FINANCIAL INFORMATION

FINANCIAL SUMMARY

FAST RETAILING CO., LTD. and consolidated subsidiaries
Fiscal years ended August 31

Millions of yen

	JGAAP			
	2011	2012	2013	2014
For the year				
Net sales/Revenue	¥ 820,349	¥ 928,669	¥1,142,971	¥1,382,935
Operating income/Operating profit	116,365	126,450	134,101	130,402
EBITDA*1	141,716	150,687	157,708	161,210
Income before income taxes and minority interests/ Profit before income taxes	93,881	123,390	155,732	135,470
Net income/Profit attributable to owners of the Parent	54,354	71,654	104,595	74,546
Net cash generated by operating activities	57,158	127,643	99,474	110,595
Net cash (used in)/generated by investing activities	(26,643)	(35,313)	(62,584)	(56,323)
Free cash flow*2	30,515	92,330	36,890	54,272
Net cash (used in)/generated by financing activities	(26,156)	(29,056)	(24,226)	(44,060)
Cash and cash equivalents*3	202,104	266,020	296,708	314,049
Depreciation and amortization	18,755	18,573	23,607	30,808
Capital expenditures	33,993	40,184	39,681	58,814
At year-end				
Total assets	¥ 533,777	¥ 595,102	¥ 901,208	¥ 992,307
Total net assets/Total equity	319,911	394,892	589,726	636,041
Interest-bearing debt	28,263	23,194	37,259	37,561
Reference indices				
Operating income margin/Operating profit margin (%)	14.2%	13.6%	11.7%	9.4%
ROE/Ratio of profit to equity attributable to owners of the Parent (%)	18.1	20.4	21.7	12.5
Equity ratio/Ratio of equity attributable to owners of the Parent to total assets (%)	59.0	65.0	63.3	62.3
Debt-equity ratio (%)	9.0	6.0	6.5	6.1
Dividend payout ratio (%)	33.7	37.0	28.2	41.0
Per share data (actual yen, dollar amount)				
Net income/Profit attributable to owners of the Parent (EPS)	¥ 533.93	¥ 703.62	¥ 1,026.68	¥ 731.51
Net assets/Equity attributable to owners of the Parent	3,091.17	3,797.04	5,598.12	6,067.40
Cash dividends	180.00	260.00	290.00	300.00
Other data (at fiscal year-end)				
Number of shares outstanding	106,073,656	106,073,656	106,073,656	106,073,656
Market capitalization (¥ billion, $ million)*4	¥ 1,535.9	¥ 1,938.0	¥ 3,383.7	¥ 3,452.6
Number of subsidiaries	98	91	102	112
Total number of stores	2,088	2,222	2,449	2,753
Total sales floor space (m^2)*5	938,896	1,170,353	1,387,367	1,835,095
Number of full-time employees*6	14,612	18,854	23,982	30,448

*1 EBITDA (JGAAP) = Operating income + Depreciation and amortization + Amortization of goodwill
EBITDA (IFRS) = Operating profit + Depreciation and amortization. Depreciation and amortization of right-of-use assets has been included in the depreciation and amortization total from the year ending August 31, 2020 following the appliciation of IFRS 16.
*2 Free cash flow = Net cash generated by operating activities + Net cash (used in)/generated by investing activities

			IFRS			Millions of yen		Thousands of U.S. dollars*4
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**YoY**	**2020**
	¥1,681,781	¥1,786,473	¥1,861,917	¥2,130,060	¥2,290,548	**¥2,008,846**	(12.3)%	**$19,061,069**
	164,463	127,292	176,414	236,212	257,636	**149,347**	(42.0)	**1,417,091**
	202,221	164,089	216,102	281,267	306,112	**327,195**	+6.9	**3,104,618**
	180,676	90,237	193,398	242,678	252,447	**152,868**	(39.4)	**1,450,501**
	110,027	48,052	119,280	154,811	162,578	**90,357**	(44.4)	**857,366**
	134,931	98,755	212,168	176,403	300,505	**264,868**	(11.9)	**2,513,220**
	(73,145)	(245,939)	122,790	(57,180)	(78,756)	**(75,981)**	(3.5)	**(720,952)**
	61,786	(147,184)	334,958	119,223	221,748	**188,887**	(14.8)	**1,792,268**
	(41,784)	201,428	(50,836)	198,217	(102,429)	**(183,268)**	+78.9	**(1,738,959)**
	355,212	385,431	683,802	999,697	1,086,519	**1,093,531**	+0.6	**10,376,046**
	37,758	36,797	39,688	45,055	48,476	**177,848**	+266.9	**1,687,527**
	62,461	52,387	59,755	69,380	85,201	**82,736**	(2.9)	**785,050**
	¥1,163,706	¥1,238,119	¥1,388,486	¥1,953,466	¥2,010,558	**¥2,411,990**	+20.0%	**$22,886,335**
	774,804	597,661	762,043	902,777	983,534	**996,079**	+1.3	**9,451,370**
	38,035	283,465	281,512	544,502	513,405	**484,496**	(5.6)	**4,597,175**
	9.8%	7.1%	9.5%	11.1%	11.2%	**7.4%**	(3.8)pts.	**7.4%**
	16.1	7.3	18.3	19.4	18.0	**9.5**	(8.5)	**9.5**
	64.5	46.4	52.7	44.2	46.7	**39.7**	(7.0)	**39.7**
	5.1	49.3	38.5	63.1	54.7	**51.0**	(3.7)	**51.0**
	32.4	74.3	29.9	29.0	30.1	**54.2**	+24.1	**54.2**
	¥ 1,079.42	¥ 471.31	¥ 1,169.70	¥ 1,517.71	¥ 1,593.20	**¥ 885.15**	(44.4)%	**$ 8.40**
	7,366.07	5,634.35	7,175.35	8,458.52	9,196.61	**9,368.83**	+1.9	**88.90**
	350.00	350.00	350.00	440.00	480.00	**480.00**	—	**4.55**
	106,073,656	106,073,656	106,073,656	106,073,656	106,073,656	**106,073,656**	—	**106,073,656**
	¥ 5,225.7	¥ 3,854.7	¥ 3,338.1	¥ 5,495.6	¥ 6,602.0	**¥ 6,712.3**	+1.7%	**$ 63,690**
	119	120	121	130	133	**134**	+1	**134**
	2,978	3,160	3,294	3,445	3,589	**3,630**	+41	**3,630**
	2,030,031	2,188,688	2,392,618	2,671,629	2,881,485	**3,047,360**	+165,875	**3,047,360**
	41,646	43,639	44,424	52,839	56,523	**57,727**	+1,204	**57,727**

*3 Cash and cash equivalents = cash and bank deposits + term deposits of less than 3 months + securities
*4 Calculations are based on the closing share price of ¥63,280 at the end of August 2020 and an exchange rate of ¥105.39 to US $1.
*5 Total sales floor space includes only directly operated stores.
*6 The total number of employees does not include operating officers, junior employees, part-time workers, or temporary staff seconded from other companies.

Accelerate Ariake Project, Expand Operations, Maintain Financial Soundness

Takeshi Okazaki
Director
Group Senior Executive Officer and CFO
Fast Retailing Co., Ltd.

Business Performance Review and Outlook

The new COVID-19 pandemic that ravaged the globe in FY2020 also greatly impacted Fast Retailing Group performance. Many stores in different parts of the world had no choice but to temporarily close their doors or shorten opening hours between February and June in the face of stay-at-home practices and restricted activities. Performance during that period worsened rapidly, resulting a 12.3% year-on-year decline in FY2020 consolidated revenue to ¥2.0088 trillion and a 42.0% drop in operating profit to ¥149.3 billion. That overall worsening was caused primarily by large declines in revenue and profit at UNIQLO International, which reported revenue of ¥843.9 billion (-17.7%) and operating profit of ¥50.2 billion (-63.8%). Within that segment, the United States and Europe both reported losses after being especially hard hit by COVID-19. The United States loss was further bloated by the recording of impairment losses. In contrast, while Greater China and Southeast Asia saw profits plummet, performance recovered at a faster pace than expected from June onwards. UNIQLO Japan and GU were also hit hard by COVID-19, with UNIQLO Japan revenue totaling ¥806.8 billion (-7.6%) and operating profit ¥104.6 billion (+2.2%) and GU revenue totaling ¥246.0 billion (+3.1%) and operating profit ¥21.8 billion (-22.5%). However, sales

Performance by Group Operation

(FY)		2019			2020		
		Billions of yen	YoY change Billions of yen	% change	Billions of yen	YoY change Billions of yen	% change
UNIQLO Japan	Revenue	¥ 872.9	¥ 8.1	+0.9	**¥806.8**	**¥ (66.0)**	**(7.6)**
	Operating profit	102.4	(16.5)	(13.9)	**104.6**	**+2.2**	**+2.2**
UNIQLO International	Revenue	1,026.0	+129.7	+14.5	**843.9**	**(182.0)**	**(17.7)**
	Operating profit	138.9	+20.0	+16.8	**50.2**	**(88.6)**	**(63.8)**
GU	Revenue	238.7	+26.9	+12.7	**246.0**	**+7.3**	**+3.1**
	Operating profit	28.1	+16.3	+139.2	**21.8**	**(6.3)**	**(22.5)**
Global Brands*	Revenue	149.9	(4.5)	(2.9)	**109.6**	**(40.3)**	**(26.9)**
	Operating profit	3.6	+7.8	—	**(12.7)**	**(16.4)**	**—**

*Global Brands includes Theory, PLST, Comptoir des Cotonniers, Princesse tam.tam, and J Brand.
Note: Consolidated revenue also includes items reported by Fast Retailing Co., Ltd., the Parent company, such as real estate leasing.
Consolidated operating profit includes Fast Retailing operating profit.

recovered strongly from June onwards, enabling us to minimize the impact of the pandemic on performance.

Regarding FY2021, we forecast a higher-than-expected increase in first-half profit even on a consolidated basis thanks to continued strong performances from operations less affected by COVID-19, such as UNIQLO Japan and UNIQLO Greater China. We also forecast large second-half revenue and profit gains on the premise that COVID-19 will be steadily brought under control. Our business estimates could change considerably due to difficulties with envisaging the future COVID-19 situation. At this point, we expect full-year consolidated revenue of ¥2.2000 trillion (+9.5%), operating profit of ¥245.0 billion (+64.0%), profit before income taxes of ¥245.0 billion (+60.3%), profit attributable to owners of the Parent of ¥165.0 billion (+82.6%), net earnings per share (EPS) of ¥1,616.05, and a steady dividend of ¥480 per share (¥240 interim and year-end dividends).

Forge Ahead With Operational Reform Through Aggressive Management, Pave the Way for Future Growth

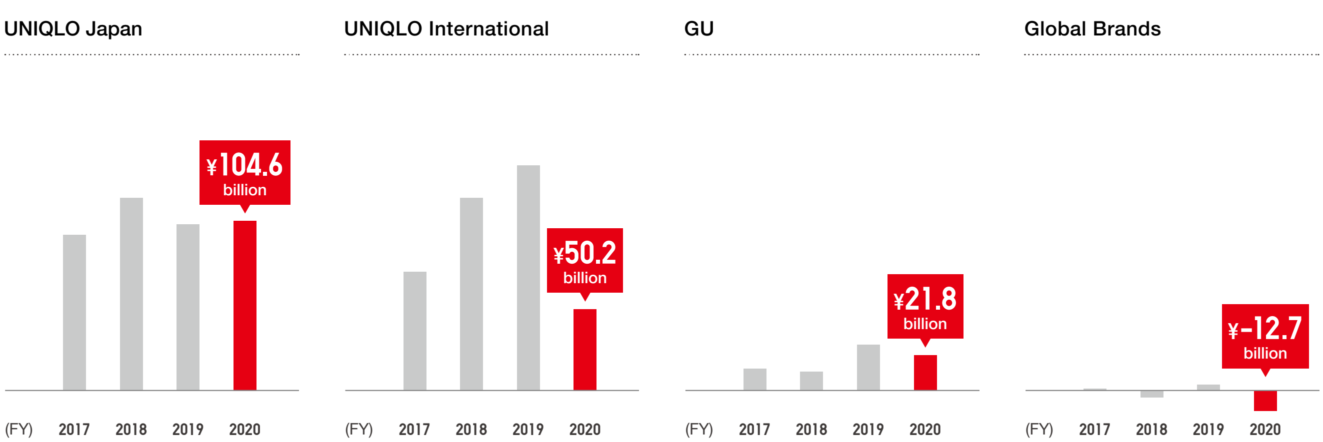
To achieve our Group's medium-term vision as a digital consumer retailing company to become the world's No.1 apparel retailer, we have identified four core medium-term growth strategies that we are currently striving to achieve: 1) Create and expand new clothing demand based on our LifeWear concept, 2) Advance as a passionately customer-centric company that maximizes the power of digital tools (Ariake Project), 3) Expand branding and individual operations worldwide, and establish overwhelmingly competitive operational bases, especially in Asia, and 4) Reform operations to help realize a sustainable society.

The COVID-19 pandemic has proved an ordeal for Fast Retailing operations, forcing us to suddenly close store doors on a large scale and adversely impacting near-term performance. However, lifestyle changes sparked by COVID-19 are also rapidly accelerating the environmental changes Fast Retailing had assumed in its medium-term growth strategy, in a positive sense. Now is the time to aggressively pursue our medium-term growth strategy to help ensure dramatic post-COVID growth. We are currently working hard to further improve the quality of LifeWear, boost global branding investment, unify our e-commerce and physical store networks, and channel investment into IT and automation to create a more advanced supply chain. We are also focusing on expanding store networks primarily in Greater China and Southeast Asia, implementing upgraded store networks in all markets, and hiring and training human resources to build new organizational capabilities.

We must also focus tirelessly on low-cost management to maintain our strong competitiveness. Fast Retailing pursues Ariake Project corporate transformation in tandem with structural reform of business expenses. So far, we have successfully lowered distribution costs thanks to significantly higher inventory efficiency, increased store productivity, improved business productivity and efficiency, standardized and digitized business processes, and improved the cost-effectiveness of individual expenditures by strengthening the organizational power of our purchasing department. We will further accelerate these efforts, reviewing unprofitable businesses and stores and pursuing sound investments that consistently improve SG&A ratios.

Our operating profit margin had been improving consistently, but it dropped back temporarily to 7.4% in FY2020 due to COVID-19. We expect the margin will rise to 11.1% in FY2021 on the back of a significant recovery in performance. Going forward, we aim to continue growing sales and to bring the operating profit margin swiftly up to 15%.

Operating Profit by Group Operation

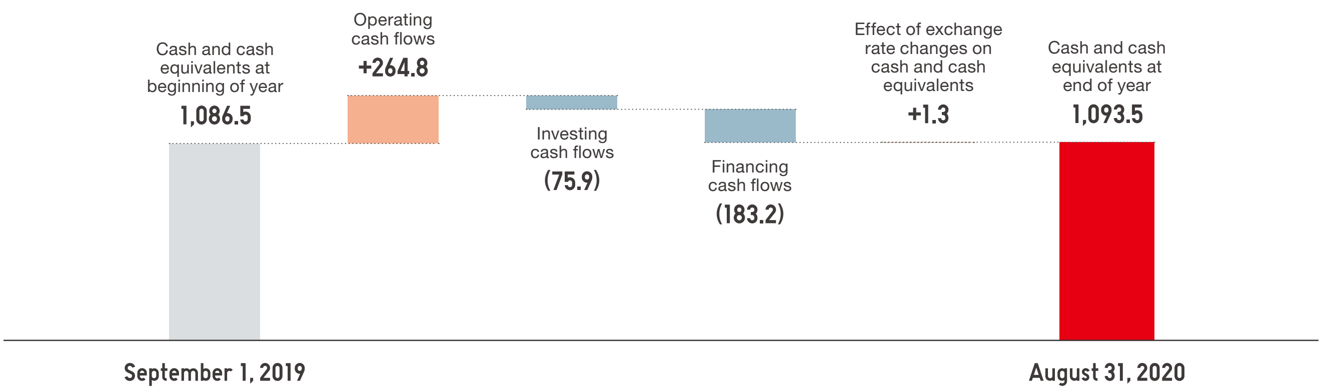


Increase Value-generation Power of Cash to Effectively Secure Shareholder Returns, Growth Investment, and Ready Liquidity

Fast Retailing's financial strategy focuses on maintaining financial stability, maximizing free cash flow, and effectively utilizing that cash to secure shareholder returns, growth investment funds, and liquidity. We strive to hold three to five months' worth of monthly sales as working capital and risk capital funds to deal with any unforeseen circumstances. The balance of cash and cash equivalents stood at ¥1.0935 trillion at the end of August 2020, an appropriate level that equates to roughly four months of our ¥3 trillion medium-term annual sales target.

Returning a portion of our profits to shareholders is a top priority. Our policy is to pay consistent and appropriate dividends that reflect corporate performance and consider operational funding requirements and financial soundness. We paid a dividend of ¥480 per share in FY2020 (54.2% annual dividend payout ratio). While COVID-19 resulted in a temporary shortfall in profits, the dividend level was in line with our policy given expectations for a recovery in performance.

Cash Flow Information (billions of yen)

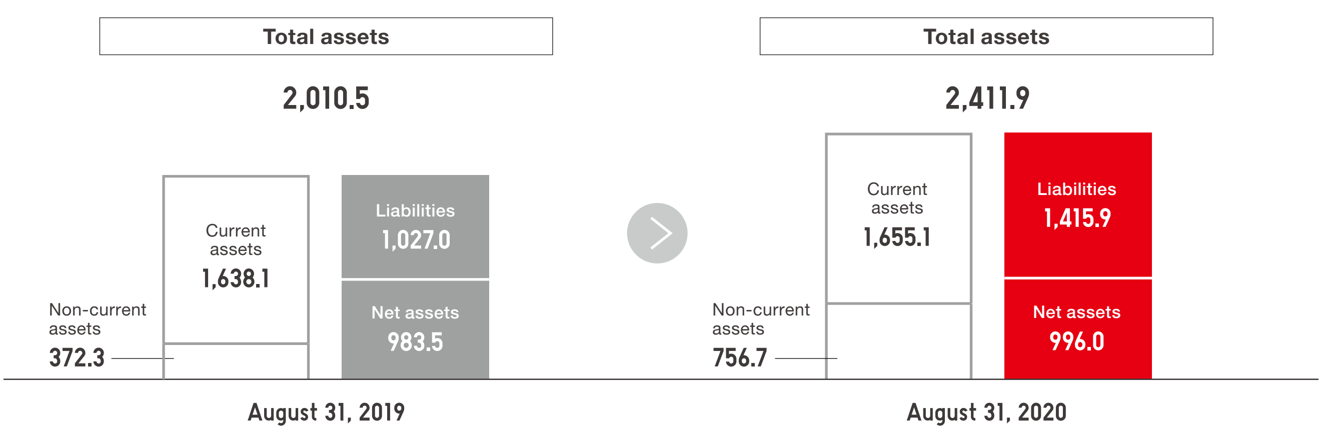


A Solid Balance Sheet to Support Sustainable Growth

Total assets increased ¥401.4 billion to ¥2.4119 trillion at the end of August 2020 due primarily to the adoption of IFRS 16 from FY2020, which resulted in the recording of ¥399.9 billion in right-of-use assets (recording future lease obligations on lease contracts for stores, warehouse, offices, etc. as assets). As a result, the ratio of equity attributable to owners of the Parent to total assets (shareholders' equity ratio) decreased 7.0 points to 39.7%. We aim to boost the medium to long-term ratio to roughly 50% by steadily accumulating profits through business activities.

ROE has traditionally tracked between 15% and 20% but declined 8.5 points to 9.5% in FY2020 as profit attributable to owners of the Parent fell sharply in the face of COVID-19. We expect ROE to recover to between 15% and 20% in FY2021 on the back of markedly improved performance.

Balance Sheet (billions of yen)



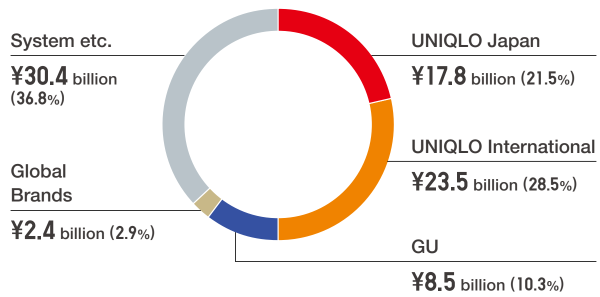
Continue Proactive Investment to Expand Operations

While seeking to expand our global store network, Fast Retailing also invests aggressively in systems to help progress Ariake Project objectives and in other areas to help expand operations.

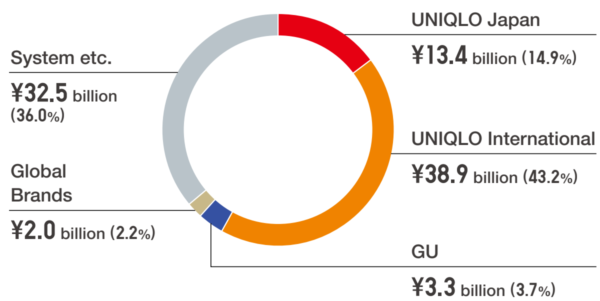
Capital expenditure declined by ¥2.4 billion to ¥82.7 billion in FY2020. That figure breaks down into ¥17.8 billion for UNIQLO Japan, ¥23.5 billion for UNIQLO International, ¥8.5 billion for GU, ¥2.4 billion for Global Brands, and ¥30.4 billion for systems, etc. While investment in Ariake Project-related IT systems, warehouse automation, and global flagship and large-format stores for UNIQLO Japan increased, UNIQLO International new store openings declined, resulting in a slight year-on-year fall in overall capital expenditure.

In FY2021, we expect capital expenditure will increase by ¥7.5 billion to ¥90.2 billion. For planned new store investment, ¥30.0 billion of that is earmarked (UNIQLO International: 155 stores, UNIQLO Japan: 30 stores, Global Brands: 28 stores, GU: 22 stores) and ¥60.2 billion for Ariake Project-related items as we plan to invest in new e-commerce platforms and new automated warehouses in Japan and several other countries.

FY2020 Capital Expenditures



FY2021 Capital Expenditures (forecast)

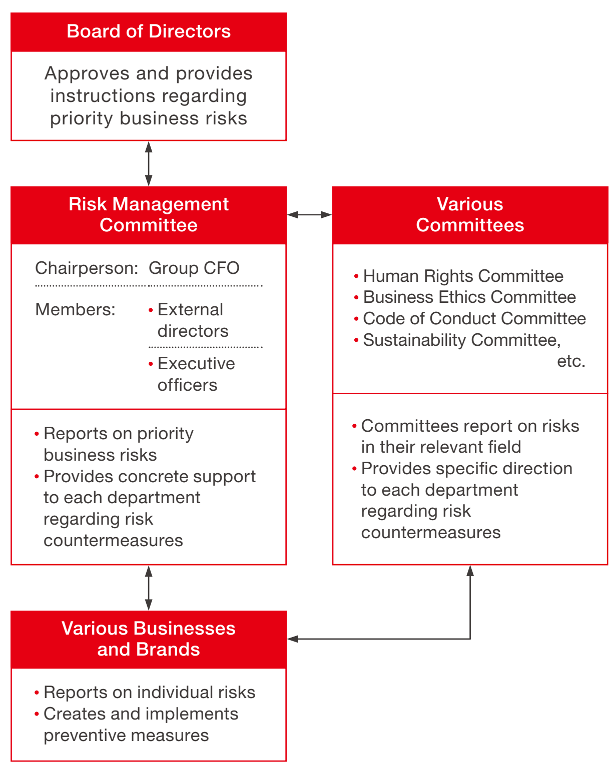


Firm Risk Management System to Clarify Risks and Strengthen Our Response

Fast Retailing's Risk Management Committee reports directly to the Board and works to regularly identify latent risks in business activities and establish and strengthen frameworks to detect and manage material risks. The committee, chaired by myself as Group CFO, unifies the management of risk across Fast Retailing, analyzing and assessing the frequency and impact of risks on business. We identify high-risk areas requiring preventive countermeasures, and how to mount a speedy response when risk does occur. The committee also submits reports on significant risks to the Board and offers concrete support to departments required to deal with identified risks.

The committee met nine times in FY2020 to discuss the COVID-19 pandemic, the risk of an earthquake near Tokyo, other natural disasters, information security, and other topics.

Risk Management Framework



RISK FACTORS

The following is a list of the main potential risks which would have an especially large impact on the Group's operating results and financial situation. Future-related items in the descriptions below are assessed by the Group on the date of submission of the Year-end Report (November 27, 2020). This list of risks is not exhaustive, which means that the Group may be affected in the future by risks it had not foreseen or did not recognize as significant at the time of compiling the report. If there are no details of risks already having materialized under the Risk Description and Effects on the Group column, then that risk has not yet surfaced and the timing or likelihood of whether it will indeed materialize at some point in the future is uncertain.

Risk Item	Risk Description and Effects on the Group	Main Group Initiatives
Risk of the large-scale, global spread of infectious diseases (including COVID-19)	• The large-scale, global spread of infectious diseases such as COVID-19 may cause difficulties in the production and supply of products to stores due to infection among employees of the Group and its partners, as well as due to measures enacted to prevent the spread of the disease. • The global spread of COVID-19 has already materialized risks that have had negative effects on the entire Group, including the shutdown of production plants, logistical delays, restricted store hours, and more.	• Led by the Company-wide Emergency Response Headquarters established by the Risk Management Committee, the Group develops medical evidence-based infection prevention measures aided by advice received from experts, and implements such measures at all Group offices and stores while ensuring all Group employees fully understand them. • In addition to providing supplier factories with guidelines for improving their hygiene management to prevent infection at factories and for employee remuneration if factories are forced to shut down. We also have measures in place to support the financial stability of our production partners. • In order to ensure that all customers can shop with peace of mind, in our stores we take all possible measures to prevent infection, and further request that all customers entering stores comply with the Group's infection countermeasures.
Management personnel risk	• Members of the Group's management team, led by Chairman, President and CEO Tadashi Yanai, play a major role in their respective areas of responsibility. If any officer becomes unable to fulfill his or her duties and the Group is unable to find any personnel who can take on those important responsibilities, this could have an adverse impact on business performance.	• In each of the Group's businesses, we have established a team-based executive management structure to ensure that decision-making and execution of duties are not dependent on specific management personnel. • In each business, the managers themselves personally train the management personnel who will be their successors in those positions. • We actively recruit globally active management talent on an ongoing basis, and we have established dedicated educational institutions to educate and train our hired talent into managers.
Country risks and risks pertaining to international affairs	• The Group's product production, supply, and sale infrastructure may be adversely impacted by events in countries and regions in which we manufacture products and conduct business, due to factors including changes in political or economic conditions, social disorder or deterioration of public safety due to terrorism or conflicts, changes in legal or tax systems, or the occurrence of large-scale natural disasters such as earthquakes, strong winds, or water disasters.	• The Group is moving forward with establishing a supply chain that can respond flexibly to changes in international conditions. This includes dispersing production sites across multiple countries and regions, as well establishing production management offices at our main production hubs to enable the timely monitoring of and quick response to local circumstances. • We have accounting, tax, and legal specialists stationed at Group companies' offices to ensure that we can respond quickly and appropriately in the event that a risk materializes. • With respect to cross-border tensions and deteriorating racial relations in specific countries and regions, the Group as a global company aims to contribute to the resolution of social issues in countries and regions in which we operate, and to achieve a lasting peaceful co-existence and co-prosperity in the communities within each region and country.
Environmental risks	• We risk weakening public trust in Group brands if our climate change response is slow, such as delays in reducing greenhouse gas emissions or transitioning to renewable energy sources, or if we do not appropriately implement initiatives to reduce waste emissions, circulate resources, manage chemical substances, etc. • Increasingly prevalent extreme weather conditions caused by climate change could adversely affect our product supply systems and our business as a whole.	• Led by the Sustainability Committee, we persist in continually implementing concrete and highly effective initiatives under our Environmental Policy, with which we must ensure medium to long-term compliance as a Group, in five priority areas: addressing climate change, improving energy efficiency, managing water resources, improving waste management and resource efficiency, and managing chemical substances.
Large-scale disaster risks	• Large-scale disasters such as earthquakes, typhoons, volcanic eruptions, fires, storms and floods, explosions, and collapsed buildings can adversely affect our product production, product supply systems, product sales systems, and also our management infrastructure in areas where there are head offices, retail stores, and production plants for products sold by the Group.	• Led by the Risk Management Committee, we are committed to establishing an infrastructure by which, in the event of an actual or potential major earthquake or other major disaster, we have an emergency command system prepared, run by the Emergency Response Headquarters to: ensure the safety of customers, employees, and related personnel; mitigate damage to business resources; prevent secondary disasters; develop infrastructure for quickly restoring business; prepare crisis management manuals and promote the global implementation of those manuals.
Risks related to resource management and the procurement of raw materials	• Disasters, climate change, and other factors may cause escalating prices or difficulty in procuring the raw materials (such as cotton, cashmere, down, etc.) used in the products sold by the Group's businesses. If these risks materialize, the Group's product supply systems and performance may be adversely affected.	• We have entered into procurement agreements with multiple suppliers so that we are able to source reasonably priced raw materials, without having to rely on a specific supplier for a specific raw material.
Information security risks	• If customer information (including personal information), trade secrets, and other confidential information were to be leaked or lost, we would need to respond by recovering the information and possibly paying damages to customers, which could adversely affect our business performance and reduce customer trust. • If a government were to determine that we are in violation of legal regulations that restrict the transfer of personal information between countries and regions, such as the EU's General Data Protection Regulation (GDPR), we may lose customers' trust and be subject to significant fines that would negatively impact our business performance.	• In order to ensure that confidential information held by the Group is properly managed, we have established an Information Security Office under the direction of a Chief Security Officer (CSO) who oversees the entire Group. • Working in cooperation with the IT and legal departments of each country and region in which we operate, the Information Security Office builds and improves the infrastructure needed to properly manage sensitive information (especially customers' personal information) in anticipation of external attacks, internal fraud and various other incidents. This is done by putting in place infrastructure, evaluating our administrative processes and ours contractors, establishing and standardizing internal rules, and conducting regular educational and awareness activities in each business division.

Intellectual property risks	• Intellectual property rights apply in relation to the Group's products and the latest technologies used in all kinds of areas, including product management, store operations, and e-commerce websites. These rights not being licensed to us by their owners would present difficulties in our use of these technologies or in supplying products. • If these technologies or products were to infringe on the intellectual property rights of others, we may be liable to pay substantial damages or license fees that may adversely affect our business performance. • If the Group's products were to be copied by third parties and sold at low prices, this may negatively impact our business performance.	• In order to address these intellectual property risks, the Group has a dedicated department in place dealing with intellectual property. This department investigates infringements during product development and during the implementation of technologies, and in an effort to prevent infringements of intellectual property rights also runs educational and awareness activities for Group employees. • We actively take steps to acquire the rights to new technologies that we develop. Furthermore, we monitor markets in the countries and regions in which we operate or plan to expand, and cooperate with local legal departments, local law firms, and government agencies to gather information about counterfeit products and other intellectual property infringements. • In the event that infringement can be confirmed or if we fear such an infringement may have occurred, we work with local legal departments and local law firms to quickly consider our course of action, including a legal response.
Human rights risks	• All of the Group's businesses operate an SPA business model which integrates all stages of the business process, from products being designed by each business, to them being directly procured from factories and then delivered to customers. The supply chain involved in this SPA business model includes many of our business partners' employees, as well as those of the Group. Within the business system, deterioration in working environment or in health and safety, human rights violations such as harassment or discriminatory behavior, or other such acts that significantly infringe on the human rights of those affected may result in the Group losing the trust of our customers and suppliers, and consequently may negatively impact the supply and sale of our products.	• Our supply chain policy is based on our view that our most important responsibility is to respect the basic human rights of all people working in the supply chain of Group businesses, whether they are employees of the Group or of our business partners, and to ensure those employees' physical and mental health, safety, and peace of mind. • We have developed human rights guidelines, provide code of conduct (COC) training, operate an employee hotline, and conduct regular reviews in order prevent human rights violations from occurring. • Led by our Sustainability Department, we are committed to maintaining and improving suitable working environments through monitoring work environments at supplier factories, and operating hotlines for the employees of those factories. • In the event that a human rights violation does occur, in addition to the Human Rights Committee investigating and deliberating on the matter, we also have in place a framework for providing mental healthcare for the victim.
Risks originating from business partners	• The Group conducts business with many suppliers and business partners, which presents a variety of risks associated with business partners involved in product planning, production, transportation, and sales. • These risks include the possibility that our partners may not share the values and principles of the Group, which may lead to a drop in business efficiency, or the possibility that a partners financial status may make it difficult for us to adequately collect on receivables. These possibilities can have an adverse effect on our business performance, and furthermore may result in our unintentionally engaging in business with anti-social organizations (e.g. criminal groups and individuals) or violations of laws on the part of our partners. If these risks were to materialize, they may lead to a loss of trust in the Group among our customers and society. • In addition, for example during the transportation of products by delivery operators or while products are being stored at a warehouse, products may be destroyed, damaged, or stolen as a result of a natural disaster or human behavior, or it may not be possible to complete a transaction due to a problem arising with our partner or with local laws and regulations.	• In order to avoid entering into business relationships with inappropriate partners, all Group companies carry out credit checks as necessary when entering into a transaction with a new business partner. • In order to build appropriate business relationships with all of our partners, the Group has established Business Partner Conduct Guidelines and conducts business only with those partners who agree to and comply with those guidelines. • In response to the risks associated with dealing with delivery operators and warehouse operators, each of our businesses has logistics personnel in place who are in constant communication with our delivery and warehouse-operating business partners. These personnel are on-hand to promptly report any problems that arise in product shipping or storage to local management and the Global Logistics Headquarters, a system which enables them to promptly consider and action a response.
Impairment risks	• As a general rule, the Group considers each store as a small unit that generates an independent cash flow. We apply impairment accounting on that basis to determine the likelihood of a return on investment in a timely manner. If profitability decreases due to changes in the business environment, impairment losses may be recorded under property, plant, and equipment and right-of-use assets, among others. • Due to the application of IFRS 16 from August 2020 onward, impairment losses when profitability decreases are now larger than before, due to increases in right-of-use assets on the balance sheet.	• We apply impairment accounting to quickly identify signs of impairment, quickly identify unprofitable stores, and to ensure proper accounting. • We strive to understand the underlying cause of a store's drop in profitability, and develop fundamental profitability improvement plans for them.
Foreign currency risks	• Many of the products handled by each of the Group's businesses are imported from overseas production plants. Fluctuations in the currencies of settlement may have an adverse effect on our performance of each business. • The Group as a whole has financial assets in a variety of currencies in line with where we operate our businesses. Fluctuations in exchange rates against yen, which is the Group's functional currency, can have a major impact on financial gains and losses.	• In order to mitigate foreign exchange volatility in our international businesses, we have forward exchange contracts that extend several years into the future based on our procurement forecasts. In this process, the Group Board of Directors discusses and approves specific hedging policies such as hedge ratios, time periods, and other aspects, taking into account their contribution to our financial security. • The Board of Directors discusses the viability of the currencies in which our financial assets are held.
Risks arising from changes in the business environment	• In each country and region in which the Group's businesses operates, changes in the business environment, such as inclement weather and changes in consumption trends, may result in drops in product sales and the accumulation of excess inventory, negatively impacting our business performance.	• We collect timely information on the products required by customers in the countries and regions in which the Group's businesses operate. We have the infrastructure in place to immediately commercialize those products as well as to produce and sell the quantity required, responding to changes in the business environment as flexibly as possible.