FAST RETAILING

Fast Retailing Co., Ltd.

Consolidated Financial Statements

for the year ended 31 August 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FAST RETAILING CO., LTD. and consolidated subsidiaries
31 August 2019 and 2020

		Millions of yen		Thousands of U.S. dollars*
		2019	2020	2020
ASSETS	Notes			
Current assets				
Cash and cash equivalents	8, 30	¥1,086,519	**¥1,093,531**	**$10,376,046**
Trade and other receivables	9, 30	60,398	**67,069**	**636,394**
Other financial assets	11, 30	44,473	**49,890**	**473,391**
Inventories	10	410,526	**417,529**	**3,961,757**
Derivative financial assets	30	14,787	**14,413**	**136,764**
Income taxes receivable		1,492	**2,126**	**20,180**
Other assets	12	19,975	**10,629**	**100,862**
Total current assets		1,638,174	**1,655,191**	**15,705,396**
Non-current assets				
Property, plant and equipment	13, 15	162,092	**136,123**	**1,291,614**
Right-of-use assets	15, 17	—	**399,944**	**3,794,898**
Goodwill	14	8,092	**8,092**	**76,788**
Intangible assets	14, 15	60,117	**66,833**	**634,151**
Financial assets	11, 30	77,026	**67,770**	**643,040**
Investments in associates accounted for using the equity method	16	14,587	**14,221**	**134,940**
Deferred tax assets	18	33,163	**45,447**	**431,227**
Derivative financial assets	30	9,442	**10,983**	**104,219**
Other assets	12	7,861	**7,383**	**70,057**
Total non-current assets		372,384	**756,799**	**7,180,938**
Total assets		¥2,010,558	**¥2,411,990**	**$22,886,335**
LIABILITIES AND EQUITY				
LIABILITIES				
Current liabilities				
Trade and other payables	19, 30	¥ 191,769	**¥ 210,747**	**$1,999,689**
Other financial liabilities	11, 17, 28, 30	159,006	**213,301**	**2,023,922**
Derivative financial liabilities	30	2,985	**2,763**	**26,220**
Lease liabilities	17, 30	—	**114,652**	**1,087,890**
Current tax liabilities		27,451	**22,602**	**214,462**
Provisions	20	13,340	**752**	**7,135**
Other liabilities	12	82,103	**82,636**	**784,100**
Total current liabilities		476,658	**647,455**	**6,143,422**
Non-current liabilities				
Financial liabilities	11, 17, 28, 30	499,948	**370,780**	**3,518,179**
Lease liabilities	17, 30	—	**351,526**	**3,335,480**
Provisions	20	20,474	**32,658**	**309,880**
Deferred tax liabilities	18	8,822	**7,760**	**73,636**
Derivative financial liabilities	30	3,838	**3,205**	**30,412**
Other liabilities	12	17,281	**2,524**	**23,953**
Total non-current liabilities		550,365	**768,455**	**7,291,543**
Total liabilities		1,027,024	**1,415,910**	**13,434,965**
EQUITY				
Capital stock	21	10,273	**10,273**	**97,485**
Capital surplus	21	20,603	**23,365**	**221,704**
Retained earnings	21	928,748	**933,303**	**8,855,711**
Treasury stock, at cost	21	(15,271)	**(15,129)**	**(143,553)**
Other components of equity	21	(5,732)	**4,749**	**45,064**
Equity attributable to owners of the Parent		938,621	**956,562**	**9,076,411**
Non-controlling interests		44,913	**39,516**	**374,958**
Total equity		983,534	**996,079**	**9,451,370**
Total liabilities and equity		¥2,010,558	**¥2,411,990**	**$22,886,335**

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥105.39 to US $1.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FAST RETAILING CO., LTD. and consolidated subsidiaries
For the years ended 31 August 2019 and 2020

		Millions of yen		Thousands of U.S. dollars*
		2019	2020	2020
	Notes			
Revenue	22	¥ 2,290,548	¥ 2,008,846	$19,061,069
Cost of sales		(1,170,987)	(1,033,000)	(9,801,697)
Gross profit		1,119,561	975,845	9,259,371
Selling, general and administrative expenses	23	(854,394)	(805,821)	(7,646,094)
Other income	24	4,533	7,954	75,481
Other expenses	15, 24	(12,626)	(28,952)	(274,720)
Share of profit and loss of associates accounted for using the equity method	16	562	321	3,052
Operating profit		257,636	149,347	1,417,091
Finance income	25	12,293	11,228	106,543
Finance costs	25	(17,481)	(7,707)	(73,134)
Profit before income taxes		252,447	152,868	1,450,501
Income taxes	18	(74,400)	(62,470)	(592,752)
Profit for the year		178,046	90,398	857,748
Profit for the year attributable to:				
Owners of the Parent		162,578	90,357	857,366
Non-controlling interests		15,467	40	382
Total		¥ 178,046	¥ 90,398	$ 857,748
Earnings per share				
Basic (yen, dollar)	27	¥ 1,593.20	¥ 885.15	$ 8.40
Diluted (yen, dollar)	27	1,590.55	883.62	8.38

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥105.39 to US $1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FAST RETAILING CO., LTD. and consolidated subsidiaries
For the years ended 31 August 2019 and 2020

		Millions of yen		Thousands of U.S. dollars*
		2019	2020	2020
	Notes			
Profit for the year		¥178,046	**¥ 90,398**	**$ 857,748**
Other comprehensive income/(loss), net of income taxes				
Items that will not be reclassified subsequently to profit or loss				
Financial assets measured at fair value through other comprehensive income/(loss)	26	(734)	**(630)**	**(5,985)**
Total items that will not be reclassified subsequently to profit or loss		(734)	**(630)**	**(5,985)**
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	26	(33,649)	**5,227**	**49,604**
Cash flow hedges	26	11,398	**14,130**	**134,074**
Share of other comprehensive income of associates	26	(11)	**(39)**	**(378)**
Total items that may be reclassified subsequently to profit or loss		¥ (22,262)	**¥ 19,318**	**$ 183,300**
Other comprehensive income/(loss), net of income taxes		¥ (22,997)	**¥ 18,687**	**$ 177,314**
Total comprehensive income for the year		¥155,049	**¥109,085**	**$1,035,062**
Attributable to:				
Owners of the Parent		140,900	**110,134**	**1,045,018**
Non-controlling interests		14,148	**(1,049)**	**(9,955)**
Total comprehensive income for the year		¥155,049	**¥109,085**	**$1,035,062**

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥105.39 to US $1.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FAST RETAILING CO., LTD. and consolidated subsidiaries
For the years ended 31 August 2019 and 2020

Millions of yen

						Other components of equity							
	Notes	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Financial assets measured at fair value through other comprehensive income/(loss)	Foreign currency translation reserve	Cash-flow hedge reserve	Share of other comprehensive income of associates	Total	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
As at 1 September 2018		¥10,273	¥18,275	¥815,146	¥(15,429)	¥ 37	¥ 15,429	¥19,202	¥ —	¥ 34,669	¥862,936	¥39,841	¥902,777
Net changes during the year													
Comprehensive income													
Profit for the year		—	—	162,578	—	—	—	—	—	—	162,578	15,467	178,046
Other comprehensive income/(loss)	26	—	—	—	—	(734)	(29,359)	8,427	(11)	(21,678)	(21,678)	(1,318)	(22,997)
Total comprehensive income		—	—	162,578	—	(734)	(29,359)	8,427	(11)	(21,678)	140,900	14,148	155,049
Transactions with the owners of the Parent													
Acquisition of treasury stock	21	—	—	—	(2)	—	—	—	—	—	(2)	—	(2)
Disposal of treasury stock	21	—	1,558	—	159	—	—	—	—	—	1,718	—	1,718
Dividends	21	—	—	(48,976)	—	—	—	—	—	—	(48,976)	(9,218)	(58,195)
Share-based payments	21	—	769	—	—	—	—	—	—	—	769	—	769
Incorporation of a new subsidiary		—	—	—	—	—	—	—	—	—	—	239	239
Changes in ownership interests in subsidiaries without losing control		—	—	—	—	—	—	—	—	—	—	353	353
Transfer to non-financial assets		—	—	—	—	—	—	(18,723)	—	(18,723)	(18,723)	(451)	(19,175)
Total transactions with the owners of the Parent		—	2,328	(48,976)	157	—	—	(18,723)	—	(18,723)	(65,215)	(9,076)	(74,292)
Total net changes during the year		—	2,328	113,602	157	(734)	(29,359)	(10,296)	(11)	(40,402)	75,685	5,071	80,757
As at 1 September 2019		¥10,273	¥20,603	¥928,748	¥(15,271)	¥(697)	¥(13,929)	¥ 8,906	¥(11)	¥ (5,732)	¥938,621	¥44,913	¥983,534

Millions of yen

						Other components of equity							
	Notes	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Financial assets measured at fair value through other comprehensive income/(loss)	Foreign currency translation reserve	Cash-flow hedge reserve	Share of other comprehensive income of associates	Total	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
As at 1 September 2019		¥10,273	¥20,603	¥928,748	¥(15,271)	¥ (697)	¥(13,929)	¥8,906	¥(11)	¥ (5,732)	¥938,621	¥44,913	¥983,534
Effect of change in accounting policy	4	**—**	**—**	**(35,094)**	**—**	**—**	**—**	**—**	**—**	**—**	**(35,094)**	**(1,331)**	**(36,426)**
Balance after adjustment		**10,273**	**20,603**	**893,653**	**(15,271)**	**(697)**	**(13,929)**	**8,906**	**(11)**	**(5,732)**	**903,526**	**43,581**	**947,108**
Net changes during the year													
Comprehensive income													
Profit for the year		**—**	**—**	**90,357**	**—**	**—**	**—**	**—**	**—**	**—**	**90,357**	**40**	**90,398**
Other comprehensive income/(loss)	26	**—**	**—**	**—**	**—**	**(630)**	**5,440**	**15,007**	**(39)**	**19,776**	**19,776**	**(1,089)**	**18,687**
Total comprehensive income		**—**	**—**	**90,357**	**—**	**(630)**	**5,440**	**15,007**	**(39)**	**19,776**	**110,134**	**(1,049)**	**109,085**
Transactions with the owners of the Parent													
Acquisition of treasury stock	21	**—**	**—**	**—**	**(5)**	**—**	**—**	**—**	**—**	**—**	**(5)**	**—**	**(5)**
Disposal of treasury stock	21	**—**	**1,496**	**—**	**148**	**—**	**—**	**—**	**—**	**—**	**1,644**	**—**	**1,644**
Dividends	21	**—**	**—**	**(48,994)**	**—**	**—**	**—**	**—**	**—**	**—**	**(48,994)**	**(2,038)**	**(51,032)**
Share-based payments	21	**—**	**1,265**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,265**	**—**	**1,265**
Transfer to non-financial assets		**—**	**—**	**—**	**—**	**—**	**—**	**(11,008)**	**—**	**(11,008)**	**(11,008)**	**(976)**	**(11,985)**
Transfer to retained earnings		**—**	**—**	**(1,713)**	**—**	**1,713**	**—**	**—**	**—**	**1,713**	**—**	**—**	**—**
Total transactions with the owners of the Parent		**—**	**2,761**	**(50,708)**	**142**	**1,713**	**—**	**(11,008)**	**—**	**(9,294)**	**(57,098)**	**(3,015)**	**(60,113)**
Total net changes during the year		**—**	**2,761**	**39,649**	**142**	**1,082**	**5,440**	**3,998**	**(39)**	**10,482**	**53,036**	**(4,064)**	**48,971**
As at 31 August 2020		**¥10,273**	**¥23,365**	**¥933,303**	**¥(15,129)**	**¥ 385**	**¥ (8,489)**	**12,905**	**¥(51)**	**¥ 4,749**	**¥956,562**	**¥39,516**	**¥996,079**

See accompanying notes to consolidated financial statements.

Thousands of U.S. dollars*

						Other components of equity							
	Notes	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Financial assets measured at fair value through other comprehensive income/(loss)	Foreign currency translation reserve	Cash-flow hedge reserve	Share of other comprehensive income of associates	Total	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
As at 1 September 2019		$97,485	$195,497	$8,812,492	$(144,907)	$(6,619)	$(132,175)	$ 84,508	$(108)	$ (54,394)	$8,906,172	$426,160	$9,332,333
Effect of change in accounting policy	4	**—**	**—**	**(332,998)**	**—**	**—**	**—**	**—**	**—**	**—**	**(332,998)**	**(12,635)**	**(345,633)**
Balance after adjustment		**97,485**	**195,497**	**8,479,493**	**(144,907)**	**(6,619)**	**(132,175)**	**84,508**	**(108)**	**(54,394)**	**8,573,174**	**413,525**	**8,986,699**
Net changes during the year													
Comprehensive income													
Profit for the year		**—**	**—**	**857,366**	**—**	**—**	**—**	**—**	**—**	**—**	**857,366**	**382**	**857,748**
Other comprehensive income/(loss)	26	**—**	**—**	**—**	**—**	**(5,985)**	**51,620**	**142,396**	**(378)**	**187,652**	**187,652**	**(10,337)**	**177,314**
Total comprehensive income		**—**	**—**	**857,366**	**—**	**(5,985)**	**51,620**	**142,396**	**(378)**	**187,652**	**1,045,018**	**(9,955)**	**1,035,062**
Transactions with the owners of the Parent													
Acquisition of treasury stock	21	**—**	**—**	**—**	**(51)**	**—**	**—**	**—**	**—**	**—**	**(51)**	**—**	**(51)**
Disposal of treasury stock	21	**—**	**14,201**	**—**	**1,405**	**—**	**—**	**—**	**—**	**—**	**15,606**	**—**	**15,606**
Dividends	21	**—**	**—**	**(464,888)**	**—**	**—**	**—**	**—**	**—**	**—**	**(464,888)**	**(19,341)**	**(484,229)**
Share-based payments	21	**—**	**12,005**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**12,005**	**—**	**12,005**
Transfer to non-financial assets		**—**	**—**	**—**	**—**	**—**	**—**	**(104,453)**	**—**	**(104,453)**	**(104,453)**	**(9,269)**	**(113,722)**
Transfer to retained earnings		**—**	**—**	**(16,260)**	**—**	**16,260**	**—**	**—**	**—**	**16,260**	**—**	**—**	**—**
Total transactions with the owners of the Parent		**—**	**26,206**	**(481,148)**	**1,353**	**16,260**	**—**	**(104,453)**	**—**	**(88,192)**	**(541,781)**	**(28,610)**	**(570,391)**
Total net changes during the year		**—**	**26,206**	**376,217**	**1,353**	**10,274**	**51,620**	**37,943**	**(378)**	**99,459**	**503,237**	**(38,566)**	**464,670**
As at 31 August 2020		**$97,485**	**$221,704**	**$8,855,711**	**$(143,553)**	**$ 3,655**	**$ (80,555)**	**$ 122,451**	**$(486)**	**$ 45,064**	**$9,076,411**	**$374,958**	**$9,451,370**

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥105.39 to US $1.

CONSOLIDATED STATEMENT OF CASH FLOWS

Fast Retailing Co., Ltd. and consolidated subsidiaries
For the years ended 31 August 2019 and 2020

	Notes	2019	2020	2020
			Millions of yen	Thousands of U.S. dollars*
Cash flows from operating activities:				
Profit before income taxes		¥ 252,447	**¥ 152,868**	**$ 1,450,501**
Depreciation and amortization		48,476	**177,848**	**1,687,527**
Impairment losses	15	3,444	**23,074**	**218,942**
Interest and dividend income		(12,293)	**(9,724)**	**(92,274)**
Interest expenses		4,369	**7,706**	**73,121**
Foreign exchange losses/(gains)		13,107	**(1,503)**	**(14,269)**
Share of profit and loss of associates accounted for using the equity method		(562)	**(321)**	**(3,052)**
Losses on disposal of property, plant and equipment		650	**1,125**	**10,680**
(Increase)/decrease in trade and other receivables		(6,302)	**(4,164)**	**(39,516)**
(Increase)/decrease in inventories		38,145	**(2,665)**	**(25,296)**
Increase/(decrease) in trade and other payables		(16,426)	**18,600**	**176,493**
(Increase)/decrease in other assets		2,932	**10,686**	**101,394**
Increase/(decrease) in other liabilities		36,881	**(44,567)**	**(422,880)**
Others, net		1,719	**8,776**	**83,279**
Cash generated from operations		366,589	**337,738**	**3,204,649**
Interest and dividend income received		10,533	**8,546**	**81,097**
Interest paid		(3,848)	**(6,783)**	**(64,366)**
Income taxes paid		(74,263)	**(75,460)**	**(716,008)**
Income taxes refunded		1,493	**827**	**7,847**
Net cash generated by operating activities		300,505	**264,868**	**2,513,220**
Cash flows from investing activities:				
Amounts deposited into bank deposits with original maturities of three months or longer		(103,619)	**(88,714)**	**(841,771)**
Amounts withdrawn from bank deposits with original maturities of three months or longer		92,252	**83,502**	**792,314**
Payments for property, plant and equipment		(41,567)	**(46,500)**	**(441,226)**
Payments for intangible assets		(24,177)	**(21,008)**	**(199,341)**
Payments for acquisition of right-of-use assets		—	**(1,808)**	**(17,162)**
Payments for lease and guarantee deposits		(7,490)	**(7,171)**	**(68,047)**
Proceeds from collection of lease and guarantee deposits		4,304	**6,394**	**60,675**
Others, net		1,541	**(673)**	**(6,393)**
Net cash generated by/(used in) investing activities		(78,756)	**(75,981)**	**(720,952)**
Cash flows from financing activities:				
Proceeds from short-term loans payable	28	17,145	**35,019**	**332,284**
Repayment of short-term loans payable	28	(16,789)	**(21,546)**	**(204,449)**
Repayment of long-term loans payable	28	(4,433)	**(4,343)**	**(41,210)**
Repayment of redemption of bonds	28	(30,000)	**—**	**—**
Dividends paid to owners of the Parent	21	(48,975)	**(48,995)**	**(464,894)**
Capital contributions from non-controlling interests		592	**—**	**—**
Dividends paid to non-controlling interests		(8,773)	**(2,328)**	**(22,098)**
Repayements of lease obligations	28	(11,377)	**—**	**—**
Repayments of lease liabilities	28	—	**(141,216)**	**(1,339,944)**
Others, net		182	**142**	**1,353**
Net cash generated by/(used in) financing activities		(102,429)	**(183,268)**	**(1,738,959)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		(32,496)	**1,393**	**13,220**
Net increase in cash and cash equivalent		86,822	**7,011**	**66,529**
Cash and cash equivalents at beginning of year	8	999,697	**1,086,519**	**10,309,516**
Cash and cash equivalents at end of year	8	¥1,086,519	**¥1,093,531**	**$10,376,046**

See accompanying notes to consolidated financial statements.

*Calculations are based on an exchange rate of ¥105.39 to US $1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FAST RETAILING CO., LTD. and consolidated subsidiaries

1 Reporting Entity

FAST RETAILING CO., LTD. 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 (http://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 (casual wear retail business operating under the "GU" brand in Japan and overseas) and Theory business (apparel designing and retail business in Japan and overseas), etc.

2 Basis of Preparation

(1) Compliance with IFRS

The consolidated financial statements of the Group have been prepared in compliance with IFRS issued by the 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 26 November 2020 by Tadashi Yanai, Chairman, President, and CEO, and Takeshi Okazaki, Group Senior 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 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 estimates 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)
- Recoverable amounts from cash-generating units ("CGU") for impairment tests (3. Significant Accounting Policies (10) and Note 15)
- Useful lives of property, plant and equipment, and intangible assets (3. Significant Accounting Policies (7), (8) and Notes 13, 14)
- Recoverability of deferred tax assets (3. Significant Accounting Policies (14) and Note 18)
- Recoverability of trade and other receivables (3. Significant Accounting Policies (4) and Note 9, 30)
- Accounting treatment and valuation of provisions (3. Significant Accounting Policies (11) and Note 20)
- Fair value measurement of financial instruments (3. Significant Accounting Policies (4) and Note 30)
- Fair value measurement for unit price for share-based payments (3. Significant Accounting Policies (12) and Note 29)
- Lease term (3. Significant Accounting Policies (9) and Note 17)

With the global spread of COVID-19, the Group's performance has been adversely affected due to temporarily closing stores, etc. Regarding impairment of non-financial assets, although we assume that business activities will gradually recover from September 2020 onward, we estimate that the impact of the COVID-19 pandemic will continue to be felt through to the end of August 2021, and we are working on the assumption that we will see recovery from that point onward. The estimates are made by taking into consideration the level of impact that differ from region to region and case-by-case basis.

(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 ¥105.39=$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market at 31 August 2020. 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

A. Basis of Consolidation

(1) 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 statutory fiscal year end dates for FAST RETAILING (CHINA) TRADING CO., LTD., UNIQLO TRADING CO., LTD., FAST RETAILING (SHANGHAI) TRADING CO., LTD., GU (Shanghai) Co., Ltd. and ten other companies vary between 31 December, 31 March and 30 June.

The management accounts the financial statements of these subsidiaries as at the Group's year-end that were prepared solely 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 2020 is 134.

(2) 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 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 2020 is four.

B. 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.

C. Foreign Currencies

(1) 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 from 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).

(2) Foreign Operations

Upon consolidation, the assets and liabilities of foreign operations are translated into 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.

D. Financial Instruments

(1) Financial assets

(a) Initial recognition and measurement

The Group classifies financial assets as "financial assets measured at fair value through net profit or loss"; "financial assets measured at fair value through other comprehensive income" or "financial assets measured at amortized cost"; and that classification is determined at the time of initial recognition.

The Group carries out initial recognition on the date of the transaction, when it becomes party to the contract related to the financial asset(s).

All financial assets are measured by adding directly linked transaction costs to fair value, except those in the category classified as measured at fair value through net profit or loss.

Financial assets are classified as financial assets measured at amortized cost, if the following requirements are satisfied:

- Assets are held based on a business model that requires them to be held to collect contractual cash flow
- Cash flow, made up solely of payment of the principal and interest on the balance of principal, is generated on a specified day under the contractual terms of the financial asset.

Financial assets other than financial assets measured at amortized cost are classified as financial assets measured at fair value. Apart from equity instruments held for trading purposes, which must be measured at fair value through Profit or Loss, other equity instruments measured at fair value are designated as either being measured at fair value through Profit or Loss or alternatively measured at fair value through Other Comprehensive Income; this is done for each individual equity instrument and the designation is continuously applied to the instrument thereafter.

(b) Subsequent measurement

Measurement after the initial recognition of financial assets is carried out as follows in accordance with the classification.

(i) Financial assets measured at amortized cost
Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(ii) Financial assets measured at fair value
The fluctuation in the fair value of financial assets measured at fair value is recognized as net profit or loss. However, any fluctuation in the fair value of equity financial instruments designated as instruments to be measured at fair value through other comprehensive income, is recognized as other comprehensive income; and if recognition is suspended or if the fair value significantly drops, then it is transferred to Retained earnings. Note that dividends from the financial assets are recognized as net profit or loss as part of finance income.

(c) Impairment of financial assets

For financial assets measured at amortized cost, expected credit losses pertaining to the financial assets are recognized as allowances for doubtful accounts.

On each reporting date, the credit risk pertaining to each financial asset is evaluated to see if it has increased significantly since initial recognition and, if it has, then the expected credit losses for the entire period are recognized as an allowance for doubtful accounts; whereas if it has not, then the expected credit losses for a 12-month period are recognized as an allowance for doubtful accounts.

At the time of an evaluation, if the contractual payment due date has passed then, in principle, it will be assumed that the credit risk has significantly increased; however, when the evaluation takes place, other information that can be reasonably used and used as support is taken into account.

However, trade receivables, etc., that do not include any major financial elements are always recognized as being an amount equivalent to expected credit loss for the entire period. If the issuer or debtor is in serious financial difficulties or is subject to a legal or formal business failure, then it is judged that there has been a default on obligations. And if it is judged that there has been a default on obligations, then the assets are treated as credit-impaired financial assets.

Irrespective of the above, if it is reasonably judged that all or part of financial assets cannot be collected due to our legal rights of claim being terminated or similar, then the book value of the financial assets is directly amortized.

(d) 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.

(2) Non-derivative financial liabilities

(a) Initial recognition and measurement

Corporate bonds and loans, etc., are initially recognized by the Group on their effective date; and other financial liabilities are initially recognized on their transaction date. Financial liabilities are either classified as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost, and this classification is determined at the time of initial recognition. All financial liabilities are initially measured at fair value, but financial liabilities measured at amortized cost are measured using the amount obtained after deducting directly attributable transaction costs.

(b) Subsequent measurements

For measurements made after the initial recognition of a financial liability, any financial liabilities measured at fair value through profit or loss include financial liabilities held for trading purposes and financial liabilities specified at the time of initial recognition as measured at fair value through profit or loss; and when these liabilities are measured at fair value after initial recognition, any changes are recognized as profit or loss for the current period. Any financial liabilities measured at amortized cost are measured after initial recognition at amortized cost using the effective interest method. Any gains or losses made in the event of amortization using the effective interest method and the de-recognition of a liability are recognized as profit or loss for the current period as part of finance costs.

(c) 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.

(3) Presentation of financial assets and financial liabilities

The balance of financial assets and financial liabilities is offset on the consolidated statement of financial position and the net amount is presented only in cases in which the Group has the right to legally enforce offsetting the balances and also intends to settle the net amount, or realize assets and settle liabilities, at the same time.

(4) 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

For gains and losses on hedges, effective portions are recognized as other comprehensive income, and non-effective portions are immediately recognized as net profit or loss on the Consolidated Statement of Profit or Loss.

Amounts pertaining to hedges that are included as other comprehensive income are transferred to profit or loss at the point in time when the hedged trades have an impact on profit or loss. If a transaction is planned that will generate recognition of hedged assets or liabilities of a non-financial nature, then the amount that is recognized as other comprehensive income is processed as a correction of the initial book value for 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.

E. 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.

F. 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 sell.

G. Property, plant and equipment

(1) 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.

(2) 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	3–30 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.

H. Goodwill and intangible assets

(1) 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 CGU 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.

(2) 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 CGU level.

I. Leases

Year ended 31 August 2019

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.

Year ended 31 August 2020

(1) As Lessee

Right-of-use assets are initially measured at cost at the commencement date of their lease. The cost includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs incurred.

After the initial measurement, right-of-use assets are depreciated over the lease term using the straight-line method. The lease term is determined as the non-cancellable period together with periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the incremental borrowing rate is used.

The lease payments included in the measurement of the lease liability comprise the fixed payments and payments of penalties for terminating the lease, if the lease term reflects the exercising an option to terminate the lease.

Subsequent to initial recognition, lease liabilities are measured at amortized cost using the effective interest method. Lease liabilities are remeasured if there is a change in future lease payments resulting from a change in an index or a rate, or a change in the assessment of possibility of exercising a termination option.

If a lease liability is remeasured, the amount of the remeasurement of the lease liability is recognized as an adjustment to the right-of-use asset.

(2) As Lessor

For leases where the Group is the lender, each lease is classified as either a finance lease or an operating lease at the time that the lease is agreed.

In classifying each lease, the Group comprehensively evaluates whether or not the risks and economic value associated with ownership of the underlying assets all transfer substantively. If they do transfer, the lease is classified as a finance lease; otherwise, it is classified as an operating lease.

Leases in which the Group acts as lender all correspond to subleases in which the Group acts as an intermediate lender. Head leases and subleases are accounted separately. In its consolidated financial statement, the Group includes lender finance leases pertaining to relevant subleases in “other current financial assets and “non-current financial assets.”

J. 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 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.

K. 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.

L. 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 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 discount calculation is made and expenses are recorded when employees provide related 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 "29. 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.

M. Revenue recognition

The Group recognizes revenue in accordance with IFRS 15 Revenue from Contracts with Customers by applying the following five-step approach:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group, as a global clothing retailer, recognizes revenue when it satisfies its performance obligation by transferring the promised goods to the customer. An asset is transferred when the customer obtains control of that asset. In addition, the Group recognizes revenue at the amount of the promised consideration that the customer would pay in accordance with a contract, less the sum of discounts, rebates and refunds or credits.

N. 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.

O. 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 Newly applied standards and interpretation guidelines

The Group shall apply the written standards below, with effect from the current consolidated accounting year.

IFRS	Title	Summary
IFRS 16	Leases	Amendments to accounting treatment for lease arrangement
IFRIC 23	Uncertainty over Income Tax Treatments	Clarifies the accounting for uncertainties in income tax

(A) Application of IFRS 16: Leases

The Group began applying IFRS 16 Leases (announced in January 2016; hereinafter "IFRS 16"), from the beginning of the current fiscal year. In applying IFRS 16, the Group has adopted the cumulative catch-up approach that recognizes the cumulative effect of initial application of the standard as at the date of initial application (1 September 2019) as a transition method, without restating comparative information.

(1) Definition of lease

The application of IFRS 16 requires that judgment made at the inception of a contract as to whether a contract is, or contains, a lease. If a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is, or contains, a lease.

To determine whether or not a contract conveys the right to control the use of an identified asset, the Group examines whether the contract includes the use of the specified asset, whether the Group has the right to obtain substantially all of the economic benefits from use of identified asset throughout the period of use, and whether the Group has the right to direct the use of the identified asset.

(2) Accounting treatment on transition

In applying IFRS 16, the Group applies the practical expedient in place of the judgments previously used to determine whether or not a contract is a lease. Consequently, the requirements in IFRS 16 is applied only to contracts entered into or changed on or after 1 September 2019.

(a) Leases in which the Group is the lessee

(Leases previously classified as operating leases under International Accounting Standards ("IAS") 17 Leases ("IAS 17"))

Lease liabilities on transition are measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate as at 1 September 2019. In addition, right-of-use assets on transition are measured using one of the following methods.

- Its carrying amount calculated on the assumption that IFRS 16 was applied from the commencement of the lease. Note that the discount rate used is the lessee's incremental borrowing rate on the date of initial application of IFRS 16.
- The amount measured for the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Note that the followings apply when IFRS 16 is applied to leases that were previously classified as operating leases under IAS 17.

- A single discount rate is applied to a portfolio of leases with reasonably similar characteristics.
- Leases for which the lease term ends within 12 months of the date of initial application of IFRS 16 except for store leases are accounted for in the same way as short-term leases.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application of IFRS 16.
- The Group uses hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(Leases previously classified as finance leases under IAS 17)

The Group accounts for the carrying amount of the right-of-use asset and the lease liability at the date of initial application at the amount of the lease asset and lease liability under IAS 17 immediately prior to the date of initial application of IFRS 16.

(b) Leases in which the Group is the lessor

Leases in which the Group acts as lessor require no adjustment on transition to IFRS 16, except for subleases. Subleases are accounted for in accordance with the transition provisions under IFRS 16 as stated below.

- In applying IFRS 16, the Group classifies sublease transactions as at the date of initial application as either operating leases or finance leases. This classification is determined based on the remaining contractual terms and conditions of the head lease and sublease at that date.
- Any subleases classified as operating leases under IAS 17 but finance leases under IFRS 16 are accounted for as new finance leases entered into at the date of initial application.

(3) Impact on consolidated financial statements

With the application of IFRS 16, the Group recognized right-of-use assets of 375,541 million yen, lease liabilities of

428,631 million yen and retained earnings as at the date of initial application are decreased by 35,094 million.

The weighted average of the lessee's incremental borrowing rate applied to lease liabilities recognized in consolidated statement of financial position as at the date of initial application of IFRS 16 is 0.9%.

The major factors for the difference between the commitment amount related to operating leases under IAS 17 disclosed in consolidated statement of financial position as at 31 August 2019 and the lease liabilities recognized in consolidated statement of financial position as at the date of initial application of IFRS 16 are as follows.

(Millions of yen)

Minimum future lease payments for non-cancelable operating lease contracts (31 August 2019)	¥344,888
Present value of non-cancelable operating lease contracts (31 August 2019)	¥337,009
Finance lease obligations (31 August 2019)	¥38,726
Cancellable operating lease commitments, etc.	¥52,894
Lease liabilities recognized in consolidated statement of financial position as at the date of initial application of IFRS 16	¥428,631

(4) COVID-19-Related Rent Concessions

In accordance with the amendment to IFRS 16 issued in May 2020, a rent concession arising as a direct result of the COVID-19 pandemic and which also meets all of the following conditions is not considered as a lease modification and accounted for variable lease payments.

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

Any recognized gains from rent concessions,-that are not accounted for as lease modification, did not have a significant impact on the Group's consolidated financial statements.

(B) Application of IFRIC 23: Uncertainty over income tax treatments

IFRIC 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23") interpretations are additional to the requirement of IAS 12 Income Taxes and establish accounting procedures for uncertain tax positions, such as items with no clear tax treatment or items related to matters that are not yet resolved with the tax authorities. If it is determined that the tax treatment used by the Group is not likely to be approved by the tax authorities, the Group's calculation of taxable income recognizes additional taxable income in an amount equivalent to the impact of that uncertainty, using either the most likely amount or expected value.

The application of IFRIC 23 does not have a significant impact on the Group's consolidated financial statements.

5 Issued but not yet effective IFRS, not-yet-applied new standards and interpretation guidelines

New written standards and new interpretation to existing standards and guidelines that were either newly established or revised by the date the consolidated financial statements were approved would not have a significant impact on the Group's consolidated financial statements.

6 Segment Information

A. 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.

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, PLST, COMPTOIR DES COTONNIERS, PRINCESSE TAM.TAM, and J Brand clothing operations

B. Method of accounting for 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.

C. Segment information

Year ended 31 August 2019

(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	¥872,957	¥1,026,032	¥238,741	¥149,939	¥2,287,671	¥2,877	¥ —	¥2,290,548
Operating profit/(loss)	102,474	138,904	28,164	3,685	273,228	122	(15,715)	257,636
Segment income/(loss) (i.e. profit/(loss) before income taxes)	101,393	139,624	27,968	3,570	272,557	123	(20,233)	252,447
Other disclosure:								
Depreciation and amortization	10,357	19,861	5,432	2,525	38,177	11	10,287	48,476
Impairment losses (Note 3)	574	1,979	364	302	3,220	—	223	3,444

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.
3. Details on the Impairment losses are stated in note "15. Impairment losses".

Year ended 31 August 2020

(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	**¥806,887**	**¥843,937**	**¥246,091**	**¥109,633**	**¥2,006,550**	**¥2,295**	**¥ —**	**¥2,008,846**
Operating profit/(loss)	**104,686**	**50,234**	**21,835**	**(12,743)**	**164,013**	**(81)**	**(14,585)**	**149,347**
Segment income/(loss) (i.e., profit/(loss) before income taxes)	**104,648**	**50,417**	**21,581**	**(13,226)**	**163,421**	**(79)**	**(10,473)**	**152,868**
Other disclosure:								
Depreciation and amortization (Note 3)	**52,997**	**70,524**	**21,574**	**10,473**	**155,569**	**11**	**22,267**	**177,848**
Impairment losses (Note 4)	**2,413**	**15,847**	**1,305**	**3,523**	**23,090**	**13**	**(28)**	**23,074**

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.
3. Depreciation and amortization recognized due to the application of IFRS 16 mentioned in " 4. Newly applied standards and interpretation guidelines" are included in "Depreciation and amortization".
4. Details on the Impairment losses are stated in note "15. Impairment losses".

D. Geographic Information

Year ended 31 August 2019

(1) External Revenue

(Millions of yen)

Japan	PRC	Overseas (Others)	Total
¥1,152,661	¥411,542	¥726,344	¥2,290,548

(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
¥124,482	¥26,588	¥25,639	¥61,454	¥238,164

Year ended 31 August 2020

(1) External revenue

(Millions of yen)

Japan	PRC	Overseas (Others)	Total
¥1,082,243	**¥380,998**	**¥545,604**	**¥2,008,846**

(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
¥343,489	**¥42,473**	**¥82,468**	**¥149,945**	**¥618,376**

Note: The increase of non-current assets is mainly due to the application of IFRS 16 as mentioned in "4. Newly applied standards and interpretation guidelines".

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 2019	**As at 31 August 2020**
Cash and bank balances	¥ 940,519	**¥ 947,566**
Money market funds (MMF), negotiable certificates of deposits	146,000	**145,965**
Total	¥1,086,519	**¥1,093,531**

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 2019	**As at 31 August 2020**
Accounts receivable – trade	¥51,064	**¥55,195**
Notes receivable	4	**—**
Other accounts receivable	9,863	**10,919**
Lease receivable	—	**1,499**
Allowance for doubtful accounts	(533)	**(544)**
Total	¥60,398	**¥67,069**

See note “30. Financial Instruments” for credit risk management and the fair value of trade and other receivables.

The above classifications of financial assets are all financial assets measured at amortized cost.

The above Accounts receivable — trade and Notes receivable are mainly recognized as revenue at the time of delivery of the clothing because the customer is deemed to have gained control of the clothing and the performance of obligations to have been fulfilled upon delivery. The Group receives payment within a short period of time after fulfilling the performance of obligations based on separately specified payment conditions. Because the period from fulfillment of the performance obligations to receipt of consideration is normally within one year, the receivables are not adjusted as material financial elements using the convention method.

10 Inventories

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

(Millions of yen)

	As at 31 August 2019	**As at 31 August 2020**
Products	¥404,621	**¥411,563**
Materials and supplies	5,905	**5,965**
Total	¥410,526	**¥417,529**

Note: As at 31 August 2020, the Group had inventories attributable to UNIQLO Japan, UNIQLO International and GU business segments amounting to 390,569 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 2019	**Year ended 31 August 2020**
Write-down of inventories to net realizable value	¥7,215	**¥10,020**

Note: As at 31 August 2020, the Group had write-down of inventories to net realizable value from UNIQLO Japan, UNIQLO International and GU business segments amounting to 7,389 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 2019	**As at 31 August 2020**
Other financial assets:		
Financial assets measured at amortized cost		
Security deposits/guarantees	¥ 62,398	**¥ 63,639**
Bank deposits	41,086	**45,916**
Others	16,706	**7,584**
Allowance for doubtful accounts	(337)	**(850)**
Financial assets measured at fair value through other comprehensive income		
Stocks	1,645	**1,370**
Total	¥121,499	**¥117,660**
Other current financial assets total	44,473	**49,890**
Other non-current financial assets total	77,026	**67,770**

(Millions of yen)

	As at 31 August 2019	**As at 31 August 2020**
Other financial liabilities:		
Financial liabilities measured at amortized cost		
Interest-bearing bank and other borrowings (Note)	¥513,405	**¥484,496**
Deposits	144,099	**98,156**
Deposits/guarantees received	1,450	**1,428**
Total	¥658,955	**¥584,082**
Other current financial liabilities total	159,006	**213,301**
Other non-current financial liabilities total	499,948	**370,780**

Note: Interest-bearing bank and other borrowings include corporate bonds and loans payable. In addition, the amount of finance lease obligations is included in interest-bearing bank and other borrowings for the previous fiscal year. For the current fiscal year, due to the application of IFRS 16 as mentioned in “4. Newly applied standards and interpretation guidelines”, finance lease obligations which were included in Other financial liabilities are reclassified to Lease liabilities on the Consolidated statement of financial position.

The issues and fair values of financial assets measured at fair value through other comprehensive income are as follows:

(Millions of yen)

Issue (s)	As at 31 August 2019	**As at 31 August 2020**
Crystal International Group Ltd.	¥884	**¥591**
Matsuoka Corporation	587	**566**

Stocks are principally held to strengthen medium-term relationships with strategic partners, and are therefore designated as financial assets at fair value through other comprehensive income.

The Group sells off (derecognizes) equity instruments measured at fair value through other comprehensive income based on the efficient utilization of assets and reviews of business relationships. In the current consolidated fiscal year, the Group did not sell off any equity instruments measured at fair value through other comprehensive income.

Dividend income recognized in financial assets measured at fair value through other comprehensive income is as follows.

(Millions of yen)

Issue (s)	As at 31 August 2019	**As at 31 August 2020**
Derecognized financial assets	¥—	**¥—**
Financial assets held at the end of the fiscal year	23	**50**

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 2019	**As at 31 August 2020**
Other assets:		
Prepayments	¥16,036	**¥8,246**
Long-term prepayments	7,149	**2,662**
Others	4,650	**7,104**
Total	27,836	**18,013**
Current	19,975	**10,629**
Non-current	7,861	**7,383**

(Millions of yen)

	As at 31 August 2019	**As at 31 August 2020**
Other liabilities:		
Accruals	¥61,486	**¥57,338**
Employee benefits accruals	7,170	**8,146**
Others	30,728	**19,676**
Total	99,385	**85,160**
Current	82,103	**82,636**
Non-current	17,281	**2,524**

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 (Note 1)	Total
At 1 September 2018	¥252,606	¥51,765	¥1,962	¥ 9,550	¥ 49,973	¥365,858
Additions	5,935	1,364	—	40,134	12,502	59,937
Disposals	(7,319)	(1,679)	—	(425)	(7,226)	(16,650)
Transfers	25,645	9,833	—	(37,090)	1,611	—
Effect of change in exchange rate	(10,962)	(3,782)	—	(1,764)	548	(15,960)
At 31 August 2019	265,905	57,501	1,962	10,404	57,409	393,184
Effect of change in accounting policy	—	—	—	—	(57,409)	(57,409)
At 1 September 2019 (After adjustment)	265,905	57,501	1,962	10,404	—	335,774
Additions	1,886	314	—	43,784	—	45,986
Disposals	(10,896)	(2,994)	—	(160)	—	(14,051)
Transfers	33,539	7,554	—	(41,094)	—	—
Effect of change in exchange rate	2,927	465	—	286	—	3,678
At 31 August 2020	**293,362**	**62,842**	**1,962**	**13,220**	**—**	**371,388**

(Millions of yen)

Accumulated depreciation and impairment	Buildings and structures	Furniture, equipment, and vehicles	Land	Construction in progress	Leased assets (Note 1)	Total
At 1 September 2018	¥(157,933)	¥(37,622)	¥(34)	¥—	¥(15,191)	¥(210,781)
Depreciation provided during the year	(23,919)	(6,444)	—	—	(8,416)	(38,781)
Impairment losses	(2,375)	(271)	—	—	(501)	(3,148)
Disposals	6,207	1,551	—	—	5,760	13,519
Effect of change in exchange rate	6,774	2,361	—	—	(1,036)	8,099
At 31 August 2019	(171,246)	(40,425)	(34)	—	(19,385)	(231,092)
Effect of change in accounting policy	—	—	—	—	19,385	19,385
At 1 September 2019 (After adjustment)	(171,246)	(40,425)	(34)	—	—	(211,706)
Depreciation provided during the year	(22,972)	(7,392)	—	—	—	(30,365)
Impairment losses	(3,715)	(655)	—	—	—	(4,370)
Disposals	9,938	2,735	—	—	—	12,674
Effect of change in exchange rate	(1,165)	(331)	—	—	—	(1,496)
At 31 August 2020	**(189,161)**	**(46,069)**	**(34)**	**—**	**—**	**(235,265)**

(Millions of yen)

Net carrying amount	Buildings and structures	Furniture, equipment, and vehicles	Land	Construction in progress	Leased assets (Note 1)	Total
At 31 August 2019	¥ 94,659	¥17,076	¥1,927	¥10,404	¥38,024	¥162,092
At 31 August 2020	**104,201**	**16,773**	**1,927**	**13,220**	**—**	**136,123**

Notes: 1. Leased assets are transferred to right-of-use assets due to the application of IFRS 16 as mentioned in “4. Newly applied standards and interpretation guidelines”. Please refer to “17. Leases” for details of right-of-use assets.
2. The Group had store assets attributable to UNIQLO Japan, UNIQLO International and GU business segments.

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 2019	¥6,705	¥30,916	¥403	¥38,024

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

14 Goodwill and Intangible Assets

A. 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 (Note)	Total	
At 1 September 2018	¥39,740	¥ 70,741	¥21,549	¥22,174	¥114,465	¥154,206
External purchases	—	24,401	0	1,301	25,703	25,703
Disposals	—	(148)	—	(151)	(299)	(299)
Effect of change in exchange rate	(985)	(416)	(862)	(1,373)	(2,652)	(3,638)
At 31 August 2019	38,754	94,578	20,686	21,950	137,215	175,970
External purchases	—	21,349	33	1,693	23,076	23,076
Disposals	—	(626)	—	(118)	(744)	(744)
Effect of change in exchange rate	(231)	123	(202)	(412)	(491)	(723)
At 31 August 2020	**38,522**	**115,426**	**20,517**	**23,112**	**159,056**	**197,578**

(Millions of yen)

Accumulated amortization and impairment	Goodwill	Intangible assets other than goodwill				Goodwill and Intangible assets total
		Software	Trademarks	Other intangible assets (Note)	Total	
At 1 September 2018	¥(31,647)	¥(39,052)	¥(13,653)	¥(15,757)	¥(68,463)	¥(100,111)
Amortization provided during the year	—	(9,483)	—	(212)	(9,695)	(9,695)
Impairment losses	—	(239)	—	(55)	(295)	(295)
Disposals	—	15	—	117	132	132
Effect of change in exchange rate	985	109	540	572	1,222	2,208
At 31 August 2019	(30,661)	(48,649)	(13,113)	(15,335)	(77,097)	(107,759)
Amortization provided during the year	—	(13,976)	—	(49)	(14,025)	(14,025)
Impairment losses	—	(0)	(1,312)	(333)	(1,646)	(1,646)
Disposals	—	306	—	49	355	355
Effect of change in exchange rate	231	70	110	10	191	423
At 31 August 2020	**(30,429)**	**(62,249)**	**(14,315)**	**(15,658)**	**(92,222)**	**(122,652)**

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 2019	¥8,092	¥45,928	¥7,573	¥6,615	¥60,117	¥68,210
At 31 August 2020	**8,092**	**53,176**	**6,202**	**7,454**	**66,833**	**74,925**

B. 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 2019	—	—	—	8,092	—	—	—	12,854
At 31 August 2020	**—**	**—**	**—**	**8,092**	**—**	**—**	**—**	**11,985**

15 Impairment Losses

During the year ended 31 August 2020, the Group recognized impairment losses on certain store assets etc., due to reductions in profitability of the respective CGU.

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

(Millions of yen)

	Year ended 31 August 2019	**Year ended 31 August 2020**
Buildings and structures	¥2,375	**¥ 3,715**
Furniture and equipment	271	**655**
Leased assets (Notes 1, 2)	501	**—**
Subtotal impairment losses on property, plant and equipment	3,148	**4,370**
Software	239	**0**
Trademark (Note 3)	—	**1,312**
Other intangible assets	55	**333**
Subtotal impairment losses on intangible assets	295	**1,646**
Right-of-use assets	—	**17,041**
Other non-current assets (long-term prepayments)	0	**15**
Total impairment losses	3,444	**23,074**

Notes 1. Leased assets include furniture and equipment.
2. Leased assets are transferred to right-of-use assets due to the application of IFRS 16 as mentioned in "4. Newly applied standards and interpretation guidelines".
3. Impairment losses on trademark of Helmut Lang brand that is included in Theory business and J Brand are recognized by 612 million yen and 700 million yen, respectively.

The Group's impairment losses during the year ended 31 August 2020 amounted to 23,074 million yen, compared with 3,444 million yen during the year ended 31 August 2019, and are included in "other expenses" on the consolidated statement of profit or loss.

Year ended 31 August 2019

Property, plant and equipment

Out of total impairment losses amounting to 3,444 million yen, 3,148 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 CGU 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 15.9%. 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 CGUs for which impairment losses were recorded are as follows:

Operating segment	CGU	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

Year ended 31 August 2020

Property, plant and equipment and Right-of-use assets

Impairment losses amounting to 23,074 million yen, 21,411 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. With the global spread of COVID-19, the Group's performance has been adversely affected due to temporarily closing stores, etc. We measured impairment losses on the assumption that the impact of COVID-19 pandemic will continue to be felt through to the end of August 2021.

The grouping of assets is based on the smallest CGU 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 7.1%. 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 CGUs for which impairment losses were recorded are as follows:

Operating segment	CGU	Type
UNIQLO Japan	UNIQLO CO., LTD. stores	Buildings, structures and right-of-use assets
UNIQLO International	UNIQLO USA, FRL Korea Co., Ltd. etc., stores	Buildings, structures and right-of-use assets
GU	G.U. CO., LTD., FRL Korea Co., Ltd. etc., stores	Buildings, structures and right-of-use assets
Global Brands	Theory LLC.,COMPTOIR DES COTONNIERS S.A.S., etc., stores	Buildings, structures and right-of-use assets

Note: The total of tangible assets and right-of-use assets associated with domestic UNIQLO stores, overseas UNIQLO stores, and GU stores for the fiscal year ended August 2020 are 120,354 million yen, 196,793 million yen, and 39,752 million yen, respectively.

16 Investments in Associates Accounted for Using the Equity Method

A. 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 2019	**Year ended 31 August 2020**
Share of profit and loss of associates accounted for using the equity method	¥ 562	**¥ 321**
Share of other comprehensive income of investments in associates accounted for using the equity method	(11)	**(39)**
Share of comprehensive income of investments in associates accounted for using the equity method	551	**281**
Carrying amount of investments in associates	14,587	**14,221**

B. 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," which amounted to 13,138 million yen. The Group's share of profit and comprehensive income of the associates was 486 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 69,872 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 619 million yen from the associates during the year ended 31 August 2020.

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

17 Leases

Year ended 31 August 2019

(1) Finance Lease Obligations

The breakdown of finance lease obligations is as follows:

(Millions of yen)

	Year ended 31 August 2019	
	Future minimum lease payments	Present value of future minimum lease payments
Finance lease obligations		
Due within one year	¥ 9,824	¥ 9,411
Due after one year through five years	25,394	24,698
Due after five years	4,847	4,615
Total	40,066	38,726
Deductions - future finance costs	(1,340)	—
Total net finance lease payables	38,726	38,726
Current portion	—	9,411
Non-current portion	—	29,314

The Group has no sublease contracts, accrued variable lease payments 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.).

(2) Operating Lease Commitments

(a) 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 2019
Due within one year	¥ 83,877
Due after one year through five years	155,022
Due after five years	105,988
Total	344,888

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

(Millions of yen)

	As at 31 August 2019
Total minimum lease payments	¥119,059
Variable lease payments	78,780
Total	197,840

Variable lease payments, 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.).

(b) 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 2019
Due within one year	¥ 162
Due after one year through five years	739
Due after five years	395
Total	1,298

The total of variable lease payments recorded as revenue during each reporting period is as follows:

(Millions of yen)

	As at 31 August 2019
Variable lease payments	¥1,042

Year ended 31 August 2020

(1) Lessee

As a lessee, the Group mainly leases real estate for store use (land, buildings and structures).

(a) Lease liabilities

(Millions of yen)

	Year ended 31 August 2020	
	Remaining lease payments	Present value of remaining lease payments
Lease liabilities		
Due within one year	**¥115,222**	**¥114,652**
Due after one year through two years	**85,370**	**83,993**
Due after two years through three years	**60,865**	**59,130**
Due after three years through four years	**49,846**	**47,954**
Due after four years through five years	**38,523**	**36,724**
Due after five years	**130,932**	**123,722**
Total	**480,761**	**466,179**

Interest expenses on lease liabilities

(Millions of yen)

	Year ended 31 August 2020
Interest expenses on lease liabilities	**¥4,763**

Cash outflow for leases

Cash outflow for leases in the current fiscal year is as follows:

(Millions of yen)

	Year ended 31 August 2020
Total Cash outflow for leases	**¥200,483**

(b) Right-of-use assets

A breakdown of right-of-use assets as at 31 August 2020 is as follows:

(Millions of yen)

	Real estates	Furniture, equipment, and vehicles	Total
At 1 September 2019	¥ 330,860	¥ 44,681	¥ 375,541
Additions due to new lease contracts, reassessment of lease liabilities, etc.	164,901	13,049	177,950
Depreciation	(120,862)	(12,594)	(133,457)
Impairment losses	(16,766)	(274)	(17,041)
Expiration, cancellation, etc.	(2,034)	(1,084)	(3,118)
Others	442	(372)	69
At 31 August 2020	**356,539**	**43,404**	**399,944**

Note: The total amount of right-of-use assets of the Company, UNIQLO Japan and GU Japan is 226,257 million yen in terms of real estate as at 31 August 2020. The corresponding lease liabilities are 244,290 million yen.

(c) Expenses relating to Leases

A breakdown of expenses relating to Leases for the fiscal year ended 31 August 2020 is as follows:

(Millions of yen)

	Year ended 31 August 2020
Expenses relating to variable lease payments not included in the measurement of lease liability	**¥49,418**
Expenses relating to short-term leases (excluding expenses relating to leases with lease term of no more than one month)	**3,261**
Expenses relating to leases of low value assets (excluding expenses relating to short-term leases)	**33**

Note: Variable lease payments that mainly relating to store opening contracts depend on sales amounts.

(d) Others

The future cash outflows to which the lessee is potentially exposed that are not yet commenced to which the lessee is committed is 11,071 million yen.

The Group's leased properties are granted a termination option for the purposes of flexible decision-making regarding store closures. This is mainly in relation to store lease agreements, most of which have the option of early termination provided that written notice is given to the other party six months in advance. In light of the possibility for the termination option to be exercised, the lease term is determined by setting a non-cancellable lease term as a minimum and taking a target period for return on investment for each segment into consideration. We continually review this assessment, should any event arise that would impact this assessment, as well as any occurrence or situation that would cause significant changes.

(2) Lessor

The Group subleases some real estate as part of promoting its store-opening strategy. The Group receives security deposits from lessee to collateralize risks such as non-restitution of defaults on lease payments liabilities and non-implementation of asset retirement obligation.

(a) Finance leases

The Group acts as a lessor under a finance lease, primarily for the subletting of road-side stores.

(i) Analysis of changes of lease receivables

An analysis of changes in lease receivables in relation to finance leases is as follows;

(Millions of yen)

	As at 31 August 2020
At 31 August 2019	¥ 4,824
Increases due to finance lease contracts	1,943
Decreases due to repayments	(2,294)
Others	15
At 31 August 2020	**4,474**

(ii) Maturity analysis of the lease payments receivables to be reconciled to the net investment in the lease

A maturity analysis of lease payments in relation to finance leases is as follows;

(Millions of yen)

	Year ended 31 August 2020
Undiscounted lease payments to be received	
Due within one year	¥1,499
Due after one year through two years	1,034
Due after two years through three years	792
Due after three years through four years	502
Due after four years through five years	370
Due after five years	345
Total	4,545
Unearned finance income	71
Net investment in the lease	4,474

(iii) Amount pertaining to lease receivables recognized in the Consolidated statement of profit or los

(Millions of yen)

	Year ended 31 August 2020
Finance income from net investment in the lease	¥37

(b) Operating leases

The Group subleases property to its tenants under operating leases for each commercial establishment it operates.

(i) Lease income

A breakdown of income on operating leases is as follows;

(Millions of yen)

	Year ended 31 August 2020
Income on variable lease payments	¥ 120
Income on fixed lease payments	1,030

(ii) Maturity analysis of lease payments to be received

A maturity analysis of lease payments to be received in relation to operating leases is as follows;

(Millions of yen)

	Year ended 31 August 2020
Undiscounted lease payments to be received	
Due within one year	¥1,009
Due after one year through two years	1,008
Due after two years through three years	533
Due after three years through four years	205
Due after four years through five years	205
Due after five years	530
Total	3,492

18 Deferred Taxes and Income Taxes

A. 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 2018	Recognized in profit or loss (Note)	Recognized in other comprehensive income	Recognized directly in equity	As at 31 August 2019
Temporary differences					
Accrued business tax	¥ 1,942	¥ (122)	¥ —	¥ —	¥ 1,819
Accrued for bonuses	4,247	395	—	—	4,642
Allowance for doubtful accounts	130	41	—	—	172
Impairment losses on non-current assets	4,165	(301)	—	—	3,864
Unrealized gains/(losses) on available-for-sale securities	(91)	—	277	—	186
Depreciation	8,120	(717)	—		7,402
Net gains/(losses) on revaluation of cash flow hedges	(7,849)	—	(1,877)	7,837	(1,889)
Temporary differences on shares of subsidiaries	(1,893)	—	—	—	(1,893)
Accelerated depreciation	(4,206)	125	—	—	(4,081)
Others	5,143	4,918	—	—	10,061
Subtotal	9,708	4,338	(1,600)	7,837	20,283
Tax losses carried forward	3,666	390	—		4,056
Net deferred tax assets / (liabilities)	13,374	4,728	(1,600)	7,837	24,340

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 31 August 2019	Effect of adoption of IFRS 16	As at 1 September 2019	Recognized in profit or loss (Note)	Recognized in other comprehensive income	Recognized directly in equity	**As at 31 August 2020**
Temporary differences							
Accrued business tax	¥ 1,819	¥ —	¥ 1,819	¥ (334)	¥ —	¥ —	**¥ 1,484**
Accrued for bonuses	4,642	—	4,642	(659)	—	—	**3,982**
Allowance for doubtful accounts	172	—	172	(166)	—	—	**5**
Impairment losses on non-current assets	3,864	—	3,864	(1,944)	—	—	**1,919**
Unrealized gains/(losses) on available-for-sale securities	186	—	186	—	(355)	—	**(169)**
Depreciation	7,402	—	7,402	238	—	—	**7,640**
Net gains/(losses) on revaluation of cash flow hedges	(1,889)	—	(1,889)	—	(6,899)	3,383	**(5,405)**
Temporary differences on shares of subsidiaries	(1,893)	—	(1,893)	—	—	—	**(1,893)**
Accelerated depreciation	(4,081)	—	(4,081)	4,081	—	—	**—**
Right-of-use assets/ Lease liabilities	—	13,988	13,988	(3,117)	—	—	**10,870**
Others	10,061	—	10,061	4,140	—	—	**14,202**
Subtotal	20,283	13,988	34,272	2,236	(7,255)	3,383	**32,636**
Tax losses carried forward	4,056	—	4,056	993	—	—	**5,049**
Net deferred tax assets/(liabilities)	24,340	13,988	38,329	3,229	(7,255)	3,383	**37,686**

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 2019	**As at 31 August 2020**
Unrecognized tax losses carried forward	¥17,486	**¥32,071**
Deductible temporary differences	12,236	**11,574**
Total	29,723	**43,646**

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 2019	**As at 31 August 2020**
First year	¥ 149	**¥ 340**
Second year	251	**239**
Third year	139	**608**
Fourth year	333	**333**
Fifth year and thereafter	16,612	**30,549**
Total	17,486	**32,071**

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 2019 and 31 August 2020 were 392,264 million yen and 427,747 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.

B. Income taxes

(Millions of yen)

	Year ended 31 August 2019	**Year ended 31 August 2020**
Current tax	¥80,666	**¥68,263**
Deferred tax	(6,265)	**(5,793)**
Total	74,400	**62,470**

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 2019	**Year ended 31 August 2020**
Statutory income tax rate	30.6 %	**30.6 %**
Unrecognized deferred tax assets	1.2 %	**9.1 %**
Difference in statutory income tax rates of subsidiaries	(4.5)%	**(2.5) %**
Undistributed earnings of foreign subsidiaries	(0.2)%	**0.9 %**
Foreign withholding tax	1.9 %	**3.8 %**
Inhabitant tax on per capita basis	0.1 %	**0.2 %**
Others	0.4 %	**(1.2)%**
Effective tax rate	29.5 %	**40.9 %**

19 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 2019	**As at 31 August 2020**
Trade payables	¥127,194	**¥150,749**
Notes payables	18	**12**
Other payables	64,556	**59,984**
Total	191,769	**210,747**

20 Provisions

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

(Millions of yen)

	As at 31 August 2019	**As at 31 August 2020**
Asset retirement obligations	¥33,814	**¥33,410**
Total	33,814	**33,410**
Current liabilities	13,340	**752**
Non-current liabilities	20,474	**32,658**

The primarily factors for the increase/(decrease) in provision are as follows:

(Millions of yen)

	Asset retirement obligations
Balances as at 31 August 2019	¥33,814
Additional provisions	2,721
Amounts utilized	(1,982)
Increase in discounted amounts arising from passage of time	153
Others	(1,296)
Balances as at 31 August 2020	**33,410**

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

21 Equity and Other Equity Items

A. 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 2018	300,000,000	106,073,656	102,019,784	¥10,273	¥18,275
Increase/(decrease) (Note)	—	—	41,951	—	2,328
Balances as at 31 August 2019	300,000,000	106,073,656	102,061,735	10,273	20,603
Increase/(decrease) (Note)	—	—	38,808	—	2,761
Balances as at 31 August 2020	**300,000,000**	**106,073,656**	**102,100,543**	**10,273**	**23,365**

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.

B. Treasury Stock and Capital Surplus

(1) Treasury Stock

	Number of shares (Shares)	Amount (Millions of yen)
Balances as at 1 September 2018	4,053,872	¥15,429
Acquisition of treasury stock less than one unit	40	2
Exercise of stock options	(41,991)	(159)
Balances as at 31 August 2019	4,011,921	15,271
Acquisition of treasury stock less than one unit	83	5
Exercise of stock options	(38,891)	(148)
Balances as at 31 August 2020	**3,973,113**	**15,129**

(2) Capital surplus

(Millions of yen)

	Capital reserve	Gain/(loss) on disposal of treasury stock	Stock options	Others	Total
Balances as at 1 September 2018	¥4,578	4,924	¥5,211	¥3,559	¥18,275
Disposal of treasury stock	—	1,558	—	—	1,558
Share-based payments	—	—	769	—	769
Balances as at 31 August 2019	4,578	6,483	5,981	3,559	20,603
Disposal of treasury stock	—	1,496	—	—	1,496
Share-based payments	—	—	1,265	—	1,265
Balances as at 31 August 2020	**4,578**	**7,980**	**7,246**	**3,559**	**23,365**

Please refer to “29. Share-based Payments” for details of share-based payments (stock options).

C. 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 2019	**Year ended 31 August 2020**
Exchange differences on translation of foreign operations	¥(4,289)	**¥ (212)**
Cash flow hedges	2,970	**(877)**
Other comprehensive income	(1,318)	**(1,089)**

D. 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 2019

Resolutions	Amount of dividends (Millions of yen)	Dividends per share (Yen)
Board of Directors’ meeting held on 2 November 2018	¥24,484	240
Board of Directors’ meeting held on 11 April 2019	24,492	240

Year ended 31 August 2020

Resolutions	Amount of dividends (Millions of yen)	Dividends per share (Yen)
Board of Directors’ meeting held on 5 November 2019	**¥24,494**	**240**
Board of Directors’ meeting held on 9 April 2020	**24,499**	**240**

Dividend which effective date is after fiscal 2020 is as follow:

Resolutions	Amount of dividends (Millions of yen)	Dividends per share (Yen)
Board of Directors’ meeting held on 4 November 2020	**¥24,504**	**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.

22 Revenue

A. The breakdown of revenue for each year is as follows:

The Group performs global retail clothing operations through both physical stores and e-commerce channels. The following is a breakdown of total revenue by major regional market operation.

Year ended 31 August 2019

(Millions of yen)

	Revenue (Millions of yen)	Percent of Total (%)
Japan	¥ 872,957	38.1
Greater China	502,565	21.9
Other parts of Asia & Oceania	306,510	13.4
North America & Europe	216,956	9.5
UNIQLO (Note 1)	1,898,990	82.9
GU (Note 2)	238,741	10.4
Global Brands (Note 3)	149,939	6.5
Others (Note 4)	2,877	0.1
Total	¥2,290,548	100.0

Notes 1. Revenue is classified by nation or region based on customer location. The designated countries and regions are classified as follows:
Greater China: Mainland China, Hong Kong, Taiwan
Other parts of Asia & Oceania: South Korea, Singapore, Malaysia, Thailand, the Philippines, Indonesia, Australia
North America & Europe: United States of America, Canada, United Kingdom, France, Russia, Germany, Belgium, Spain, Sweden, the Netherlands, Denmark
2. Main national and regional market: Japan
3. Main national and regional markets: North America, Europe, Japan
4. The "Others" category includes real estate leasing operations.

Year ended 31 August 2020

(Millions of yen)

	Revenue (Millions of yen)	Percent of Total (%)
Japan	**¥ 806,887**	**40.2**
Greater China	**455,986**	**22.7**
Other parts of Asia & Oceania	**204,537**	**10.2**
North America & Europe	**183,412**	**9.1**
UNIQLO (Note 1)	**1,650,825**	**82.2**
GU (Note 2)	**246,091**	**12.3**
Global Brands (Note 3)	**109,633**	**5.5**
Others (Note 4)	**2,295**	**0.1**
Total	**¥2,008,846**	**100.0**

Notes 1. Revenue is classified by nation or region based on customer location. The designated countries and regions are classified as follows:
Greater China: Mainland China, Hong Kong, Taiwan
Other parts of Asia & Oceania: South Korea, Singapore, Malaysia, Thailand, the Philippines, Indonesia, Australia, Vietnam, India
North America & Europe: United States of America, Canada, United Kingdom, France, Russia, Germany, Belgium, Spain, Sweden, the Netherlands, Denmark, Italy
2. Main national and regional market: Japan
3. Main national and regional markets: North America, Europe, Japan
4. The "Others" category includes real estate leasing operations.

B. Liabilities arising from contracts with customers are as stated below.

(Millions of yen)

	End of current consolidated fiscal year (31 August 2019)	**End of current consolidated fiscal year (31 August 2020)**
Contractual liabilities		
Advances received from customers	¥ 598	**¥1,391**
Refund liabilities	1,026	**1,445**

Consideration for anticipated refunds to customers is reasonably estimated and recognized as a refund liability.

In the consolidated statement of financial position, liabilities pertaining to advances received and refunds from customers are included in "Other current liabilities."

C. Transaction prices allocated to existing performance obligations

In the Group, there are no significant transactions for which the individual forecast contract period exceeds one year.

Therefore, the practical short-cut method is used, and information related to remaining performance obligations is omitted.

Furthermore, in the consideration arising from contracts with customers, there are no significant monetary amounts that are not included in the transaction price.

D. Assets recognized from costs for acquiring or performing contracts with customers

In the Group, there are no assets recognized from costs for acquiring or performing contracts with customers.

23 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 2019	**Year ended 31 August 2020**
Selling, general and administrative expenses		
Advertising and promotion	¥ 74,436	**¥ 68,307**
Lease expenses	197,840	**53,617**
Depreciation and amortization	48,476	**177,848**
Outsourcing	46,197	**49,686**
Salaries	301,456	**277,556**
Distribution	93,702	**94,018**
Others	92,284	**84,787**
Total	854,394	**805,821**

Note: The decrease of Lease expenses and the increase of Depreciation and amortization are mainly due to the application of IFRS 16 as mentioned in "4. Newly applied standards and interpretation guidelines".

24 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 2019	**Year ended 31 August 2020**
Other income		
Foreign exchange gains (Note)	¥ —	**¥1,576**
Others	4,533	**6,378**
Total	4,533	**7,954**

(Millions of yen)

	Year ended 31 August 2019	**Year ended 31 August 2020**
Other expenses		
Foreign exchange losses (Note)	¥ 6,020	**¥ —**
Losses on retirement of property, plant and equipment	650	**1,125**
Impairment losses	3,444	**23,074**
Others	2,510	**4,752**
Total	12,626	**28,952**

Note: Currency adjustments incurred in the course of operating transactions are included in “other income” or “other expenses”.

25 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 2019	**Year ended 31 August 2020**
Finance income		
Foreign exchange gains (Note)	¥ —	**¥ 1,576**
Interest income	12,202	**9,673**
Others	90	**50**
Total	12,293	**11,228**

(Millions of yen)

	Year ended 31 August 2019	**Year ended 31 August 2020**
Finance costs		
Foreign exchange losses (Note)	¥13,107	**¥ —**
Interest expenses	4,369	**7,706**
Others	4	**1**
Total	17,481	**7,707**

Note: Currency adjustments incurred in the course of non-operating transactions are included in “finance costs.”

26 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 2019

(Millions of yen)

	Amount recorded during the year	Reclassification adjustment	Amount before income tax	Income tax effect	Amount after income tax
Items that will not be reclassified subsequently to profit or loss					
Financial assets measured at fair value through other comprehensive income/(loss)	¥ (1,012)	¥ —	¥ (1,012)	¥ 277	¥ (734)
Total	(1,012)	—	(1,012)	277	(734)
Items that will be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(33,649)	—	(33,649)	—	(33,649)
Cash flow hedges	15,146	—	15,146	(3,748)	11,398
Share of other comprehensive income of associates	(11)	—	(11)	—	(11)
Total	(18,513)	—	(18,513)	(3,748)	(22,262)
Total comprehensive income for the year	(19,525)	—	(19,525)	(3,471)	(22,997)

Year ended 31 August 2020

(Millions of yen)

	Amount recorded during the year	Reclassification adjustment	Amount before income tax	Income tax effect	Amount after income tax
Items that will not be reclassified subsequently to profit or loss					
Financial assets measured at fair value through other comprehensive income/(loss)	¥ (275)	¥ —	¥ (275)	¥ (355)	¥ (630)
Total	(275)	—	(275)	(355)	(630)
Items that will be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	5,227	—	5,227	—	5,227
Cash flow hedges	26,185	(5,155)	21,029	(6,899)	14,130
Share of other comprehensive income of associates	(39)	—	(39)	—	(39)
Total	31,373	(5,155)	26,217	(6,899)	19,318
Total comprehensive income for the year	31,098	(5,155)	25,942	(7,255)	18,687

Note: The cash flow hedge reclassification adjustment of (5,155) million yen is the amount transferred to net gains and losses after hedge accounting was suspended, as a forecast transaction eligible for hedge accounting was no longer expected to occur.
There is no transfer amount for the previous consolidated fiscal year.

27 Earnings per Share

(Yen)

Year ended 31 August 2019		**Year ended 31 August 2020**	
Equity per share attributable to owners of the Parent (Yen)	¥9,196.61	Equity per share attributable to owners of the Parent (Yen)	**¥9,368.83**
Basic earnings per share for the year (Yen)	1,593.20	Basic earnings per share for the year (Yen)	**885.15**
Diluted earnings per share for the year (Yen)	1,590.55	Diluted earnings per share for the year (Yen)	**883.62**

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 2019	**Year ended 31 August 2020**
Basic earnings per share for the year		
Profit for the year attributable to owners of the Parent (Millions of yen)	¥ 162,578	**¥ 90,357**
Profit not attributable to common shareholders (Millions of yen)	—	**—**
Profit attributable to common shareholders (Millions of yen)	162,578	**90,357**
Average number of common stock during the year (Shares)	102,045,645	**102,081,609**
Diluted earnings per share for the year		
Adjustment to profit (Millions of yen)	—	**—**
Increase in number of common stock (Shares)	169,956	**177,082**
(share subscription rights)	(169,956)	**(177,082)**

28 Cash Flow Information

A. Liabilities of financing activities

Liabilities of financing activities are as follows:

Year ended 31 August 2019

(Millions of yen)

	Balances as at 31 August 2018	Variation with cash flow	Variation without cash flow		Balances as at 31 August 2019
			Foreign currency translation reserve	Others	
Short-term borrowings	¥ 954	¥ 355	¥ (73)	¥ —	¥ 1,236
Long-term borrowings	8,884	(4,433)	(192)	—	4,258
Corporate bonds	499,020	(30,000)	—	163	469,183
Finance lease obligations	35,643	(11,377)	(192)	14,653	38,726
Total	544,502	(45,455)	(458)	14,816	513,405

Note: 30,000 million yen in 1st non-collateralized corporate bonds (interest rate: 0.110%; date of maturity: 18 December 2018) have been redeemed.

Year ended 31 August 2020

(Millions of yen)

	Balances as at 31 August 2019	Adjustment for adoption of IFRS16	Balances as at 1 September 2019	Variation with cash flow	Variation without cash flow			Balances as at 31 August 2020
					Foreign currency translation reserve	New lease contracts	Others	
Short-term borrowings	¥ 1,236	¥ —	¥ 1,236	¥ 13,472	¥ 445	¥ —	¥ —	¥ 15,154
Long-term borrowings	4,258	—	4,258	(4,343)	84	—	—	—
Corporate bonds	469,183	—	469,183	—	—	—	158	469,342
Finance lease obligations (Note)	38,726	(38,726)	—	—	—	—	—	—
Lease liabilities (Note)	—	428,631	428,631	(141,216)	2,806	177,451	(1,493)	466,179
Total	513,405	389,904	903,309	(132,087)	3,336	177,451	(1,334)	950,675

Note: Finance lease obligations have been reclassified to Lease liabilities due to the application of IFRS 16 as mentioned in “4. Newly applied standards and interpretation guideline.”

B. Important non-cash transactions

Year ended 31 August 2019

There are no important non-cash transactions.

Year ended 31 August 2020

Due to the application of IFRS 16, the amount of increase in right-of-use assets is listed in “17. Leases.”

C. Information on corporate bonds as at 31 August 2019 and 2020 is as follows:

(Millions of yen)

Company name	Name of bonds	Date of issuance	As at 31 August 2019	As at 31 August 2020	Interest rate (%)	Date of maturity
FAST RETAILING CO., LTD.	2nd non-collateralized corporate bonds	18 December 2015	99,949	99,989	0.291	18 December 2020
FAST RETAILING CO., LTD.	3rd non-collateralized corporate bonds	18 December 2015	49,939	49,957	0.491	16 December 2022
FAST RETAILING CO., LTD.	4th non-collateralized corporate bonds	18 December 2015	69,875	69,895	0.749	18 December 2025
FAST RETAILING CO., LTD.	5th non-collateralized corporate bonds	6 June 2018	79,877	79,910	0.11	6 June 2023
FAST RETAILING CO., LTD.	6th non-collateralized corporate bonds	6 June 2018	29,931	29,943	0.22	6 June 2025
FAST RETAILING CO., LTD.	7th non-collateralized corporate bonds	6 June 2018	99,758	99,786	0.405	6 June 2028
FAST RETAILING CO., LTD.	8th non-collateralized corporate bonds	6 June 2018	39,851	39,859	0.88	4 June 2038
Total	—	—	469,183	469,342	—	—

29 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.

A. Details, scale, and changes in stock options

(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	9th share subscription rights A type
Category and number of grantees	Employees of the Company: 29	Employees of the Company: 17 Employees of Group subsidiaries: 32
Number of stock options by type of shares (Note)	Common stock: maximum 5,929 shares	Common stock: maximum 4,057 shares
Grant date	10 November 2017	9 November 2018
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 November 2018) after the grant date (8 November 2021)
Eligible service period	From 10 November 2017 to 9 November 2020	From 9 November 2018 to 8 November 2021
Exercise period	10 November 2020	From 9 November 2021 to 8 November 2028
Settlement	Equity settlement	Equity settlement

	9th share subscription rights B type	9th share subscription rights C type
Category and number of grantees	Employees of the Company: 419 Employees of Group subsidiaries: 1,267	Employees of the Company: 40
Number of stock options by type of shares (Note)	Common stock: maximum 36,275 shares	Common stock: maximum 4,733 shares
Grant date	9 November 2018	9 November 2018
Vesting conditions	To serve continuously until the vesting date (9 November 2018) after the grant date (8 December 2018)	To serve continuously until the vesting date (9 November 2018) after the grant date (8 November 2021)
Eligible service period	From 9 November 2018 to 8 December 2018	From 9 November 2018 to 8 November 2021
Exercise period	From 9 December 2018 to 9 November 2028	9 November 2021
Settlement	Equity settlement	Equity settlement

	10th share subscription rights A type	10th share subscription rights B type
Category and number of grantees	Employees of the Company: 11 Employees of Group subsidiaries: 46	Employees of the Company: 528 Employees of Group subsidiaries: 1,389
Number of stock options by type of shares (Note)	Common stock: maximum 3,548 shares	Common stock: maximum 37,424 shares
Grant date	8 November 2019	8 November 2019
Vesting conditions	To serve continuously until the vesting date (7 November 2022) after the grant date (8 November 2019)	To serve continuously until the vesting date (7 December 2019) after the grant date (8 November 2019)
Eligible service period	From 8 November 2019 to 7 November 2022	From 8 November 2019 to 7 December 2019
Exercise period	From 8 November 2022 to 7 November 2029	From 8 December 2019 to 7 November 2029
Settlement	Equity settlement	Equity settlement

	10th share subscription rights C type
Category and number of grantees	Employees of the Company: 40
Number of stock options by type of shares (Note)	Common stock: maximum 3,666 shares
Grant date	8 November 2019
Vesting conditions	To serve continuously until the vesting date (7 November 2022) after the grant date (8 November 2019)
Eligible service period	From 8 November 2019 to 7 November 2022
Exercise period	8 November 2022
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 2019	**Year ended 31 August 2020**
Expenses recognized		
Share-based payments	¥2,504	**¥2,915**

(2) Scale of stock options program and changes

Outstanding balance of stock options as at 31 August 2020 are converted into equivalent number of shares.

(a) Number and weighted average exercise prices of stock options

Stock options

(Shares)

	Number of shares	
	Year ended 31 August 2019	**Year ended 31 August 2020**
Non-vested		
Non-vested at beginning of the year	26,455	**25,518**
Granted	45,065	**44,638**
Forfeited	(2,031)	**(1,196)**
Vested	(43,971)	**(44,399)**
Non-vested at end of the year	25,518	**24,561**

(Shares)

	Number of shares	
	Year ended 31 August 2019	**Year ended 31 August 2020**
Vested		
Outstanding at beginning of the year	142,483	**143,233**
Vested	43,971	**44,399**
Exercised	(41,991)	**(38,891)**
Forfeited	(1,230)	**(291)**
Outstanding at end of the year	143,233	**148,450**

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

(b) Stock price on exercise date

Stock options exercised during the year ended 31 August 2020 are as follows:

(Shares) (Yen)

Type	Number of shares	Weighted-average stock price on exercise date
Stock options	38,891	¥59,244

(c) Expected life of stock options

The weighted-average expected life of outstanding stock options as at 31 August 2020 was 5.80 years.

In addition, the weighted-average expected life of outstanding stock options as at 31 August 2019 was 5.83 years.

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

The methods of estimating fair value of 10th share subscription rights A type, B type, and C type granted during the year ended 31 August 2020, were as follows:

(1) Valuation model: Black-Scholes model

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

	10th share subscription rights A type	10th share subscription rights B type	10th share subscription rights C type
Fair value	66,058 yen	66,732 yen	67,684 yen
Share price	69,110 yen	69,110 yen	69,110 yen
Exercise price	1 yen	1 yen	1 yen
Stock price volatility (Note 1)	33%	34%	27%
Expected life of options (Note 2)	6.5 years	5.04 years	3 years
Expected dividends (Note 3)	480 yen/share	480 yen/share	480 yen/share
Risk-free interest rate (Note 4)	(0.2105%)	(0.21692%)	(0.203%)

Notes: 1. Stock price volatility is computed based on the actual results of 6.5 years for A type (from June 2013 to November 2019), 5.04 years for B type (from December 2014 to November 2019), and 3.0 years for C type (from December 2016 to November 2019).
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.
5. The variables and assumptions used in computing the fair value of the share options are based on the Group's best estimate. The value of an option varies with different variables of certain subjective assumptions.

Also, the method of estimating fair value for the '9th share subscription rights A type, B type, and C type granted during the year ended 31 August 2019 is as follows:

(1) Valuation model: Black-Scholes model

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

	9th share subscription rights A type	9th share subscription rights B type	9th share subscription rights C type
Fair value	58,275 yen	58,891 yen	59,763 yen
Share price	61,070 yen	61,070 yen	61,070 yen
Exercise price	1 yen	1 yen	1 yen
Stock price volatility (Note 1)	34%	34%	36%
Expected life of options (Note 2)	6.5 years	5.04 years	3 years
Expected dividends (Note 3)	440 yen/share	440 yen/share	440 yen/share
Risk-free interest rate (Note 4)	(0.04%)	(0.075%)	(0.11%)

Notes: 1. Stock price volatility is computed based on the actual results of 6.5 years for A type (from June 2012 to November 2018), 5.04 years for B type (from December 2013 to November 2018), and 3.0 years for C type (from December 2015 to November 2018).
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.
5. The variables and assumptions used in computing the fair value of the share options are based on the Group's best estimate. The value of an option varies with different variables of certain subjective assumptions.

C. 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.

30 Financial Instruments

A. 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 borrowings to equity is as follows:

(Millions of yen)

	As at 31 August 2019	**As at 31 August 2020**
Interest-bearing borrowings	¥ 513,405	**¥ 484,496**
Lease liabilities	—	**466,179**
Cash and cash equivalents	1,086,519	**1,093,531**
Net interest-bearing borrowings	(573,114)	**(142,856)**
Equity	983,534	**996,079**

Interest-bearing borrowings includes corporate bonds and borrowings. The amount of finance lease obligations was included in interest-bearing borrowings for the previous fiscal year. For the current fiscal year, finance lease obligations are included in and shown as lease liabilities due to the application of IFRS 16. As at 31 August 2019 and 2020, the Group maintained a position where the carrying amount of cash and cash equivalents exceeded the total amounts of interest-bearing borrowings and lease liabilities.

As at 31 August 2020, the Group is not subject to any externally imposed capital requirement.

B. 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.

C. Categories of financial instruments

(Millions of yen)

	As at 31 August 2019	**As at 31 August 2020**
Financial assets		
Loans and receivables		
Trade and other receivables	¥ 60,398	**¥ 67,069**
Other current financial assets	44,473	**49,890**
Other non-current financial assets	75,380	**66,399**
Financial assets measured at fair value through profit or loss	—	**—**
Financial assets measured at fair value through other comprehensive income/(loss)	1,645	**1,370**
Derivatives		
Financial assets measured at fair value through profit or loss	—	**1,619**
Financial assets designated as hedging instruments	24,230	**23,778**
Financial liabilities		
Financial liabilities at amortized cost		
Trade and other payables	191,769	**210,747**
Other current financial liabilities	159,006	**213,301**
Current lease liabilities	—	**114,652**
Non-current financial liabilities	499,948	**370,780**
Non-current lease liabilities	—	**351,526**
Derivatives		
Financial liabilities measured at fair value through profit or loss	—	**69**
Financial liabilities designated as hedging instruments	6,824	**5,899**

At the end of the previous fiscal year, finance lease obligations are included in other current financial liabilities and non-current financial liabilities. For the current fiscal year, finance lease obligations are included in and shown as lease liabilities in the Statement of Financial Position.

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."

D. 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.

E. 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

(a) 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, for foreign currency exchange fluctuation risk by currency and on a monthly basis, the Group in principle hedges risk by using foreign currency forward contracts.

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 enters into derivative transactions only with financial institutions evaluated as highly creditworthy by rating agencies to mitigate the counterparty risk.

The Group’s notional amount of foreign currency forward contracts was 1,202,039 million yen as at 31 August 2020.

(b) Foreign currency sensitivity analysis

With respect to companies that use yen as the functional currency in each reporting period, 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 before income taxes and other comprehensive income (before tax effects).

However, this analysis assumes that over variable factors are constant. Furthermore, this does not include the effect of conversion of financial instruments denominated the functional currencies, and revenue, expenses, assets, and liabilities of overseas sales entities into presentation currency.

	Year ended 31 August 2019	**Year ended 31 August 2020**
Average exchange rate (Yen)		
USD	110.83	**108.04**
EUR	126.09	**120.06**
Impact on profit before income taxes (Millions of yen)		
USD	(3,189)	**(3,853)**
EUR	(224)	**(239)**
Impact on other comprehensive income (Millions of yen)		
USD	(10,862)	**(10,316)**
EUR	(96)	**(127)**

(c) 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.

The monetary value of ineffective hedges is immaterial.

The details of foreign currency forward contract are as follows:

(i) Derivative transactions to 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 2019	**31 August 2020**	31 August 2019	**31 August 2020**	31 August 2019	**31 August 2020**	31 August 2019	**31 August 2020**
Foreign currency forward contracts								
Over 1 year								
Buy USD (sell KRW)	— (KRW/$)	**1,137.61 (KRW/$)**	—	**20**	—	**2,071**	—	**83**
Buy KRW (sell USD)	— ($/KRW)	**0 ($/KRW)**	—	**24,663**	—	**2,151**	—	**44**
Within 1 year								
Buy USD (sell EUR)	— (EUR/$)	**0.85 (EUR/$)**	—	**8**	—	**855**	—	**(19)**
Buy USD (sell GBP)	— (£/$)	**0.77 (£/$)**	—	**15**	—	**1,447**	—	**(38)**
Buy USD (sell KRW)	— (KRW/$)	**1,124.35 (KRW/$)**	—	**154**	—	**15,463**	—	**830**
Buy USD (sell TWD)	— (TWD/$)	**29.41 (TWD/$)**	—	**21**	—	**2,249**	—	**7**
Buy USD (sell HKD)	— (HKD/$)	**7.84 (HKD/$)**	—	**7**	—	**789**	—	**(9)**
Buy EUR (sell USD)	— ($/EUR)	**1.14 ($/EUR)**	—	**7**	—	**843**	—	**45**
Buy GBP (sell USD)	— ($/£)	**1.26 ($/£)**	—	**11**	—	**1,475**	—	**83**
Buy KRW (sell USD)	— ($/KRW)	**0 ($/KRW)**	—	**188,516**	—	**16,249**	—	**519**
Buy HKD (sell USD)	— ($/HKD)	**0.13 ($/HKD)**	—	**57**	—	**779**	—	**1**

(ii) Derivative transactions to 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 2019	**31 August 2020**	31 August 2019	**31 August 2020**	31 August 2019	**31 August 2020**	31 August 2019	**31 August 2020**
Foreign currency forward contracts								
Over 1 year								
Buy USD (sell JPY)	101.88 (¥/$)	**103.02 (¥/$)**	6,425	**6,192**	654,561	**637,960**	1,862	**7,945**
Buy USD (sell EUR)	0.83 (EUR/$)	**0.85 (EUR/$)**	233	**103**	22,860	**10,958**	1,088	**(219)**
Buy USD (sell GBP)	0.75 (£/$)	**0.75 (£/$)**	70	**49**	6,200	**5,208**	501	**1**
Buy USD (sell KRW)	1,106.57 (KRW/$)	**1,158.56 (KRW/$)**	285	**107**	27,788	**11,077**	2,063	**223**
Buy USD (sell SGD)	1.36 (SG$/$)	**1.37 (SG$/$)**	18	**4**	1,960	**425**	30	**(3)**
Buy USD (sell THB)	31.39 (THB/$)	**30.00 (THB/$)**	9	**11**	980	**1,134**	(29)	**43**
Buy USD (sell MYR)	— (MYR/$)	**4.43 (MYR/$)**	—	**2**	—	**224**	—	**(10)**
Buy USD (sell AUD)	1.39 (AUD/$)	**1.44 (AUD/$)**	13	**34**	1,325	**3,853**	78	**(207)**
Buy USD (sell CAD)	1.31 (CAD/$)	**1.38 (CAD/$)**	12	**0**	1,260	**89**	16	**(4)**
Buy USD (sell PHP)	53.31 (PHP/$)	**53.30 (PHP/$)**	14	**15**	1,522	**1,742**	(8)	**(116)**
Buy USD (sell HKD)	7.80 (HKD/$)	**— (HKD/$)**	1	**—**	105	**—**	0	**—**

	Average exchange rates		Foreign currencies (Millions of respective currency)		Contract principal (Millions of yen)		Fair value (Millions of yen)	
	31 August 2019	**31 August 2020**	31 August 2019	**31 August 2020**	31 August 2019	**31 August 2020**	31 August 2019	**31 August 2020**
Within 1 year								
Buy USD (sell JPY)	103.16 (¥/$)	**102.26 (¥/$)**	3,097	**3,443**	319,510	**352,183**	4,967	**10,115**
Buy USD (sell EUR)	0.84 (EUR/$)	**0.84 (EUR/$)**	259	**209**	25,584	**22,099**	1,943	**(132)**
Buy USD (sell GBP)	0.75 (£/$)	**0.77 (£/$)**	97	**86**	8,547	**9,422**	702	**(254)**
Buy USD (sell KRW)	1,081.73 (KRW/$)	**1,099.02 (KRW/$)**	424	**151**	40,407	**14,852**	4,657	**1,158**
Buy USD (sell TWD)	30.47 (TWD/$)	**— (TWD/$)**	45	**—**	4,701	**—**	138	**—**
Buy USD (sell SGD)	1.35 (SGD/$)	**1.39 (SGD/$)**	77	**84**	8,017	**9,126**	184	**(152)**
Buy USD (sell THB)	31.72 (THB/$)	**30.17 (THB/$)**	90	**88**	9,993	**9,030**	(372)	**278**
Buy USD (sell MYR)	4.19 (MYR/$)	**4.29 (MYR/$)**	71	**37**	7,603	**4,103**	86	**(96)**
Buy USD (sell AUD)	1.39 (AUD/$)	**1.45 (AUD/$)**	61	**70**	6,062	**7,974**	414	**(486)**
Buy USD (sell RUB)	68.12 (RUB/$)	**67.59 (RUB/$)**	63	**57**	6,938	**5,551**	(53)	**616**
Buy USD (sell CAD)	1.31 (CAD/$)	**1.32 (CAD/$)**	56	**36**	5,926	**3,885**	98	**(34)**
Buy USD (sell IDR)	14,933.81 (IDR/$)	**14,660.80 (IDR/$)**	62	**41**	6,944	**4,401**	(223)	**8**
Buy USD (sell PHP)	54.31 (PHP/$)	**52.03 (PHP/$)**	96	**69**	10,714	**7,883**	(354)	**(463)**
Buy USD (sell INR)	72.00 ($/INR)	**75.71 ($/INR)**	2	**2**	319	**230**	4	**(5)**
Buy USD (sell HKD)	7.81 (HKD/$)	**7.82 (HKD/$)**	84	**70**	8,937	**7,504**	34	**(58)**
Buy USD (sell CNY)	— (CNY/$)	**6.99 (CNY/$)**	—	**187**	—	**20,079**	—	**(248)**
Buy EUR (sell USD)	1.20 ($/EUR)	**1.18 ($/EUR)**	44	**20**	6,269	**2,529**	(414)	**30**
Buy GBP (sell USD)	1.25 ($/GBP)	**1.27 ($/GBP)**	5	**8**	799	**1,074**	(10)	**49**
Buy IDR (sell USD)	— ($/IDR)	**0.00 ($/IDR)**	—	**444,011**	—	**3,056**	—	**(94)**

(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 borrowings.

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.

F. Credit risk management

When the Group initiates ongoing transactions where receivables are 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.

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.

(1) Credit risk exposure

Time-frame analysis for trade receivables and other financial assets is as stated below.

Year ended 31 August 2019

(Millions of yen)

Number of days elapsed after due date	Items recorded in an amount equivalent to 12 months of expected credit losses	Items measured in an amount equivalent to the expected credit losses for the entire period			Total
		Financial assets for which the allowance for doubtful accounts is always measured as an amount equivalent to expected losses for the whole period	Financial assets for which the credit risk has significantly increased since initial recognition	Credit-impaired financial assets	
Before due date has elapsed	¥129,596	¥49,977	¥ 77	¥ —	¥179,651
Within 90 days	23	603	—	—	627
Over 90 days but within one year	11	212	—	—	224
Over one year	13	275	43	286	619
Term-end balance	129,645	51,069	121	286	181,123

Year ended 31 August 2020

(Millions of yen)

Number of days elapsed after due date	Items recorded in an amount equivalent to 12 months of expected credit losses	Items measured in an amount equivalent to the expected credit losses for the entire period			Total
		Financial assets for which the allowance for doubtful accounts is always measured as an amount equivalent to expected losses for the whole period	Financial assets for which the credit risk has significantly increased since initial recognition	Credit-impaired financial assets	
Before due date has elapsed	**¥124,302**	**¥59,019**	**¥ 47**	**¥—**	**¥183,368**
Within 90 days	**481**	**474**	**—**	**—**	**956**
Over 90 days but within one year	**156**	**25**	**2**	**—**	**184**
Over one year	**23**	**150**	**69**	**—**	**244**
Term-end balance	**124,965**	**59,669**	**119**	**—**	**184,754**

(2) Allowances for Doubtful Accounts

Changes in allowances for doubtful accounts for trade receivables and other financial assets are as stated below.

Year ended 31 August 2019

(Millions of yen)

Changes in allowances for doubtful accounts	Items recorded in an amount equivalent to 12 months of expected credit losses	Items measured in an amount equivalent to the expected credit losses for the entire period			Total
		Financial assets for which the allowance for doubtful accounts is always measured as an amount equivalent to expected losses for the whole period	Financial assets for which the credit risk has significantly increased since initial recognition	Credit-impaired financial assets	
Starting balance	¥ 64	¥ 551	¥—	¥273	¥ 889
Increase during period	92	148	40	—	281
Decrease during period (intended use)	—	(155)	—	—	(155)
Decrease during period (reversals)	(33)	(25)	—	—	(59)
Other changes	(4)	(47)	—	(32)	(84)
Term-end balance	117	471	40	241	871

Year ended 31 August 2020

(Millions of yen)

Changes in allowances for doubtful accounts	Items recorded in an amount equivalent to 12 months of expected credit losses	Items measured in an amount equivalent to the expected credit losses for the entire period			Total
		Financial assets for which the allowance for doubtful accounts is always measured as an amount equivalent to expected losses for the whole period	Financial assets for which the credit risk has significantly increased since initial recognition	Credit-impaired financial assets	
Starting balance	**¥117**	**¥ 471**	**¥40**	**¥ 241**	**¥ 871**
Effect of adoption of IFRS 16	**—**	**938**	**—**	**—**	**938**
Balance after adjustment	**117**	**1,409**	**40**	**241**	**1,809**
Increase during period	**35**	**224**	**5**	**—**	**265**
Decrease during period (intended use)	**(15)**	**(322)**	**—**	**(247)**	**(585)**
Decrease during period (reversals)	**(61)**	**(36)**	**—**	**—**	**(98)**
Other changes	**(11)**	**9**	**—**	**6**	**4**
Term-end balance	**64**	**1,284**	**46**	**—**	**1,395**

The Group continually monitors the credit standing of trading partners if there is a concern about recoverability, including receivables for which the due date has changed.

Based on the monitoring of the credit standing, the recoverability of accounts receivable, etc., is examined and the allowance for doubtful accounts is set.

In relation to the Group's global business expansion, there is little reliance on any specific trading partners and exposure is dispersed, so the impact of any sequential credit risk due to the poor credit standing of any specific trading partner is minimal.

As a result, we have no exposure to excessively-focused credit risk.

G. 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 2019								
Non-derivative financial liabilities								
Trade and other payables	¥ 191,769	¥ 191,769	¥191,769	¥ —	¥ —	¥ —	¥ —	¥ —
Current portion of long-term borrowings	4,258	4,258	4,258	—	—	—	—	—
Short-term borrowings	1,236	1,236	1,236	—	—	—	—	—
Corporate bonds	469,183	470,000	—	100,000	—	130,000	—	240,000
Long-term finance lease obligations	29,314	29,314	—	8,596	7,703	5,571	2,827	4,615
Short-term finance lease obligations	9,411	9,411	9,411	—	—	—	—	—
Deposits	144,099	144,099	144,099	—	—	—	—	—
Derivative financial liabilities								
Foreign currency forward contracts	6,824	6,824	2,985	2,127	1,711	—	—	—
Total	856,098	856,915	353,762	110,723	9,414	135,571	2,827	244,615
As at 31 August 2020								
Non-derivative financial liabilities								
Trade and other payables	**210,747**	**210,747**	**210,747**	**—**	**—**	**—**	**—**	**—**
Current portion of long-term borrowings	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Short-term borrowings	**15,154**	**15,154**	**15,154**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	**469,342**	**470,000**	**100,000**	**—**	**130,000**	**—**	**30,000**	**210,000**
Long-term finance lease liabilities	**351,526**	**365,539**	**—**	**85,370**	**60,865**	**49,846**	**38,523**	**130,932**
Short-term finance lease liabilities	**114,652**	**115,222**	**115,222**	**—**	**—**	**—**	**—**	**—**
Deposits	**98,156**	**98,156**	**98,156**	**—**	**—**	**—**	**—**	**—**
Derivative financial liabilities								
Foreign currency forward contracts	**5,968**	**5,968**	**2,763**	**1,348**	**1,757**	**99**	**—**	**—**
Total	**1,265,548**	**1,280,788**	**542,044**	**86,718**	**192,622**	**49,946**	**68,523**	**340,932**

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

H. Fair value of financial instruments

(Millions of yen)

	As at 31 August 2019		**As at 31 August 2020**	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets				
Security deposits/guarantees (Note)	¥ 62,398	¥ 63,982	**¥ 63,639**	**¥ 64,341**
Total	62,398	63,982	**63,639**	**64,341**
Financial liabilities				
Long-term borrowings (Note)	4,258	4,258	**—**	**—**
Corporate bonds (Note)	469,183	478,638	**469,342**	**470,938**
Total	473,442	482,896	**469,342**	**470,938**

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

Notes concerning financial assets and financial liabilities for which fair value approximates book value have been omitted. 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 is classified by term, and are calculated on the basis of the current value, applying a discount rate that takes into the account time remaining to maturity, and credit risk.

The book value and the fair value of finance lease obligations as at 31 August, 2019 were 38,726 million yen and 38,595 million yen, respectively. The fair value is measured by the present value of future cash flows of each debt categorized according to a certain range of term, and discounted by the interest rate that reflects the remaining period to the maturity and credit risk. For the current fiscal year, as we have adopted the IFRS 16 as described in “4. Newly applied standards and interpretation guidelines,” the fair value for finance lease obligations for the current fiscal year is not disclosed.

The fair value measurements of Security deposits / guarantees, corporate bonds and long-term borrowings are classified as level 2.

I. 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

When multiple inputs are used to measure fair value, the fair value level is determined based on the input with the lowest level classification in the overall fair value assessment.

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

(Millions of yen)

As at 31 August 2019	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income	¥1,471	¥ —	¥173	¥ 1,645
Financial assets measured at fair value through profit or loss	—	—	—	—
Financial assets and financial liabilities designated as hedging instruments — Fair value	—	17,406	—	17,406
Net amount	1,471	17,406	173	19,051

As at 31 August 2020	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income	**¥1,158**	**¥ —**	**¥212**	**¥ 1,370**
Financial assets measured at fair value through profit or loss	**—**	**1,550**	**—**	**1,550**
Financial assets and financial liabilities designated as hedging instruments — Fair value	**—**	**17,878**	**—**	**17,878**
Net amount	**1,158**	**19,428**	**212**	**20,799**

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.

Financial instruments classified as Level 3 consist mainly of unlisted shares. The fair values of unlisted shares are measured by the division responsible in the Group according to the Group’s accounting policy, etc. , using the immediately preceding figures available for each quarter.

There were no significant changes due to the purchase, sale, issuance and settlement of Level 3 financial instruments, and no transfers between Levels 1, 2 and 3.

31 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 2019	**Year ended 31 August 2020**
Short-term employee benefits	¥719	**¥786**
Share-based payments	—	**13**
Total	719	**799**

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

Year ended 31 August 2019 (from 1 September 2018 to 31 August 2019)

Type	Name of Company, etc., or personal name	Location	Capital Stock or Money Invested (Millions of yen)	Business Content or Occupation	Percentage of voting right, etc. held (being held)	Relation with Associated Party	Transaction Details	Transaction Amount (Millions of yen)	Item	Term-end Balance (Millions of yen)
Company in which officers and close relatives hold a majority of voting rights	TTY Management B.V.	Amsterdam, Holland	71,826	Assets holdings, managing, etc.	5.2% are directly held	Rent of store properties by our subsidiary Serves concurrently as an officer	Store renting	337	Other current assets	56

Notes: 1. Of the above-mentioned amounts, any trade amounts do not include consumption taxes and the like.
2. Trading conditions and policy for determining trading conditions, etc.
Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.
3. Chairman of the Board of Directors and President Tadashi Yanai holds a majority of the voting rights.

Current consolidated accounting year (From 1 September 2019, through 31 August 2020)

Type	Name of Company, etc., or personal name	Location	Capital Stock or Money Invested (Millions of yen)	Business Content or Occupation	Percentage of voting right, etc. held (being held)	Relation with Associated Party	Transaction Details	Transaction Amount (Millions of yen)	Item	Term-end Balance (Millions of yen)
Company in which officers and close relatives hold a majority of voting rights	TTY Management B.V.	Amsterdam, Netherlands	71,826	Assets holdings, managing, etc.	5.2% are directly held	Rent of store properties by our subsidiary Serves concurrently as an officer	Store renting	647	Lease liabilities	6,797

Notes: 1. Of the above-mentioned amounts, any trade amounts do not include consumption taxes and the like.
2. Trading conditions and policy for determining trading conditions, etc.
Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.
3. Chairman of the Board of Directors and President Tadashi Yanai holds a majority of the voting rights.

32 Major Subsidiaries

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

33 Commitments

The Group had the following commitments at each reporting date:

(Millions of yen)

	As at 31 August 2019	**As at 31 August 2020**
Commitment for the acquisition of property, plant and equipment	¥ 7,382	**¥24,942**
Commitment for acquisition of intangible assets	4,340	**2,139**
Total	11,723	**27,081**

34 Contingent Liabilities

Year ended 31 August 2019

Not applicable

Year ended 31 August 2020

Not applicable

35 Subsequent Events

Not applicable

Other

Quarterly information for the year ended 31 August 2020

(Cumulative period)	First quarter	Second quarter	Third quarter	Fiscal year
Revenue (Millions of yen)	¥623,484	¥1,208,512	¥1,544,924	¥2,008,846
Quarterly income before income taxes and non-controlling interests (Millions of yen)	102,015	150,859	142,420	152,868
Quarterly net income (Millions of yen)	70,907	100,459	90,640	90,357
Earnings per share (Yen)	694.73	984.21	887.96	885.15

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Quarterly earnings / (losses) per share (Yen)	694.73	289.51	(96.18)	(2.77)

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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. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 August 2020, 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, all expressed in Japanese yen.

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 2020, and of 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 of 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 2020 are comprised of JPY 390,569 million related to the UNIQLO Japan segment, the UNIQLO International segment and the GU segment, in the aggregate, representing 16.2% of the Group's total assets. In addition, the amount of write-down of inventories to net realizable value was JPY 7,389 million for these segments.	In response to this key audit matter, our audit included, amongst others, the following procedures: • Evaluation of the cost measurement techniques and inventory valuation approaches established by management, including compliance with IFRSs.

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The sales pattern for inventories starts with establishing an initial price, and then subsequently adjusting the price based on the season, weather and customer tastes and demand. Inventories are valued at the lower of cost or net realizable value. Selling price, a component of net realizable value, is frequently adjusted in response to fast-changing market conditions, economic conditions and fashion trends. The adjusted selling price is reflected and maintained in an IT system. Given the nature of the Group's businesses, changes to inventory, such as adjustments to selling prices, are frequently made to large volumes of inventory at a Stock Keeping Units ("SKUs") level. Inventory management is thus highly dependent on the IT system. In addition, the accuracy of the inventory valuation reports is also dependent upon the IT system. As such, due to the potential impact it may have on the accounting for the write-down of inventories to net realizable value, there are increased risks around the appropriateness of the system configurations (e.g., calculation formula, report logic, parameters, etc.), in addition to the overall maintenance of the IT system. We identified the valuation of inventories at the lower of cost or net realizable value as a key audit matter given that the value of inventories is material and the valuation of inventories is highly IT system dependent.	• Assessment of the design, implementation and operating effectiveness of relevant controls in place to address the accuracy and completeness of inputs for selling price and cost of inventories. • Involvement of our professionals with expertise in information technology ("IT experts") to evaluate the accuracy and completeness of inventory valuation reports by testing the system interface controls, the report logic and input parameters, as well as general IT controls over the IT system, including testing of user access controls, change management controls and IT operations controls. • Evaluation of the determination of net realizable value and the amount of write-down of inventories to net realizable value calculated within the inventory valuation report on a representative sample basis.

Assessment of impairment indicators on store assets and assumptions used in business plan under COVID-19 pandemic	
Key audit matter	**Audit procedures performed**
As disclosed in Note 15 to the consolidated financial statements, the Group has store assets attributable to UNIQLO Japan, UNIQLO International and the GU segment amounting to JPY 120,354 million, JPY 196,793 million and JPY 39,752 million, respectively, in the aggregate representing 14.8% of the Group's total assets as at 31 August 2020. In addition, as disclosed in Notes 6 and 15 to the consolidated financial statements, the Group's impairment losses attributable to store assets were JPY 21,411 million for the year ended 31 August 2020.	In response to this key audit matter, our audit included, amongst others, the following procedures: • Evaluation of management's assessment of Impairment Indicators, identification of CGUs and allocation method of relevant headquarter costs to each CGU used by management, including compliance with IFRSs.

Each segment operated 767, 1,439 and 436 stores as at 31 August 2020, respectively, and the performance results of each store are maintained in an IT system. In principle, each store is considered as an individual cash-generating unit ("CGU"). Management uses the performance results of stores (IT system-generated reports) as a key input when assessing whether there is any indication that store assets may be impaired ("Impairment Indicators"). As such, due to the potential impact it may have on the assessment of the Impairment Indicators, there are increased risks around the appropriateness of the system configurations (e.g., report logic, parameters, etc.), in addition to the overall maintenance of the IT system. In particular, stores were temporarily closed and the number of customer visits declined as people refrained from going out in response to the COVID-19 pandemic, which worsened performance results of each store. As a result, there are potential risks around the existence of material impairment losses. In addition, there are risks that the assessments of the Impairment Indicator and the measurement of impairment losses may be material due to increased uncertainties on the recovery from COVID-19 pandemic in particular, with regards to business plans of each store used in management's assessment. We identified this matter as a key audit matter given that the value of store assets is material, the creation of information used in assessment of the impairment indicators is highly IT system dependent, there is the increased possibility that the impairment losses may be material due to COVID-19 and there is the increased inherent uncertainty in business plans of stores used in management's estimates and judgments.	• Involvement of our IT experts to evaluate the accuracy and completeness of the impairment indicators identification reports by testing source data of store performance results along with the report logic to allocate headquarter costs, report logic used to identify impairment indicators, and input parameters, as well as the general IT controls over the IT system, including testing of user access controls, change management controls and IT operations controls. • Examination of the Impairment Indicators identification report for the completeness of stores for proper inclusion. • Assessment of the design, implementation and operating effectiveness of the relevant controls in place to develop business plans of each store. • Evaluation of the reasonableness of assumptions used, in particular those relating to business plans of stores by performing inquiries with management, evaluating the historical accuracy of the management's estimates and comparing those assumptions with market forecasts and observable external information. • Involvement of our valuation experts to assess the discount rate used in management's impairment assessment. • Evaluation of the adequacy of disclosures relating to the uncertainties of COVID-19 impact under Note 2 to the consolidated financial statements.

Measurement of right-of-use assets and lease liabilities upon first-time adoption of IFRS 16 "Leases"	
Key audit matter	**Audit procedures performed**
As disclosed in Note 17 to the consolidated financial statements, the Group has right-of-use assets and lease liabilities attributable to the Company and its subsidiaries, Uniqlo Co., Ltd. ("UNIQLO Japan") and GU Co. Ltd., ("GU Japan"), operating in Japan, in the aggregate, amounting to JPY 226,257 million and JPY 244,290 million, respectively, as at 31 August 2020.	In response to this key audit matter, our audit included, amongst others, the following procedures: • Evaluation of the lease identification, determination of lease period and measurement of right-of-use assets and lease liabilities performed by management, including compliance with the applicable IFRS.

UNIQLO Japan and GU Japan enter into lease contracts with various landlords, in which the contract terms are widely differentiated and total lease payments over the lease period are significant. Meanwhile, the Company enters into lease contracts with significant lease payments over the lease period. As disclosed in Note 4 to the consolidated financial statements, the Company adopted IFRS 16 "Leases" (hereinafter, "IFRS 16") for the first time in the year ended 31 August 2020. Upon adoption of IFRS 16, most of the existing lease contracts effective during the year were identified, measured and recognized in the consolidated statement of financial position. In accordance with the lease contracts, lease utilization policy and substantial utilization, the parameters, in particular, lease payment, lease period, penalty for lease termination, lease incentives, are fundamental lease information with direct impact on the measurement of right-of-use assets and lease liabilities. The parameters are inputted in the IT system manually. Due to a large volume of lease contracts and widely differentiated lease terms, there are increased risks around the accuracy of parameter inputted into the IT system. In addition, the amounts of right-of-use assets and lease liabilities are measured automatically by the IT system based on the parameters inputted, and interface with the accounting system. There are increased risks in accuracy of measurement of right-of-use assets and lease liabilities because calculated amounts are highly dependent on IT automated controls and general IT controls over the IT system. We identified measurement of right-of-use assets and lease liabilities upon first-time adoption of IFRS 16 as a key audit matter given that the amounts of right-of-use assets and lease liabilities are material, numerous parameters are used in the calculations and inputted manually, and that the calculations are highly IT system dependent.	• Assessment of the design, implementation and operating effectiveness of the relevant controls in place to address the accuracy of the parameters input in the IT system, in particular, lease payments, lease period, penalty for termination and lease incentives. • Involvement of our IT experts to evaluate the IT automated controls used for the measurement of right-of-use assets and lease liabilities, interface with accounting system, as well as the general IT controls over the IT system, including testing of user access control and change management controls. • Examination of the accuracy of parameters input used in measuring right-of-use assets and lease liabilities on a representative sample basis.

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

Management is responsible for the preparation of the consolidated financial statements that gives 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.

Statutory Auditors and the Board of Statutory Auditors are 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 Statutory Auditors and 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 Statutory Auditors and 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 Statutory Auditors and 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 Yohei Masuda.

Deloitte Touche Tohmatsu LLC

27 November 2020

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