26,568**

Tax effects of unrecognized tax losses carried forward of which no deferred tax asset is recognized in the consolidated statement of financial position, if unutilized, will expire as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
First year	¥ —	**¥ —**
Second year	—	**—**
Third year	—	**—**
Fourth year	—	**—**
Fifth year and thereafter	18,844	**14,862**
Total	18,844	**14,862**

Temporary differences on shares of subsidiaries for which deferred tax liabilities were not recognized

The aggregate amounts of temporary differences associated with undistributed retained earnings of subsidiaries for which deferred tax liabilities have not been recognized as at 31 August 2017 and 31 August 2018 were 296,630 million yen and 354,468 million yen, respectively.

No liability has been recognized with respect to these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

(2) Income taxes

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Current tax	¥61,136	**¥78,234**
Deferred tax	3,351	**(4,929)**
Total	64,488	**73,304**

Note: The federal corporate income tax rate in the United States was lowered from 35% to 21% following the enactment of the Tax Cuts and Jobs Act in the United States (22 December 2017). As a result of this change, income of 1,819 million yen was recorded in income taxes in the consolidated statements of profit and loss for the current consolidated fiscal year due mainly to the reversal of deferred tax liabilities.

Reconciliations between the statutory income tax rates and the effective tax rates are as follows. The effective tax rate shown is the corporate income tax rate applied to the Group's profit before income taxes.

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Statutory income tax rate	30.8%	**30.8%**
Unrecognized deferred tax assets	2.4%	**1.1%**
Difference in statutory income tax rates of subsidiaries	(3.9%)	**(4.3%)**
Impairment loss of goodwill	0.4%	**1.0%**
Undistributed earnings of foreign subsidiaries	3.1%	**0.6%**
Inhabitant tax on per capita basis	0.1%	**0.2%**
Others	0.3%	**0.8%**
Effective tax rate	33.3%	**30.2%**

20 Trade and Other Payables

The breakdown of trade and other payables as at each year end is as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Trade payables	¥137,325	**¥161,488**
Other payables	66,683	**53,054**
Total	204,008	**214,542**

21 Provisions

The breakdown of provisions as at each year end is as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Asset retirement obligations	¥24,189	**¥30,781**
Total	24,189	**30,781**
Current liabilities	8,780	**11,868**
Non-current liabilities	15,409	**18,912**

The primary factors for the increase/ (decrease) in provisions are as follows:

(Millions of yen)

	Asset retirement obligations
Balances as at 31 August 2017	¥24,189
Additional provisions	7,244
Amounts utilized	(982)
Increase in discounted amounts arising from passage of time	254
Others	74
Balances as at 31 August 2018	**30,781**

Please refer to "3. Significant Accounting Policies (11) Provisions" for an explanation of respective provisions.

22 Equity and Other Equity Items

(1) Share capital

(Shares) (Millions of yen)

	Number of authorized shares (Common stock with no par-value)	Number of issued shares (Common stock with no par-value)	Number of outstanding shares (Common stock with no par-value)	Capital stock	Capital surplus
Balances as at 1 September 2016	300,000,000	106,073,656	101,964,153	¥10,273	¥13,070
Increase/(decrease) (Note)	—	—	19,839	—	1,303
Balances as at 31 August 2017	300,000,000	106,073,656	101,983,992	10,273	14,373
Increase/(decrease) (Note)	—	—	35,792	—	3,901
Balances as at 31 August 2018	**300,000,000**	**106,073,656**	**102,019,784**	**10,273**	**18,275**

Note: The primarily factor for the increase/(decrease) in the number of shares in circulation was the increase/(decrease) in the number of treasury stock as indicated below.

(2) Treasury stock and capital surplus

① Treasury stock

(Shares) (Millions of yen)

	Number of shares	Amount
Balances as at 1 September 2016	4,109,503	¥15,633
Acquisition of treasury stock less than one unit	155	6
Exercise of stock options	(19,994)	(75)
Balances as at 31 August 2017	4,089,664	15,563
Acquisition of treasury stock less than one unit	40	1
Exercise of stock options	(35,832)	(136)
Balances as at 31 August 2018	**4,053,872**	**15,429**

② Capital surplus

(Millions of yen)

	Capital reserve	Gain/(loss) on disposal of treasury stock	Stock options	Others	Total
Balances as at 1 September 2016	¥4,578	¥3,112	¥3,599	¥1,779	¥13,070
Disposal of treasury stock	—	642	—	—	642
Share-based payments	—	—	754	—	754
Others	—	—	—	(94)	(94)
Balances as at 31 August 2017	4,578	3,754	4,354	1,685	14,373
Disposal of treasury stock	—	1,169	—	—	1,169
Share-based payments	—	—	857	—	857
Capital contributions from non-controlling interests	—	—	—	1,874	1,874
Balances as at 31 August 2018	**4,578**	**4,924**	**5,211**	**3,559**	**18,275**

Please refer to “30. Share-based Payments” for details of share-based payments (stock options).

(3) Other components of equity

The breakdown of other comprehensive income included in non-controlling interests is as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Exchange differences on translation of foreign operations	¥1,666	**¥ 91**
Cash flow hedges	196	**826**
Other comprehensive income	1,862	**917**

(4) Dividends

The Company's basic policy is to pay dividends twice a year, an interim dividend and a year-end dividend. These dividends are decided by resolution of the Board, unless otherwise stipulated by laws and regulations.

The total amount of dividends paid was as follows:

Year ended 31 August 2017

(Millions of yen) (Yen)

Resolutions	Amount of dividends	Dividends per share
Board of Directors' meeting held on 4 November 2016	¥16,824	¥165
Board of Directors' meeting held on 13 April 2017	17,846	175

Year ended 31 August 2018

(Millions of yen) (Yen)

Resolutions	Amount of dividends	Dividends per share
Board of Directors' meeting held on 2 November 2017	**¥17,847**	**¥175**
Board of Directors' meeting held on 12 April 2018	**20,401**	**200**

Dividend which effective date is after fiscal 2018 is as follow:

(Millions of yen) (yen)

Resolutions	Amount of dividends	Dividends per share
Board of Directors' meeting held on 2 November 2018	**¥24,484**	**¥240**

Regarding the proposed dividends per common stock, the Board has approved the proposal subsequent to the year-end date, and this sum is not recognized as a liability at year end.

23 Revenue

The breakdown of revenue for each year is as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Revenue		
Sales of goods	¥1,857,065	**¥2,124,793**
Service revenue	4,852	**5,267**
Total	1,861,917	**2,130,060**

24 Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses for each year is as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Selling, general and administrative expenses		
Advertising and promotion	¥ 70,937	**¥ 70,310**
Rental expenses	174,034	**191,813**
Depreciation and amortization	39,688	**45,055**
Outsourcing	33,244	**41,005**
Salaries	252,520	**285,105**
Others	154,790	**164,186**
Total	725,215	**797,476**

25 Other Income and Other Expenses

The breakdowns of other income and other expenses for each year are as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Other income		
Foreign exchange gains*	¥2,137	**¥ —**
Reversal of impairment losses	695	**—**
Others	3,488	**3,385**
Total	6,321	**3,385**

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Other expenses		
Foreign exchange losses*	¥ —	**¥ 1,450**
Losses on retirement of property, plant and equipment	1,915	**1,176**
Impairment losses	9,324	**12,376**
Others	3,327	**5,241**
Total	14,567	**20,244**

* Currency adjustments incurred in the course of operating transactions are included in "other income" or "other expenses".

26 Finance Income and Finance Costs

The breakdowns of finance income and finance costs for each year are as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Finance income		
Foreign exchange gains*	¥13,318	**¥2,132**
Interest income	6,110	**7,545**
Others	488	**15**
Total	19,917	**9,693**

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Finance costs		
Interest expenses	¥2,932	**¥3,169**
Others	—	**58**
Total	2,932	**3,228**

* Currency adjustments incurred in the course of non-operating transactions are included in “finance income”.

27 Other Comprehensive Income

The breakdown of amounts recorded during the year, reclassification adjustments, and income tax effect generated by individual comprehensive income items included in “other comprehensive income” for each year are as follows:

Year ended 31 August 2017

(Millions of yen)

	Amount recorded during the year	Reclassification adjustment	Amount before income tax	Income tax effect	Amount after income tax
Net gain/(loss) on revaluation of available-for-sale investments	¥ 193	¥ (474)	¥ (280)	¥ 35	¥ (245)
Exchange differences on translation of foreign operations	26,285	—	26,285	—	26,285
Cash flow hedges	92,496	(22,405)	70,091	(22,981)	47,109
Total	118,974	(22,879)	96,095	(22,946)	73,148

Year ended 31 August 2018

(Millions of yen)

	Amount recorded during the year	Reclassification adjustment	Amount before income tax	Income tax effect	Amount after income tax
Net gain/(loss) on revaluation of available-for-sale investments	**¥ 65**	**¥ 58**	**¥ 124**	**¥ (89)**	**¥ 34**
Exchange differences on translation of foreign operations	**(6,285)**	**—**	**(6,285)**	**—**	**(6,285)**
Cash flow hedges	**15,155**	**10,065**	**25,221**	**(7,485)**	**17,735**
Total	**8,936**	**10,123**	**19,059**	**(7,574)**	**11,484**

28 Earnings per Share

(Yen)

Year ended 31 August 2017		**Year ended 31 August 2018**	
Equity per share attributable to owners of the parent	¥7,175.35	Equity per share attributable to owners of the parent	**¥8,458.52**
Basic earnings per share for the year	1,169.70	Basic earnings per share for the year	**1,517.71**
Diluted earnings per share for the year	1,168.00	Diluted earnings per share for the year	**1,515.23**

Note: The basis for calculation of basic earnings per share and diluted earnings per share for the year is as follows:

	Year ended 31 August 2017	**Year ended 31 August 2018**
Basic earnings per share for the year		
Profit for the year attributable to owners of the parent (Millions of yen)	119,280	**154,811**
Profit not attributable to common shareholders (Millions of yen)	—	**—**
Profit attributable to common shareholders (Millions of yen)	119,280	**154,811**
Average number of common stock during the year (Shares)	101,975,416	**102,002,997**
Diluted earnings per share for the year		
Adjustment to profit (Millions of yen)	—	**—**
Increase in number of common stock (Shares)	148,207	**167,434**
(Number of share subscription rights included in the increase)	(148,207)	**(167,434)**

29 Cash Flow Information

(1) Liabilities of financing activities

Liabilities of financing activities are as follows:

Year ended 31 August 2018

(Millions of yen)

	Balances as at 31 August 2017	Variation with cash flow	Variation without cash flow		Balances as at 31 August 2018
			Foreign currency translation reserve	Others	
Short-term borrowings	**¥ 758**	**¥ 170**	**¥(41)**	**¥ 66**	**¥ 954**
Long-term borrowings	**12,146**	**(3,308)**	**92**	**(44)**	**8,884**
Corporate bonds	**249,583**	**249,319**	**—**	**116**	**499,020**
Lease obligations	**19,023**	**(5,918)**	**14**	**22,524**	**35,643**
Total	**281,512**	**240,262**	**65**	**22,662**	**544,502**

(2) Information on corporate bonds as at 31 August 2017 and 2018 is as follows:

(Millions of yen)

Company name	Name of bonds	Date of issuance	As at 31 August 2017	As at 31 August 2018	Interest rate (%)	Date of maturity
FAST RETAILING CO., LTD.	1st non-collateralized corporate bonds	18 December 2015	29,977	29,995	0.110	18 December 2018
FAST RETAILING CO., LTD.	2nd non-collateralized corporate bonds	18 December 2015	99,869	99,909	0.291	18 December 2020
FAST RETAILING CO., LTD.	3rd non-collateralized corporate bonds	18 December 2015	49,901	49,920	0.491	16 December 2022
FAST RETAILING CO., LTD.	4th non-collateralized corporate bonds	18 December 2015	69,835	69,855	0.749	18 December 2025
FAST RETAILING CO., LTD.	5th non-collateralized corporate bonds	6 June 2018	—	79,845	0.110	6 June 2023
FAST RETAILING CO., LTD.	6th non-collateralized corporate bonds	6 June 2018	—	29,919	0.220	6 June 2025
FAST RETAILING CO., LTD.	7th non-collateralized corporate bonds	6 June 2018	—	99,731	0.405	6 June 2028
FAST RETAILING CO., LTD.	8th non-collateralized corporate bonds	6 June 2018	—	39,843	0.880	4 June 2038
Total	—	—	249,583	499,020	—	—

30 Share-based Payments

The Group has a program for issuing share subscription rights as share-based compensation stock options for employees of the Company and its subsidiaries as a means of recognizing their contribution to the Group's profit. By linking the Company's stock price to the benefits received by personnel, this program aims to boost staff morale and motivation, improve Group performance, and enhance shareholder value by strengthening business development with a focus on shareholder return.

1. Details, scale, and changes in stock option

(1) Description of stock options

	1st share subscription rights A type	1st share subscription rights B type
Category and number of grantees	Employees of the Company: 7 Employees of Group subsidiaries: 3	Employees of the Company: 266 Employees of Group subsidiaries: 413
Number of stock options by type of shares (Note)	Common stock: maximum 3,370 shares	Common stock: maximum 77,542 shares
Grant date	8 November 2010	8 November 2010
Vesting conditions	To serve continuously until the vesting date (7 November 2013) after the grant date (8 November 2010)	To serve continuously until the vesting date (7 December 2010) after the grant date (8 November 2010)
Eligible service period	From 8 November 2010 to 7 November 2013	From 8 November 2010 to 7 December 2010
Exercise period	From 8 November 2013 to 7 November 2020	From 8 December 2010 to 7 November 2020
Settlement	Equity settlement	Equity settlement

	2nd share subscription rights A type	2nd share subscription rights B type
Category and number of grantees	Employees of the Company: 14 Employees of Group subsidiaries: 4	Employees of the Company: 139 Employees of Group subsidiaries: 584
Number of stock options by type of shares (Note)	Common stock: maximum 13,894 shares	Common stock: maximum 51,422 shares
Grant date	15 November 2011	15 November 2011
Vesting conditions	To serve continuously until the vesting date (14 November 2014) after the grant date (15 November 2011)	To serve continuously until the vesting date (14 December 2011) after the grant date (15 November 2011)
Eligible service period	From 15 November 2011 to 14 November 2014	From 15 November 2011 to 14 December 2011
Exercise period	From 15 November 2014 to 14 November 2021	From 15 December 2011 to 14 November 2021
Settlement	Equity settlement	Equity settlement

	3rd share subscription rights A type	3rd share subscription rights B type
Category and number of grantees	Employees of the Company: 18 Employees of Group subsidiaries: 8	Employees of the Company: 136 Employees of Group subsidiaries: 615
Number of stock options by type of shares (Note)	Common stock: maximum 10,793 shares	Common stock: maximum 39,673 shares
Grant date	13 November 2012	13 November 2012
Vesting conditions	To serve continuously until the vesting date (12 November 2015) after the grant date (13 November 2012)	To serve continuously until the vesting date (12 December 2012) after the grant date (13 November 2012)
Eligible service period	From 13 November 2012 to 12 November 2015	From 13 November 2012 to 12 December 2012
Exercise period	From 13 November 2015 to 12 November 2022	From 13 December 2012 to 12 November 2022
Settlement	Equity settlement	Equity settlement

	4th share subscription rights A type	4th share subscription rights B type
Category and number of grantees	Employees of the Company: 19 Employees of Group subsidiaries: 11	Employees of the Company: 180 Employees of Group subsidiaries: 706
Number of stock options by type of shares (Note)	Common stock: maximum 7,564 shares	Common stock: maximum 29,803 shares
Grant date	3 December 2013	3 December 2013
Vesting conditions	To serve continuously until the vesting date (2 December 2016) after the grant date (3 December 2013)	To serve continuously until the vesting date (2 January 2014) after the grant date (3 December 2013)
Eligible service period	From 3 December 2013 to 2 December 2016	From 3 December 2013 to 2 January 2014
Exercise period	From 3 December 2016 to 2 December 2023	From 3 January 2014 to 2 December 2023
Settlement	Equity settlement	Equity settlement

	5th share subscription rights A type	5th share subscription rights B type
Category and number of grantees	Employees of the Company: 36 Employees of Group subsidiaries: 16	Employees of the Company: 223 Employees of Group subsidiaries: 785
Number of stock options by type of shares (Note)	Common stock: maximum 21,732 shares	Common stock: maximum 33,062 shares
Grant date	14 November 2014	14 November 2014
Vesting conditions	To serve continuously until the vesting date (13 November 2017) after the grant date (14 November 2014)	To serve continuously until the vesting date (13 December 2014) after the grant date (14 November 2014)
Eligible service period	From 14 November 2014 to 13 November 2017	From 14 November 2014 to 13 December 2014
Exercise period	From 14 November 2017 to 13 November 2024	From 14 December 2014 to 13 November 2024
Settlement	Equity settlement	Equity settlement

	6th share subscription rights A type	6th share subscription rights B type
Category and number of grantees	Employees of the Company: 15 Employees of Group subsidiaries: 19	Employees of the Company: 274 Employees of Group subsidiaries: 921
Number of stock options by type of shares (Note)	Common stock: maximum 2,847 shares	Common stock: maximum 25,389 shares
Grant date	13 November 2015	13 November 2015
Vesting conditions	To serve continuously until the vesting date (12 November 2018) after the grant date (13 November 2015)	To serve continuously until the vesting date (12 December 2015) after the grant date (13 November 2015)
Eligible service period	From 13 November 2015 to 12 November 2018	From 13 November 2015 to 12 December 2015
Exercise period	From 13 November 2018 to 12 November 2025	From 13 December 2015 to 12 November 2025
Settlement	Equity settlement	Equity settlement

	6th share subscription rights C type	7th share subscription rights A type
Category and number of grantees	Employees of the Company: 26	Employees of the Company: 16 Employees of Group subsidiaries: 23
Number of stock options by type of shares (Note)	Common stock: maximum 6,072 shares	Common stock: maximum 2,821 shares
Grant date	13 November 2015	11 November 2016
Vesting conditions	To serve continuously until the vesting date (12 November 2018) after the grant date (13 November 2015)	To serve continuously until the vesting date (10 November 2019) after the grant date (11 November 2016)
Eligible service period	From 13 November 2015 to 12 November 2018	From 11 November 2016 to 10 November 2019
Exercise period	13 November 2018	From 11 November 2019 to 10 November 2026
Settlement	Equity settlement	Equity settlement

	7th share subscription rights B type	7th share subscription rights C type
Category and number of grantees	Employees of the Company: 339 Employees of Group subsidiaries: 1,096	Employees of the Company: 30
Number of stock options by type of shares (Note)	Common stock: maximum 31,726 shares	Common stock: maximum 5,205 shares
Grant date	11 November 2016	11 November 2016
Vesting conditions	To serve continuously until the vesting date (10 December 2016) after the grant date (11 November 2016)	To serve continuously until the vesting date (10 November 2019) after the grant date (11 November 2016)
Eligible service period	From 11 November 2016 to 10 December 2016	From 11 November 2016 to 10 November 2019
Exercise period	From 11 December 2016 to 10 November 2026	11 November 2019
Settlement	Equity settlement	Equity settlement

	8th share subscription rights A type	8th share subscription rights B type
Category and number of grantees	Employees of the Company: 19 Employees of Group subsidiaries: 27	Employees of the Company: 395 Employees of Group subsidiaries: 1,152
Number of stock options by type of shares (Note)	Common stock: maximum 5,454 shares	Common stock: maximum 48,178 shares
Grant date	10 November 2017	10 November 2017
Vesting conditions	To serve continuously until the vesting date (9 November 2020) after the grant date (10 November 2017)	To serve continuously until the vesting date (9 December 2017) after the grant date (10 November 2017)
Eligible service period	From 10 November 2017 to 9 November 2020	From 10 November 2017 to 9 December 2017
Exercise period	From 10 November 2020 to 9 November 2027	From 10 December 2017 to 9 November 2027
Settlement	Equity settlement	Equity settlement

	8th share subscription rights C type
Category and number of grantees	Employees of the Company: 29
Number of stock options by type of shares (Note)	Common stock: maximum 5,929 shares
Grant date	10 November 2017
Vesting conditions	To serve continuously until the vesting date (9 November 2020) after the grant date (10 November 2017)
Eligible service period	From 10 November 2017 to 9 November 2020
Exercise period	10 November 2020
Settlement	Equity settlement

Note: The number of stock options is equivalent to the number of shares.

Expenses recognized as share-based payments are as follows:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Expenses recognized Share-based payments	¥1,425	**¥2,188**

(2) Scale of stock options program and changes

Outstanding balance of stock options as at 31 August 2018 are converted into equivalent number of shares.

① Number and weighted average exercise prices of stock options

Stock options

(Shares)

	Number of shares	
	Year ended 31 August 2017	**Year ended 31 August 2018**
Non-vested	32,434	**30,120**
Non-vested at beginning of the year		
Granted	39,752	**59,561**
Forfeited	(4,275)	**(793)**
Vested	(37,791)	**(62,433)**
Non-vested at end of the year	30,120	**26,455**

(Shares)

	Number of shares	
	Year ended 31 August 2017	**Year ended 31 August 2018**
Vested	98,881	**116,373**
Outstanding at beginning of the year		
Vested	37,791	**62,433**
Exercised	(19,994)	**(35,832)**
Forfeited	(305)	**(491)**
Outstanding at end of the year	116,373	**142,483**

All stock options are granted with an exercise price of 1 yen per share.

② Stock price on exercise date

Stock options exercised during the year ended 31 August 2018 are as follows:

(Shares) (Yen)

Type	Number of shares	Weighted average stock price on exercise date
Stock options	35,832	¥45,410

③ Expected life of stock options

The weighted-average expected life of outstanding stock options as at 31 August 2018 was 5.96 years.

In addition, the weighted-average expected life of outstanding stock options as at 31 August 2017 was 6.29 years.

2. Methods of estimating fair value of stock options, etc.

The methods of estimating fair value of 8th share subscription rights A type, B type, and C type granted during the year ended 31 August 2018, were as follows:

① Valuation model: Black-Scholes model

② The following table lists the inputs to the model used:

	8th share subscription rights A type	8th share subscription rights B type	8th share subscription rights C type
Fair value	37,648 yen	38,133 yen	38,823 yen
Share price	39,860 yen	39,860 yen	39,860 yen
Exercise price	1 yen	1 yen	1 yen
Stock price volatility (Note 1)	34%	36%	37%
Expected life of options (Note 2)	6.5 years	5.04 years	3.0 years
Expected dividends (Note 3)	350 yen/share	350 yen/share	350 yen/share
Risk-free interest rate (Note 4)	(0.095%)	(0.14%)	(0.17%)

Notes: 1. Stock price volatility is computed based on the actual results of 6.5 years for A type (from May 2011 to October 2017), 5.04 years for B type (from November 2012 to October 2017), and 3 years for C type (from November 2014 to October 2017).
2. Expected life of options is estimated to be the reasonable period from the grant date until the exercise date.
3. Expected dividends are projected with reference to the historical actual dividends declared in prior years.
4. Risk-free interest rate refers to the yield of Japanese government bonds corresponding to the expected life of options.

Also, the method of estimating fair value for the 7th share subscription rights A type, B type, and C type granted during the year ended 31 August 2017 are as follows:

① Valuation model: Black-Scholes model

② The following table lists the inputs to the model used:

	7th share subscription rights A type	7th share subscription rights B type	7th share subscription rights C type
Fair value	34,683 yen	35,167 yen	35,854 yen
Share price	36,890 yen	36,890 yen	36,890 yen
Exercise price	1 yen	1 yen	1 yen
Stock price volatility (Note 1)	37%	36%	38%
Expected life of options (Note 2)	6.5 years	5.04 years	3.0 years
Expected dividends (Note 3)	350 yen/share	350 yen/share	350 yen/share
Risk-free interest rate (Note 4)	(0.205%)	(0.213%)	(0.254%)

Notes: 1. Stock price volatility is computed based on the actual results of 6.5 years for A type (from May 2010 to October 2016), 5.04 years for B type (from November 2011 to October 2016), and 3 years for C type (from November 2013 to October 2016).
2. Expected life of options is estimated to be the reasonable period from the grant date until the exercise date.
3. Expected dividends are projected with reference to the historical actual dividends declared in prior years.
4. Risk-free interest rate refers to the yield of Japanese government bonds corresponding to the expected life of options.

3. Estimation method of the number of share subscription rights which have already been vested

Because it is difficult to reasonably estimate the number of options that will expire in the future, the method reflecting actual numbers of forfeiture is adopted.

31 Financial Instruments

(1) Capital risk management

The Group engages in capital management to achieve continuous growth and maximize corporate value.

The ratio of the Group's net interest-bearing debts to equity is as follows:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Interest-bearing debts	¥ 281,512	**¥ 544,502**
Cash and cash equivalents	683,802	**999,697**
Net interest-bearing debts	(402,289)	**(455,194)**
Equity	762,043	**902,777**

To maximize corporate value, the Group engages in cash flow-oriented management. As at 31 August 2017 and 2018, the Group maintained a position where the carrying amount of cash and cash equivalents exceeded interest-bearing debts.

As at 31 August 2018, the Group is not subject to any externally imposed capital requirement.

(2) Significant accounting policies

See Note "3. Significant Accounting Policies" for significant accounting policies regarding standards for recognizing financial assets, financial liabilities, equity financial instruments, as well as the fundamentals of measurement and recognition of profit or loss.

(3) Categories of financial instruments

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Financial assets		
Loans and receivables		
Trade and other receivables	¥ 48,598	**¥ 52,677**
Other current financial assets	30,426	**35,359**
Other non-current financial assets	77,304	**76,801**
Available-for-sale investments	303	**2,674**
Derivatives		
Financial assets at fair value through profit or loss ("FVTPL")	0	**141**
Foreign currency forward contracts designated as hedging instruments	6,269	**35,377**
Financial liabilities		
Financial liabilities at amortized cost		
Trade and other payables	204,008	**214,542**
Other current financial liabilities	11,844	**171,854**
Other non-current financial liabilities	273,467	**502,671**
Derivatives		
Financial liabilities at FVTPL	86	**4**
Foreign currency forward contracts designated as hedging instruments	5,996	**6,913**

No items in the above categories are included in discontinued operations or disposal groups held-for-sale. Also, there are no financial assets or liabilities valued using the fair value option to measure fair value.

On the consolidated statement of financial position, available-for-sale investments are included under "non-current financial Assets."

(4) Financial risk management

In relation to cash management, the Group seeks to ensure effective utilization of Group funds through the Group's Cash Management Service. The Group obtained credit facilities from financial institutions and issuance of bonds. Any temporary surplus funds are invested mainly in fixed interest rate-bearing instruments with minimal credit risk.

The Group entered into foreign currency forward contracts to hedge risk arising from fluctuations in foreign currency exchange rates and did not conduct any speculative trading in derivatives.

(5) Market risk management

The Group conducts its business on a global scale, and is therefore exposed to the price fluctuation risk of currencies and equity financial instruments.

① Foreign currency risk

1) Foreign currency risk management

The Group conducts its business on a global scale, and is exposed to foreign currency risk in relation to purchases and sales transactions and financing denominated in currencies other than the local currencies of those countries in which the Group operates its business.

In regard to operating obligations denominated in foreign currencies, the Group in principle hedges risk by using foreign currency forward contracts and other instruments for foreign currency risk assessed on a monthly basis.

For imports, the Group endeavors to stabilize purchasing costs by concluding foreign currency forward contracts and standardizing import exchange rates. If the yen should weaken significantly against the US dollar in the future and this situation continued for an extended period, it could have a negative impact on the Group's performance.

The Group identifies concentration of risk in regard to foreign currency forward contracts.

The Group's notional amount of foreign currency forward contracts was 1,231,878 million yen as at 31 August 2018.

2) Foreign currency sensitivity analysis

Below is an analysis of the impact an 1% increase in the yen against the Euro ("EUR") and the United States dollar ("USD") would have on the Group's profit for the year and other comprehensive income in the respective reporting periods.

These calculations assume no changes in the value of other foreign currencies not included herein.

	Year ended 31 August 2017	**Year ended 31 August 2018**
Average exchange rate (Yen)		
USD	110.09	**110.30**
EUR	120.68	**131.45**
Impact on profit for the year (Millions of yen)		
USD	(1,492)	**(4,056)**
EUR	(19)	**(444)**
Impact on other comprehensive income (Millions of yen)		
USD	(9,827)	**(10,399)**
EUR	—	**—**

3) Currency derivatives and hedges

The Group uses foreign currency forward contract transactions to hedge against the risk of future fluctuations in exchange rates in regard to foreign currency transactions and applies hedge accounting to transactions that meet hedge requirements, and did not conduct any speculative trading in derivatives.

Cash flow hedges

A cash flow hedge is a hedge for avoiding risk of volatility in future cash flows. The Company uses foreign currency forward contracts to hedge cash flow fluctuations relating to forecast transactions.

Fluctuations in the fair value of derivative transactions designated as cash flow hedges are recognized as other comprehensive income, and included in other components of equity, and are reclassified to profit or loss at the time net profit is recognized on the hedged item.

The gain/(loss) on derivative transactions (after tax effects) projected to be reclassified to profit or loss within one year was 11,828 million yen (loss) as at 31 August 2018, and 4,483 million yen (loss) as at 31 August 2017.

1. Derivative transactions for which hedge accounting is not applied

	Average exchange rates		Foreign currencies (Millions of respective currency)		Contract principal (Millions of yen)		Fair value (Millions of yen)	
	31 August 2017	**31 August 2018**	31 August 2017	**31 August 2018**	31 August 2017	**31 August 2018**	31 August 2017	**31 August 2018**
Foreign currency forward contracts								
Within 1 year								
Buy USD (sell KRW)	1,126.35 (KRW/$)	**— (KRW/$)**	0	**—**	¥ 3	**¥ —**	¥ 0	**¥ —**
Buy USD (sell TWD)	30.33 (TWD/$)	**30.84 (TWD/$)**	2	**10**	291	**1,144**	(1)	**50**
Buy USD (sell AUD)	1.34 (AUD/$)	**1.32 (AUD/$)**	14	**19**	1,678	**2,020**	(85)	**86**

2. Derivative transactions for which hedge accounting is applied

	Average exchange rates		Foreign currencies (Millions of respective currency)		Contract principal (Millions of yen)		Fair value (Millions of yen)	
	31 August 2017	**31 August 2018**	31 August 2017	**31 August 2018**	31 August 2017	**31 August 2018**	31 August 2017	**31 August 2018**
Foreign currency forward contracts								
Over 1 year								
Buy USD (sell JPY)	104.91 (¥/$)	**101.89 (¥/$)**	5,884	**6,368**	¥617,328	**¥648,881**	¥5,967	**¥16,755**
Buy USD (sell EUR)	0.88 (€/$)	**0.81 (€/$)**	63	**67**	7,323	**7,073**	(482)	**120**
Buy USD (sell GBP)	0.76 (£/$)	**0.81 (£/$)**	26	**30**	2,843	**3,174**	0	**125**
Buy USD (sell KRW)	1,132.55 (KRW/$)	**1,095.27 (KRW/$)**	306	**771**	34,161	**84,381**	(603)	**(387)**
Buy USD (sell SGD)	1.39 (SG$/$)	**1.36 (SG$/$)**	88	**97**	10,044	**10,724**	(126)	**(8)**
Buy USD (sell THB)	— (THB/$)	**32.67 (THB/$)**	—	**11**	—	**1,317**	—	**(15)**
Buy USD (sell PHP)	— (PHP/$)	**54.94 (PHP/$)**	—	**10**	—	**1,165**	—	**(9)**
Buy USD (sell RUB)	— (RUB/$)	**63.22 (RUB/$)**	—	**0**	—	**6**	—	**0**
Buy USD (sell CAD)	— (CAD/$)	**1.34 (CAD/$)**	—	**2**	—	**252**	—	**4**
Buy USD (sell AUD)	— (AUD/$)	**1.32 (AUD/$)**	—	**11**	—	**1,169**	—	**50**
Within 1 year								
Buy USD (sell JPY)	109.71 (¥/$)	**106.35 (¥/$)**	3,405	**3,520**	¥373,567	**¥374,386**	¥(1,265)	**¥9,989**
Buy USD (sell EUR)	0.89 (€/$)	**0.85 (€/$)**	124	**159**	14,603	**17,446**	(906)	**27**
Buy USD (sell GBP)	0.76 (£/$)	**0.83 (£/$)**	56	**62**	6,073	**6,762**	122	**166**
Buy USD (sell KRW)	1,147.45 (KRW/$)	**1,085.98 (KRW/$)**	364	**45**	41,115	**4,928**	(974)	**65**
Buy USD (sell TWD)	30.64 (TWD/$)	**29.47 (TWD/$)**	107	**71**	12,077	**7,627**	(241)	**280**
Buy USD (sell SGD)	1.37 (SGD/$)	**1.36 (SGD/$)**	99	**167**	11,055	**18,492**	(138)	**163**
Buy USD (sell THB)	34.45 (THB/$)	**32.35 (THB/$)**	58	**81**	6,687	**8,948**	(246)	**66**
Buy USD (sell MYR)	4.33 (MYR/$)	**4.04 (MYR/$)**	21	**53**	2,421	**5,788**	(30)	**55**
Buy USD (sell AUD)	1.34 (AUD/$)	**1.32 (AUD/$)**	29	**29**	3,475	**3,147**	(177)	**135**
Buy USD (sell RUB)	79.98 (RUB/$)	**62.99 (RUB/$)**	39	**54**	5,971	**5,613**	(401)	**500**
Buy USD (sell CAD)	1.32 (CAD/$)	**1.27 (CAD/$)**	30	**45**	3,531	**4,925**	(169)	**78**
Buy USD (sell IDR)	13,798.80 (IDR/$)	**14,903.68 (IDR/$)**	24	**3**	2,760	**339**	(53)	**0**
Buy USD (sell PHP)	— (PHP/$)	**53.09 (PHP/$)**	—	**61**	—	**6,769**	—	**101**
Buy IDR (sell USD)	— ($/IDR)	**14,951.41 ($/IDR)**	—	**47**	—	**5,386**	—	**198**

② Interest rate risk management

The Group's interest-bearing borrowings are mainly bonds with fixed interest rates, and the Group maintains positions in cash and cash equivalents that exceed the outstanding balance of its interest-bearing debts.

At present, the impact of interest payments on the Group is quite small. Consequently, the Group's current level of interest-rate risk is minor, and the Group has not performed any interest rate sensitivity analysis.

③ Price risk management in equity instruments

The Group is exposed to the risk of price volatility in equity financial instruments. The Group holds no equity financial instruments for short-term trading purposes.

The Group makes regular periodic checks of the market value of the equity financial instruments it holds, as well as the financial health of the issuers.

(6) Credit risk management

When the Group initiates ongoing transactions where receivables will be generated on an ongoing basis, the finance department manages the Group's risk exposure by setting credit limits and credit periods, as needed.

Trade receivables encompass many customers spanning a wide range of industries and geographic regions. The Group conducts regular credit checks of the companies it does business with, and when necessary takes appropriate protective measures, such as requiring collateral.

The Group does not have excessively concentrated credit risk exposure to any single company or corporate group.

As for deposits and guarantees, the Group mitigates risk by conducting regular monitoring of the companies with which it does business for early detection of any worsening of their financial health.

① Financial assets and other credit risk exposure

The carrying amounts after adjustment for impairment shown in the consolidated financial statements represent the Group's maximum exposure to credit risk before consideration of collateral assets.

② Past-due or impaired financial assets

Below is an aged analysis of financial assets whose due date had not passed as at each reporting date, and financial assets that are overdue whereof no asset impairment was recognized.

(Millions of yen)

	Total	Within due date	Overdue amounts		
			Within 90 days	91 days to 1 year	Over 1 year
Balances as at 31 August 2017					
Trade and other receivables (total)	¥ 49,260	¥ 46,513	¥2,179	¥177	¥ 389
Allowance for doubtful accounts	(661)	(381)	(31)	(20)	(228)
Trade and other receivables (net)	48,598	46,131	2,148	156	161
Other financial assets (total)	108,302	108,248	—	6	46
Allowance for doubtful accounts	(267)	(267)	—	—	—
Other financial assets (net)	108,034	107,981	—	6	46
Balances as at 31 August 2018					
Trade and other receivables (total)	**53,264**	**51,523**	**1,198**	**318**	**224**
Allowance for doubtful accounts	**(587)**	**(388)**	**(9)**	**(43)**	**(145)**
Trade and other receivables (net)	**52,677**	**51,135**	**1,189**	**274**	**78**
Other financial assets (total)	**115,137**	**115,127**	**9**	**—**	**—**
Allowance for doubtful accounts	**(301)**	**(301)**	**—**	**—**	**—**
Other financial assets (net)	**114,835**	**114,825**	**9**	**—**	**—**

The Group does not hold any collateral or other credit enhancements associated with the above financial assets.

When the Group recognizes impairment of a financial asset, it does not subtract the impairment directly from the carrying amount. Rather, this is recorded as an allowance for doubtful accounts.

The main factors increasing/decreasing the Group's allowances for doubtful accounts were as follows:

(Millions of yen)

	Allowance for doubtful accounts (current)	Allowance for doubtful accounts (non-current)	Total
Balances as at 1 September 2016	¥ 667	¥ 218	¥ 885
Provision for the year	123	212	336
Amounts utilized	(149)	(176)	(325)
Others	19	12	32
Balances as at 31 August 2017	661	267	929
Provision for the year	173	46	220
Amounts utilized	(249)	(14)	(264)
Others	1	3	4
Balances as at 31 August 2018	**587**	**301**	**889**

Where recoverability is uncertain, the Group conducts ongoing monitoring of the credit status of companies with which it does business, including receivables whose maturity dates have been changed.

Based on the credit facts uncovered by this monitoring, the Group assesses the recoverability of trade receivables, etc., and makes provisions accordingly, in the form of allowances for doubtful accounts.

In addition, because the Group does business on a world-wide scale and its credit risk is distributed, it is not overly reliant on any specific counterparty and faces minimal exposure to the impact of chain-reaction credit risk due to the worsening of the credit conditions of any given counterparty.

Consequently, there is no need to record additional allowances for doubtful accounts based on credit risk concentration.

(7) Liquidity risk management

The Group manages liquidity risk by formulating and revising its funding plans on a timely basis and maintains an appropriate level of liquidity on hand.

The ultimate responsibility for management of liquidity risk lies with the CFO appointed by the Board of Directors. The finance department, under the direction of the CFO, performs the day-to-day aspects of liquidity risk management by maintaining appropriate levels of surplus funds and bank loans, and by monitoring budgets and cash flows.

(Millions of yen)

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	Over 5 years
As at 31 August 2017								
Non-derivative financial liabilities								
Trade and other payables	¥204,008	¥204,008	¥204,008	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term borrowings (excluding current portion)	8,833	8,833	—	4,416	4,416	—	—	—
Current portion of long-term borrowings	3,312	3,312	3,312	—	—	—	—	—
Short-term borrowings	758	758	758	—	—	—	—	—
Corporate bonds	249,583	250,000	—	30,000	—	100,000	—	120,000
Long-term finance lease obligations	13,427	13,427	—	4,481	3,410	2,593	1,583	1,358
Short-term finance lease obligations	5,596	5,596	5,596	—	—	—	—	—
Deposits	2,176	2,176	2,176	—	—	—	—	—
Derivative financial liabilities								
Foreign currency forward contracts	6,083	—						
Total	493,781	489,114	215,853	38,898	7,827	102,593	1,583	121,358
As at 31 August 2018								
Non-derivative financial liabilities								
Trade and other payables	**214,542**	**214,542**	**214,542**	**—**	**—**	**—**	**—**	**—**
Long-term borrowings (excluding current portion)	**4,442**	**4,442**	**—**	**4,442**	**—**	**—**	**—**	**—**
Current portion of long-term borrowings	**4,442**	**4,442**	**4,442**	**—**	**—**	**—**	**—**	**—**
Short-term borrowings	**954**	**954**	**954**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	**499,020**	**500,000**	**30,000**	**—**	**100,000**	**—**	**130,000**	**240,000**
Long-term finance lease obligations	**27,690**	**27,690**	**—**	**7,454**	**6,455**	**5,498**	**3,023**	**5,258**
Short-term finance lease obligations	**7,952**	**7,952**	**7,952**	**—**	**—**	**—**	**—**	**—**
Deposits	**128,509**	**128,509**	**128,509**	**—**	**—**	**—**	**—**	**—**
Derivative financial liabilities								
Foreign currency forward contracts	**6,917**	**6,917**	**5,104**	**558**	**1,254**	**—**	**—**	**—**
Total	**894,473**	**895,453**	**391,506**	**12,455**	**107,710**	**5,498**	**133,023**	**245,258**

Note: Guaranteed obligations are not included in the above, as the probability of having to act on those guarantees is remote.

(8) Fair value of financial instruments

(Millions of yen)

	As at 31 August 2017		**As at 31 August 2018**	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets				
Security deposits/guarantees	¥ 61,337	¥ 61,425	**¥ 61,752**	**¥ 62,253**
Total	61,337	61,425	**61,752**	**62,253**
Financial liabilities				
Long-term borrowings (Note)	12,146	12,253	**8,884**	**8,924**
Corporate bonds (Note)	249,583	253,504	**499,020**	**500,731**
Lease obligations (Note)	19,023	19,131	**35,643**	**36,807**
Total	280,753	284,889	**543,548**	**546,464**

Note: The above includes the outstanding balance of borrowings due within one year.

The fair values of current financial assets, current financial liabilities and non-current financial assets, which are measured by amortized cost, approximate their carrying amounts.

The fair value of security deposits/guarantees is calculated on the basis of the current value, applying the current market interest rate.

The fair value of corporate bonds is calculated with reference to publicly available market prices.

The fair value of long-term borrowings and finance lease obligations are classified by term, and are calculated on the basis of the current value, applying a discount rate that takes into account the time remaining to maturity, and credit risk.

Financial assets whose fair value is considered difficult to calculate are not included in available-for-sale financial assets.

The fair value measurements of corporate bonds, long-term borrowings, and lease obligations are classified as Level 2.

(9) Fair value hierarchy of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

(Millions of yen)

As at 31 August 2017	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	¥16	¥ —	¥—	¥ 16
Financial assets/(liabilities)at FVTPL	—	(86)	—	(86)
Foreign currency forward contracts designated as hedging instruments	—	273	—	273
Net amount	16	186	—	202

As at 31 August 2018	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	**¥2,513**	**¥ —**	**¥—**	**¥ 2,513**
Financial assets/(liabilities) at FVTPL	**—**	**136**	**—**	**136**
Foreign currency forward contracts designated as hedging instruments	**—**	**28,464**	**—**	**28,464**
Net amount	**2,513**	**28,601**	**—**	**31,114**

For the valuation of Level 2 derivative financial instruments for which a market value is available, we use a valuation model that uses observable data on the measurement date using inputs such as interest rates, yield curves, currency rates, and volatility in comparable instruments.

The Company did not have any transfers between levels of fair value measurements during the year ended 31 August 2017 and the year ended 31 August 2018.

32 Related Party Disclosures

Remuneration of key management personnel

Remuneration of the Group's key management personnel is as below:

(Millions of yen)

	Year ended 31 August 2017	**Year ended 31 August 2018**
Short-term employee benefits	¥362	**¥450**
Total	362	**450**

Transactions with officers and major shareholders (individuals only), etc. of the reporting entity submitting these consolidated financial statements.

Year ended 31 August 2017 (from 1 September 2016 to 31 August 2017)

Category	Name of Company or Individual	Location	Capital Stock or investment	Business details or profession	Percentage of shares with voting rights (%)	Relationship with related parties	Details of transaction	Amount of transaction (Millions of yen)	Account	Balance at 31 August 2017 (Millions of yen)
Officer	Toru Murayama	—	—	Non-executive Director	Direct 0.00	Outsourcing	Consulting and advisory agreements about training of management personnel	¥18	Trade and other payables	¥1

Notes: 1. Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.
2. Terms of transactions and policy for the terms
Transaction amounts were determined based on the negotiation with the related party considering market prices.

Year ended 31 August 2018 (from 1 September 2017 to 31 August 2018)

Category	Name of Company or Individual	Location	Capital Stock or investment	Business details or profession	Percentage of shares with voting rights (%)	Relationship with related parties	Details of transaction	Amount of transaction (Millions of yen)	Account	Balance at 31 August 2017 (Millions of yen)
Officer	Toru Murayama	—	—	Non-executive Director	Direct 0.00	Outsourcing	Consulting and advisory agreements about training of management personnel	¥18	Trade and other payables	¥1

Notes: 1. Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.
2. Terms of transactions and policy for the terms
Transaction amounts were determined based on the negotiation with the related party considering market prices.

33 Major Subsidiaries

The Group's major subsidiaries are as listed in "3.Corporate Profile 3. Subsidiaries and Associates."

34 Commitments

The Group had the following commitments at each reporting date:

(Millions of yen)

	As at 31 August 2017	**As at 31 August 2018**
Commitment for the acquisition of property, plant and equipment	¥17,347	**¥10,046**
Commitment for acquisition of intangible assets	11,110	**1,461**
Total	28,457	**11,508**

35 Contingent Liabilities

Year ended 31 August 2017
Not applicable

Year ended 31 August 2018
Not applicable

36 Subsequent Events

Issuance of Share-based Compensation Stock Options (Share Subscription Rights)

Based on Articles 236, 238, and 240 of the Companies Act and on the decision taken by the Board of Directors at its meeting held on 11 October 2018, the Company decided to issue share subscription rights as share-based compensation stock options for the purpose of rewarding employees of the Company and its subsidiaries for their contribution to the Group's profit. By linking the Company's stock price more closely to the benefits received by highly productive personnel, the share subscription rights program is designed both to boost staff morale and their motivation to improve Group performance and to boost shareholder value by strengthening business development with a focus on shareholder return.

Please see "6.Stock Information and Dividend Policy 1. Stock Information (2) Share Subscription Rights" for details.

Other

Quarterly information for the year ended 31 August 2018

(Cumulative)	First quarter	Second quarter	Third quarter	Fiscal year
Revenue (Millions of yen)	¥617,026	¥1,186,765	¥1,704,149	¥2,130,060
Profit before income taxes (Millions of yen)	117,832	165,196	237,475	242,678
Profit for the year attributable to owners of the Parent (Millions of yen)	78,540	104,150	148,335	154,811
Earnings per share (Yen)	770.11	1,021.16	1,454.29	1,517.71

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share (Yen)	¥770.11	¥251.09	¥433.13	¥63.48

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of FAST RETAILING CO., LTD.:

Opinion

We have audited the consolidated financial statements of FAST RETAILING CO., LTD. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 August 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 August 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of inventories at the lower of cost or net realizable value	
Key audit matter	**Audit procedures performed**
As disclosed in Note 10 to the consolidated financial statements, the Group's total inventories as at 31 August 2018 are comprised of JPY 434,850 million related to the UNIQLO Japan segment, the UNIQLO International segment, and the GU segment, in the aggregate, representing 22.3% of the Group's total assets. Inventories are valued at the lower of cost or net realizable value.	In response to this key audit matter, our audit included, among others, the following procedures: • Assessment of the design, implementation and operational effectiveness of the relevant controls in place in the inventory management and measurement process.

The sales pattern for inventories is to establish an initial price, and then subsequently adjust the price afterwards based on the season, weather and customer tastes and demand. The net realizable value of inventories is determined by management after considering customer demand and an aging analysis, which may be impacted by fast-changing market conditions, economic conditions of countries where the Group operates and fashion trends. Given the nature of the Group's businesses, a large volume of inventories turn over based on the season and fast-changing market conditions. The number of Stock Keeping Units ("SKUs"), high volume of movement of inventories and cost accounting of inventories are managed by an IT system, which results in inventory being highly dependent on the IT system. As part of our risk assessment, we determined that slow-moving inventory is not significant to the Group given that the pricing strategy for both the UNIQLO and GU brands is in place. However, due to a large number of SKUs, the determination of net realizable value of inventory in the IT system could lead to material misstatement of the inventory amount. As disclosed in Note 10 to the consolidated financial statements, write-downs of inventory to its net realizable value amounted to JPY 2,044 million and were recognized at the UNIQLO Japan, UNIQLO International and GU segment, in aggregate, for the year ended 31 August 2018. We identified this matter as key in our audit due to the materiality of the value of inventories, and the numerous SKUs and high volume of movement in the inventory.	• Involvement of our IT experts in the audit team to evaluate the measurement of inventories, including standard costing and the logic of allocating purchase price variances, managed in the IT system; and performance of tests of automated controls integrated in the relevant IT system. • Evaluation of the inventory costing methodology and valuation policy established by management, including compliance with the applicable international financial reporting standard. • Assessment of the inventory costing methodology and valuation policy maintained and applied in the IT system. • Verification of the determination of net realizable value on a representative sample basis.

Impairment assessment of store assets	
Key audit matter	**Audit procedures performed**
As disclosed in Note 13 to the consolidated financial statements, the Group has store assets attributable to UNIQLO Japan, UNIQLO International and GU segment amounting to JPY 40,933 million, JPY 79,448 million and JPY 15,558 million, respectively, in the aggregate, representing 7.0% of the Group's total assets as at 31 August 2018.	In response to this key audit matter, our audit included, among others, the following procedures: • Assessment of the design and implementation of the relevant controls implemented by the Group to ensure the completeness and accuracy of the estimated impairment losses recognized.

The Group has implemented a "scrap and build" strategy to ensure maximum cost-effectiveness. The indicators of impairment of store assets include external and internal factors. In accordance with IAS 36, "Impairment of Assets", management is required to perform an impairment test on stores where there are indicators of impairment. In principle, each store is considered as an individual cash-generating unit ("CGU") and the recoverable amount of the CGU is determined using the "value-in-use" method. The performance result of each CGU is maintained in the IT system. During the process of management's assessment, changes in determination of the performance results of each CGU could lead to a material effect on the determination of stores subject to impairment, impacting potential impairment losses. As disclosed in Notes 6 and 15 to the consolidated financial statements, impairment losses attributable to UNIQLO Japan, UNIQLO International and GU segments were JPY 415 million, JPY 944 million and JPY 268 million, respectively, while the total impairment losses for property, plant and equipment is JPY 2,335 million for the year ended 31 August 2018. We identified this matter as key in our audit due to the materiality of the value of store assets and the importance of management's assessment of the performance results used for identification of impairment indicators.	• Evaluation of the methodology established by management to identify indicators of impairment and the appropriateness in determination of each CGU, and evaluation of the methodology's compliance with the applicable international financial reporting standard. • Involvement of our IT experts in the audit team to verify certain components of performance results of each store that was input into the system. • Evaluation of the performance results of each store, and assessment of the reasonableness of allocating relevant headquarter costs to each store. • Verification on a representative sample basis of the accuracy of the determination of the carrying amount of the newly-added CGUs. • Verification of the accuracy of impairment losses for those CGUs with impairment indicators being identified.

Impairment assessment of goodwill	
Key audit matter	**Audit procedures performed**
As disclosed in Note 14 to the consolidated financial statements, the Group's goodwill as at 1 September 2017 was JPY 15,885 million, which has been allocated to the Global brands segment. The Global brands segment has been underperforming in recent periods. In accordance with IAS 36, "Impairment of Assets", goodwill is not amortized but rather tested for impairment at least annually or more frequently when there is an indicator of impairment.	In response to this key audit matter, our audit included, among others, the following procedures: • Assessment of the design and implementation of the relevant controls implemented by the Group to ensure the reasonableness of the valuation of goodwill.

In particular, the Comptoir des Cotonniers business, which is included in the Global brands segment, has been underperforming compared to its business plans, which is an indicator of impairment of goodwill. Changes in assumptions related to impairment tests of the Comptoir des Cotonniers business could lead to material changes to impairment losses. As disclosed in Note 15 to the consolidated financial statements, for the year ended 31 August 2018, goodwill attributed to the Comptoir des Cotonniers business was fully impaired, resulting in the impairment loss of JPY 7,792 million of goodwill during the year. We identified this matter as key in our audit due to the importance of management's judgement applied on assumptions used in the impairment tests.	• Evaluation of the methodology established by management to identify indicators of impairment, and evaluation of the methodology's compliance it with the applicable international financial reporting standard. • Evaluation of the process and controls over the preparation of the business plans, assessing the quality of management's forecast by comparing historical results to historical budgets from the previous period. • Analysis of the reasonableness of the key assumptions used in business plans, comparing them to historical information and external data. • Involvement of our valuation experts in the audit team to review the valuation reports prepared by management's expert to evaluate the competence, capability and objectivity of management's expert, and the methodologies, valuation techniques and assumptions used to determine the fair value, particularly the discount rate and long-term growth rate.

Other Matter

The consolidated financial statements of the Group for the year ended 31 August 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 30 November 2017.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Statutory Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of statutory auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of statutory auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of statutory auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

The engagement partners on the audit resulting in this independent auditor's report are Koichi Okubo, Hirofumi Otani, and Emiko Minowa.

Deloitte Touche Tohmatsu LLC

30 November 2018

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