FAST RETAILING

FAST RETAILING CO., LTD.

迅銷有限公司

(Incorporated in Japan with limited liability)

(Stock Code:6288)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 AUGUST 2016 AND RESUMPTION OF TRADING

The board (the "Board") of directors (the "Directors") of FAST RETAILING CO., LTD. (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 August 2016 together with the comparative figures for the year ended 31 August 2015.

At the request of the Company, trading in its Hong Kong depositary receipts on the Stock Exchange was halted with effect from 1:00 p.m. on Thursday, 13 October 2016, pending the release of this announcement. An application will be made by the Company to the Stock Exchange for resumption of trading in the Hong Kong depositary receipts with effect from 9:00 a.m. on Friday, 14 October 2016.

(Amounts are rounded down to the nearest million Japanese Yen unless otherwise stated)

1. CONSOLIDATED FINANCIAL RESULTS

(1) Consolidated Operating Results (1 September 2015 to 31 August 2016)

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Profit before income taxes		Profit for the year	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended 31 August 2016	1,786,473	6.2	127,292	(22.6)	90,237	(50.1)	54,074	(53.9)
Year ended 31 August 2015	1,681,781	21.6	164,463	26.1	180,676	33.4	117,388	48.0

	Profit attributable to owners of the parent		Total comprehensive income for the year		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Year ended 31 August 2016	48,052	(56.3)	(139,372)	—	471.31	470.69
Year ended 31 August 2015	110,027	47.6	171,124	108.6	1,079.42	1,078.08

	Ratio of profit to equity attributable to owners of the parent	Ratio of profit before income taxes to total assets	Ratio of operating profit to revenue
	%	%	%
Year ended 31 August 2016	7.3	7.5	7.1
Year ended 31 August 2015	16.1	16.8	9.8

(Notes) Share of profit and loss of an associate Year ended 31 August 2016: 132 million yen
Year ended 31 August 2015: None

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity per share attributable to owners of the parent
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As at 31 August 2016	1,238,119	597,661	574,501	46.4	5,634.35
As at 31 August 2015	1,163,706	774,804	750,937	64.5	7,366.07

(3) Consolidated Cash Flows

	Net cash from operating activities	Net cash used in investing activities	Net cash from/(used in) financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended 31 August 2016	98,755	(245,939)	201,428	385,431
Year ended 31 August 2015	134,931	(73,145)	(41,784)	355,212

2. DIVIDENDS

(Declaration date)	Dividend per share					Total dividend (annual)	Payout ratio (consolidated)	Ratio of dividend to equity attributable to owners of the parent (consolidated)
	First quarter period end	Second quarter period end	Third quarter period end	Year-end	Full year			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
Year ended 31 August 2015	–	175.0	–	175.0	350.0	35,678	32.4	5.2
Year ended 31 August 2016	–	185.0	–	165.0	350.0	35,685	74.3	5.4
Year ending 31 August 2017 (forecast)	–	175.0	–	175.0	350.0		35.7	

(Note) Please refer to 1. Business Results (3) Basic Policies on Distribution of Profits, and Dividends for the year ended 31 August 2016 and the year ending 31 August 2017 for detailed information.

3. CONSOLIDATED BUSINESS RESULTS PROJECTION FOR YEAR ENDING 31 AUGUST 2017 (1 SEPTEMBER 2016 TO 31 AUGUST 2017)

(% shows rate of increase/decrease from previous periods)

	Revenue		Operating profit		Profit before income taxes		Profit attributable to owners of the parent		Basic earnings per share attributable to owners of the parent
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending 31 August 2017	1,850,000	3.6	175,000	37.5	175,000	93.9	100,000	108.1	980.74

* Notes

(1) Changes of principal subsidiaries (changes in specified subsidiaries): None

(2) Changes in accounting policies and changes in accounting estimates:

- (i) Changes in accounting policies to conform with IFRS: None
- (ii) Other changes in accounting policies: None
- (iii) Change in accounting estimates: None

(3) Total number of shares outstanding (common stock)

(i)	Number of shares outstanding (including treasury stock)	As at 31 August 2016	106,073,656 shares	As at 31 August 2015	106,073,656 shares
(ii)	Number of treasury stock	As at 31 August 2016	4,109,503 shares	As at 31 August 2015	4,128,255 shares
(iii)	Average number of shares outstanding	For the year ended 31 August 2016	101,955,026 shares	For the year ended 31 August 2015	101,932,225 shares

(REFERENCE INFORMATION)

NON-CONSOLIDATED FINANCIAL RESULTS

The non-consolidated financial results were prepared in accordance with generally accepted accounting principles in Japan ("JGAAP").

(1) Non-consolidated Operating Results (1 September 2015 to 31 August 2016)

(Percentages represent year-on-year changes)

	Operating Revenue		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended 31 August 2016	99,289	(16.6)	55,637	(28.5)	9,270	(89.6)	6,084	(91.3)
Year ended 31 August 2015	119,071	53.8	77,844	79.0	89,245	90.2	70,227	200.9

	Net income per share	Diluted net income per share
	Yen	Yen
Year ended 31 August 2016	59.68	59.60
Year ended 31 August 2015	688.96	688.11

(2) Non-consolidated Financial Position

	Total assets	Net assets	Ratio of shareholders' equity to total assets	Net assets per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As at 31 August 2016	631,086	345,773	54.2	3,355.83
As at 31 August 2015	410,009	376,007	91.1	3,662.28

(Notes) Shareholders' equity *As at 31 August 2016: 342,174 million yen*
As at 31 August 2015: 373,352 million yen

* Indication concerning status of implementation of auditing procedures:
These financial results are not subject to auditing procedures pursuant to the Financial Instruments and Exchange Act of Japan. As of the date of this announcement, the results for the year ended 31 August 2016 are under audit by the independent auditors of the Company.

* Explanation and other notes concerning proper use of consolidated business results projection:
Statements made in these materials pertaining to future matters including business projections are based on information currently available to the Company and certain assumptions determined to be reasonable. Actual business results may vary substantially depending on a variety of factors.

1. Business Results

(1) Analysis of Business Results for the year ended 31 August 2016

The Fast Retailing Group reported a rise in revenue but a fall in profit in fiscal year 2016, the full financial year from 1 September 2015 to 31 August 2016. Consolidated revenue reached ¥1.7864 trillion (+6.2% year-on-year), while consolidated operating profit totaled ¥127.2 billion (-22.6% year-on-year), and profit attributable to owners of the parent totaled ¥48.0 billion (-56.3% year-on-year). There were multiple reasons for this considerable fall in profit attributable to owners of the parent: Under other expenses, we recorded a foreign exchange loss for fiscal year 2016 of ¥11.0 billion, a ¥13.8 billion impairment loss at our J Brand premium denim brand, and a total of ¥9.3 billion in impairment losses along with assets retirement and store-closure losses relating to some stores at UNIQLO Japan and UNIQLO USA. In addition, the appreciation in the yen over the full financial year ended 31 August 2016 reduced the value of our long-term foreign-currency holdings in terms of yen, resulted in a ¥36.9 billion foreign exchange loss being recorded under finance costs.

While consolidated operating profit declined 22.6% over the full financial year, we did experience a significant 94.3% year-on-year rebound in operating in profit in the second half financial year (1 March 2016 – 31 August 2016), thanks to a recovery in sales at UNIQLO Japan and UNIQLO International, and a concerted cost-cutting drive.

The Group's medium-term vision is to become the world's number one Information Powered Retail Business. To this aim, we are focusing our efforts on expanding UNIQLO INTERNATIONAL's operations and our low-priced GU casual fashion brand. We continue to boost UNIQLO store numbers in each country where we operate, opening global flagship stores and large-format stores in major cities around the world to help consolidate UNIQLO's position as a key global brand. In addition, we also intend to expand GU operations, which has grown into a second pillar brand for the Group alongside UNIQLO, by opening more GU stores within Japan and accelerating the brand's development and store numbers in overseas markets.

The Group is also pressing ahead with medium-term plans to revolutionize our supply chain, unifying all procedures from raw materials procurement, planning, design, manufacturing and retail into a new supply chain system that can fully satisfy the needs of today's digital era. We are looking to transform our industry into an "information-driven manufacturer/retail business," capable of both immediately incorporating feedback from customer into products, and actively conveying the latest information on lifestyles, fashion trends, and exciting but comfortable modern clothing. We are also expanding our e-commerce operation and transforming our distribution systems, as illustrated by the launch of the next-generation distribution center in Ariake, Tokyo in April 2016. Next, we intend to open similar new distribution centers elsewhere in Japan, and internationally in China, Europe and the North America.

UNIQLO Japan

UNIQLO Japan reported a rise in revenue but a fall in operating profit in fiscal year 2016, with revenue totaling ¥799.8 billion (+2.5% year-on-year) and operating profit totaling ¥102.4 billion (-12.6% year-on-year). Full-year revenue was supported by a 0.9% year-on-year rise in same-store sales and a buoyant 30.1% year-on-year increase in e-commerce. The 12.6% year-on-year decline in full-year operating profit was due largely to a 1.4 point contraction in the gross profit margin, and a 0.5 point increase in selling, general and administrative expense ratios.

However, UNIQLO Japan operating profit recovered strongly in the second half financial year to report a healthy 38.0% year-on-year increase. Same-store sales expanded 4.9% year-on-year in the second half financial year, thanks to strong sales of trendy items such as jogger pants, skants and women's blouses, and a strong performance by sport campaign items made from AIRism and DRY anti-perspiration high-function materials. The gross profit margin also improved in the second half, as the strategy to offer products at attractive, readily recognizable price levels every day of the week started to bear fruit, and cost-cutting efforts improved selling, general and administrative expense ratios.

UNIQLO International

UNIQLO International also reported a rise in revenue and a fall in operating profit in the fiscal year 2016, with revenue rising 8.6% year-on-year to ¥655.4 billion and operating profit contracting 13.7% year-on-year to ¥37.4 billion. However, operating profit improved greatly in the second half financial year and reported 15-fold increase than the previous year, thanks to marked improvements in profitability in Greater China (the area spanning mainland China, Hong Kong and Taiwan), Southeast Asia and Oceania, and Europe.

Breaking down UNIQLO International's full-year performance by region, UNIQLO Greater China generated revenue of ¥332.8 billion (+9.3% year-on-year) in fiscal year 2016 and operating profit of ¥36.5 billion (-5.5% year-on-year). While full-year operating profits declined at UNIQLO Greater China, the operation reported a much stronger-than-expected recovery in profitability in the second half financial year. That was due mainly to a strong profit increase in mainland China, driven by a rebound in same-store sales from the second quarter onwards and an effective cost-cutting drive. Meanwhile, UNIQLO Southeast Asia and Oceania, and Europe reported rising revenue and profits in fiscal year 2016. Across the Pacific, while second-half business conditions improved, UNIQLO USA reported an expanded operating loss for fiscal year 2016 after accounting ¥7.4 billion impairment losses related to asset retirement and store closures.

Finally, UNIQLO International has opened a series of prominent stores over the past 12 months, including the first UNIQLO stores in Belgium in October 2015, and the first stores in Canada in September 2016. In March 2016, UNIQLO International opened the avidly awaited refurbished 311 Oxford Street global flagship store, and, in September 2016, opened the first global flagship store in Southeast Asia; the UNIQLO Orchard Central Store in Singapore. As of 31 August 2016, the total number of UNIQLO International stores had expanded by 160 year-on-year to 958 stores.

Global Brands

Global Brands also reported a rise in revenue but a fall in operating profit in fiscal year 2016. Revenue expanded 11.3% year-on-year to ¥328.5 billion. Operating profit contracted 34.0% year-on-year to ¥9.5 billion following the recording of a ¥13.8 billion impairment loss on J Brand and other operations. Within the Global Brands segment, GU reported an overwhelmingly strong performance, generating significant rises in both revenue and operating profit. GU revenue expanded by an impressive 32.7% year-on-year to ¥187.8 billion, and operating profit expanded 34.8% to ¥22.2 billion. GU same-store sales recorded a double-digit gain on the back of strong sales of trendy women's knitwear, skants and wide pants. The number of GU stores increased by a net 31 stores year-on-year to 350 stores (including 10 stores overseas) at the end of 31 August 2016.

In terms of other Global Brands labels, Comptoir des Cotonniers reported its first full-year loss in fiscal 2016. Princesse tam.tam and J Brand generated persistent losses, while our Theory label reported expanded operating profits in fiscal year 2016.

Corporate Social Responsibility ("CSR") Activities

The basic policy underlying the Group's CSR activities consists of fulfilling our social responsibility, contributing to communities, addressing social issues and creating new value, both globally and locally.

Through our All-Product Recycling Initiative, we have donated a total of 20.3 million items of clothing collected at UNIQLO and G.U. stores (from FY2007 to FY2016) to refugees and displaced persons in partnership with the UNHCR (United Nations High Commissioner for Refugees). This fiscal year, we sent 580,000 items to refugee camps in Uganda and 540,000 items to refugee camps in Rwanda.

The Batik Motif Collection, which incorporates traditional Indonesian patterns, went on sale at Uniqlo stores worldwide in June 2016, and a portion of the profits were used to support the education of approximately 12,000 people who work at the Indonesian factories of the Group's suppliers. This initiative, called the Factory Worker Empowerment Project, began in Bangladesh in 2015 and has been expanded to Indonesia with the aim of improving the hygiene and health of the factory workers there.

The Power of Clothing Project is an initiative that brings the All-Product Recycling Initiative to schools, with the goal of increasing the awareness of refugee issues among students. In fiscal 2016, which was the project's 4th year of operation, around 30,000 students participated from 268 schools in Japan. After a presentation from Fast Retailing employees on the role of clothing and issues facing refugees, the children take the lead and conduct their own clothing drive, and Fast Retailing donates the collected items to refugee camps.

Outlook for the Coming Year

In fiscal 2017, Fast Retailing expects to achieve consolidated revenue of ¥1.850 trillion (+3.6% year-on-year), operating profit of ¥175.0 billion (+37.5% year-on-year), profit before income taxes of ¥175.0 billion (+93.9%) and profit attributable to owners of the parent of ¥100.0 billion (+108.1% year-on-year).

All three Fast Retailing business segments are expected to generate increases in both revenue and profit in fiscal 2017. We forecast the overall Fast Retailing Group network will expand to a total of 3,336 stores by the end of August 2017: 837 stores (including franchise stores) at UNIQLO Japan, 1,104 stores at UNIQLO International and 1,395 stores at Global Brands.

(2) Financial Positions and Cash Flow Information

(i) Financial Positions

Total assets as at 31 August 2016 were ¥1,238.1 billion, which was an increase of ¥74.4 billion relative to the end of the preceding consolidated fiscal year. The principal factors were an increase of ¥30.2 billion in cash and cash equivalents, an increase of ¥161.6 billion in other current financial assets, an increase of ¥33.3 billion in deferred tax assets, and a decrease of ¥156.9 billion in derivative financial assets.

Total liabilities as at 31 August 2016 were ¥640.4 billion, which was an increase of ¥251.5 billion relative to the end of the preceding consolidated fiscal year. The principal factors were an increase of ¥72.2 billion in derivative financial liabilities, a decrease of ¥27.1 billion in income taxes payable, an increase of ¥248.5 billion in noncurrent financial liabilities and a decrease of ¥43.4 billion in deferred tax liabilities.

Total net assets as at 31 August 2016 were ¥597.6 billion, which was a decrease of ¥177.1 billion relative to the end of the preceding consolidated fiscal year. The principal factor was a decrease of ¥189.3 billion in other components of equity.

(ii) Cash Flows Information

Cash and cash equivalents (hereinafter referred to as “funds”) as at 31 August 2016 were ¥385.4 billion, which was an increase of ¥30.2 billion from the end of the preceding consolidated fiscal year.

(Operating Cash Flows)

Net cash from operating activities for the year ended 31 August 2016 was ¥98.7 billion, which was a decrease of ¥36.1 billion (-26.8 % year-on-year) from the year ended 31 August 2015. The principal factors were ¥90.2 billion in profit before income taxes (a decrease of ¥90.4 billion from the year ended 31 August 2015) and ¥36.9 billion increase in Foreign exchange losses (an increase of ¥52.0 billion from the year ended 31 August 2015).

(Investing Cash Flows)

Net cash used in investing activities for the year ended 31 August 2016 was ¥245.9 billion, which was an increase of ¥172.7 billion (+236.2 % year-on-year) from the year ended 31 August 2015. The principal factors were ¥186.5 billion for increase in bank deposits with maturity over 3 months (an increase of ¥170.3 billion from the year ended 31 August 2015).

(Financing Cash Flows)

Net cash from financing activities for the year ended 31 August 2016 was ¥201.4 billion, which was an increase of ¥243.2 billion from the year ended 31 August 2015. The principal factor was ¥249.3 billion for proceeds from issuance of corporate bonds (an increase of ¥249.3 billion from the year ended 31 August 2015).

(3) Basic Policies on Distribution of Profits, and Dividends for the year ended 31 August 2016 and the year ending 31 August 2017

The Company regards the distribution of profits to shareholders as one of its most important considerations. Our basic policy is to constantly increase earnings and to provide ongoing, appropriate profit distribution based on performance. Our policy is to pay dividends that in based on business performance after taking into consideration funds needed to expand business and improve revenues, and ensure the financial soundness of the Group. The basic policy of the Group regarding the payment of dividends from surplus is to pay two dividends annually, an interim dividend and a year-end dividend. These dividends are decided by the Board, unless otherwise stipulated by laws and regulations.

Based on the policy outlined above and the earnings of the year ended 31 August 2016, we plan to pay a year-end dividend of ¥165 per share. Together with the ¥185 interim dividend per share, this will bring the total annual dividend for the current year to ¥350.

The Company plans to pay the year-end dividend following its approval at the meeting of the Board on 4 November 2016.

For the year ending 31 August 2017, the Company plans to pay a dividend of ¥350 per share.

It is our intention to effectively utilize retained earnings and free cash flow for investment, financial investment and loans to strengthen the operational base of the Group companies.

2. Status of Group Member Companies

The Group consists of the Company, 120 consolidated subsidiaries and 1 associate accounted for using the equity-method.

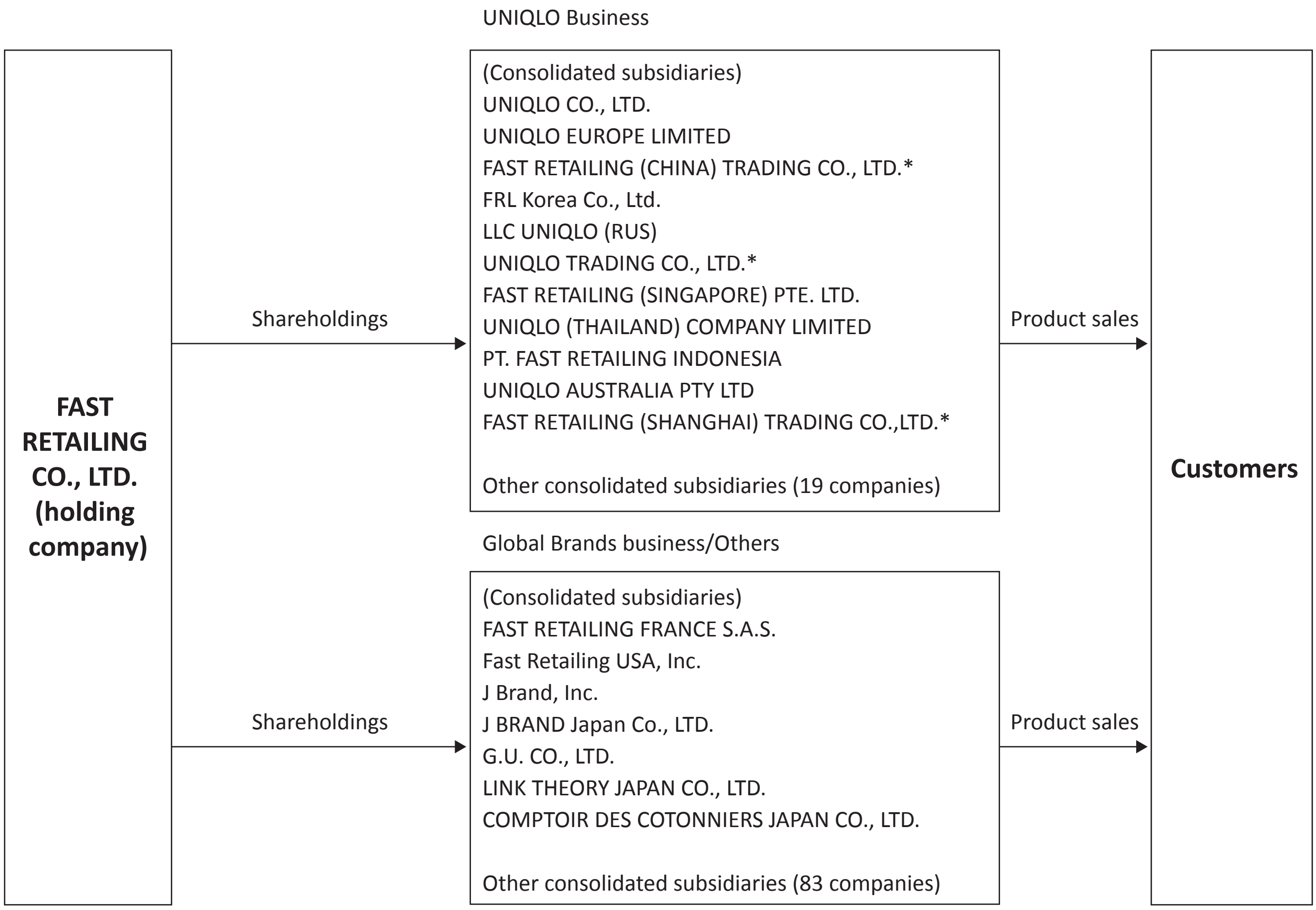
Details of the Group's businesses as well as the positioning of the Company and its main affiliates relative to the businesses are as follows:

Category	Company name	Reportable Segment
Holding company	FAST RETAILING CO., LTD.	Others
Principal consolidated subsidiaries	UNIQLO CO., LTD. (consolidated subsidiary)	UNIQLO Japan
	UNIQLO EUROPE LIMITED (consolidated subsidiary)	UNIQLO International
	FAST RETAILING (CHINA) TRADING CO., LTD.* (consolidated subsidiary)	UNIQLO International
	FRL Korea Co., Ltd. (consolidated subsidiary)	UNIQLO International
	LLC UNIQLO (RUS) (consolidated subsidiary)	UNIQLO International
	UNIQLO TRADING CO., LTD.* (consolidated subsidiary)	UNIQLO International
	FAST RETAILING (SINGAPORE) PTE. LTD. (consolidated subsidiary)	UNIQLO International
	UNIQLO (THAILAND) COMPANY LIMITED (consolidated subsidiary)	UNIQLO International
	PT. FAST RETAILING INDONESIA (consolidated subsidiary)	UNIQLO International
	UNIQLO AUSTRALIA PTY LTD (consolidated subsidiary)	UNIQLO International
	FAST RETAILING (SHANGHAI) TRADING CO., LTD.* (consolidated subsidiary)	UNIQLO International
	FAST RETAILING FRANCE S.A.S. (consolidated subsidiary)	Global Brands
	Fast Retailing USA, Inc. (consolidated subsidiary)	UNIQLO International/ Global Brands
	J Brand, Inc. (consolidated subsidiary)	Global Brands
	J BRAND Japan Co., LTD. (consolidated subsidiary)	Global Brands
	G.U. CO., LTD. (consolidated subsidiary)	Global Brands
	LINK THEORY JAPAN CO., LTD. (consolidated subsidiary)	Global Brands
	COMPTOIR DES COTONNIERS JAPAN CO., LTD. (consolidated subsidiary)	Global Brands
	Other consolidated subsidiaries (102 companies)	UNIQLO International/ Global Brands/Others
Associate accounted for using the equity-method	Other associate accounted for using the equity-method (1 company)	Others

* The English names of all subsidiaries established in the People's Republic of China ("PRC") are translated for identification only.

(Notes)
1. "UNIQLO" business means the retail business of UNIQLO brand casual apparel in Japan and overseas.
2. "Global Brands" business means the planning, retail and manufacturing of apparel in Japan and overseas.
3. One associate is accounted for using the equity-method, which was an investment corporation for the purpose of distribution facilities owned by the Company was invested in June 2016.
4. "Others" include real estate leasing businesses.

Business Structure



* The English names of all subsidiaries established in PRC are translated for identification only.

3. Management Policy

(1) The Company's Basic Management Policy

The Company operates under the corporate statement: "Changing clothes. Changing conventional wisdom. Change the world." Based on our Group's corporate philosophy, the FAST RETAILING WAY ("FR WAY"), we aim to become the world's number one Information Powered Retail Business. We intend to do this by sharing the same values among all our Group companies and planning, producing and selling truly great products to enrich the lives of people all over the world. The Company's FR WAY Group Mission is "To create truly great clothing with new and unique value, and to enable people all over the world to experience the joy, happiness and satisfaction of wearing such great clothes, to enrich people's lives through our unique corporate activities, and to seek to grow and develop our Company in unity with society".

(2) Business Targets

We regard the ongoing growth of revenues as one of our top priorities in management.

(3) Medium- to Long-term Management Strategy

The Company's vision is to become the world's number one Information Powered Retail Business. We plan to expand our UNIQLO business not only in Japan, but throughout the world, and develop our global brands, such as GU and Theory. In pursuit of this aim, we are committed to promoting globalization, strengthening our overall Group management and reigniting our entrepreneurial spirit, pursuing maximum group synergies in an effort to build a "Global One" management system. We are also actively engaged in CSR activities through our clothing business, in our efforts to be a corporation that makes a positive contribution to the lives of people around the world.

(4) Current Challenges Facing the Group

i) Promote Global One Management Principles

We are strengthening management functions and cooperation among our regional headquarters in Tokyo, New York, London, Paris, Shanghai and Singapore to help promote Global One management principles, and unify Group management across UNIQLO, GU, Theory and other operations. Global One encourages the use of best available global methods, and a self-motivated, united global approach to any challenge. Our FR Management Innovation Center (FR-MIC) is also working hard to nurture future global corporate leaders and managers.

ii) Accelerate UNIQLO's Global Development

We are promoting UNIQLO's global development by expanding store networks in the markets of Asia and Oceania, such as Greater China, South Korea and Southeast Asia, as well as Europe and the United States. We are boosting awareness of the UNIQLO brand by opening global flagship stores and regional flagship stores in major cities worldwide, and polishing our global marketing. Boosting visibility is a top priority in the United States to help turn a profit as soon as possible.

iii) Strengthen Development of Superior World-class Products

We operate dedicated R&D centers in Tokyo, New York, Shanghai, Paris, London and Los Angeles that pick up emerging global fashion trends early, and incorporate them into world-class quality products. UNIQLO's reputation is built upon its ability to offer the very best in basic casualwear. UNIQLO is strengthening its product development to create perfectly finished LifeWear that enriches people's lives, and truly delights customers. GU also collects precise information on upcoming trends to help create stylish, new fashion items.

iv) Major Supply Chain Reforms

The Group is aggressively unifying all procedures from raw materials procurement to planning, design, manufacturing and retail into an entirely new supply chain system for today's digital era. We want to transform our industry into an "Information Powered Retail Business," capable of immediately incorporating feedback from customer into products, and proactively conveying latest information on lifestyles, fashion trends, and exciting but comfortable modern clothing. We are also expanding our e-commerce operation and transforming our distribution systems, as illustrated by the launch of the next-generation distribution center in Ariake, Tokyo in April 2016.

v) Transform Industry through Digital Innovation

Fast Retailing is pursuing a new type of shopping experience that combines physical and virtual stores to boost e-commerce transactions from the current 5% to 30% of total sales. We are promoting digital innovation, including new digital marketing and pertinent Big Data analytics. We are expanding purchasing and delivery options and services so customers can conveniently obtain exactly what they want, how and when they want it.

vi) Promote Stable Growth at UNIQLO Japan

We continue to boost the efficiency of our 837 strong UNIQLO Japan store network as at 31 August 2016 through our "scrap and build" policy of replacing smaller stores with larger ones. Over the medium term, we will encourage 50% of store staff to become local store employees and take an active role in determining community-focused product mixes and marketing. Building a community-based store network is the best way to further improve services, and ensure stable, sustainable growth.

vii) Grow our Global Brands

Our GU fashion casualwear brand has carved a new business model for low-priced fashion. We will continue to open mass new GU stores in Japan and boost profitability. We also plan to expand GU's e-commerce operation, extend GU's store network in Asia, and start growing the brand into a future 1 trillion yen company. We also aim to expand other Group brands such as Theory, Comptoir des Cotonniers, Princesse tam.tam and J Brand by maximizing Group synergies.

viii) Pursue CSR to Make the World a Better Place

Our corporate social responsibility focuses on projects that enrich people's lives and society at large, such as the distribution of secondhand UNIQLO and GU clothing to refugee camps through our All-Product Recycling Initiative, social business in Bangladesh, monitoring working conditions and environmental impact at our partner factories and fabric manufacturers, promoting diversity in the workplace and a healthy work-life balance for employees, and the active employment of people with disabilities.

(5) Other Important Matters Regarding Management

Not applicable.

4. Basic Concept Regarding Selection of Accounting Standard

The Group has adopted International Financial Reporting Standards (“ IFRS”) to the Group’s consolidated financial statements since the year ended 31 August 2014.

5. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(Millions of yen)

	As at 31 August 2015	As at 31 August 2016
ASSETS		
Current assets		
Cash and cash equivalents	355,212	385,431
Trade and other receivables	44,777	45,178
Other current financial assets	22,593	184,239
Inventories	260,006	270,004
Derivative financial assets	157,490	569
Income taxes receivable	18,564	21,626
Others	15,748	17,534
Total current assets	874,394	924,583
Non-current assets		
Property, plant and equipment	129,340	121,853
Goodwill	27,165	17,908
Other intangible assets	40,991	34,205
Non-current financial assets	75,940	77,553
Investments in an associate	—	13,132
Deferred tax assets	11,107	44,428
Others	4,766	4,453
Total non-current assets	289,311	313,535
Total assets	1,163,706	1,238,119
Liabilities and equity		
LIABILITIES		
Current liabilities		
Trade and other payables	181,577	189,501
Derivative financial liabilities	100	72,388
Other current financial liabilities	15,471	12,581
Income taxes payable	36,763	9,602
Provisions	22,615	22,284
Others	35,714	31,689
Total current liabilities	292,242	338,046
Non-current liabilities		
Non-current financial liabilities	25,513	274,090
Provisions	10,203	10,645
Deferred tax liabilities	47,272	3,809
Others	13,668	13,865
Total non-current liabilities	96,658	302,411
Total liabilities	388,901	640,458
EQUITY		
Capital stock	10,273	10,273
Capital surplus	11,524	13,070
Retained earnings	602,623	613,974
Treasury stock, at cost	(15,699)	(15,633)
Other components of equity	142,214	(47,183)
Equity attributable to owners of the parent	750,937	574,501
Non-controlling interests	23,867	23,159
Total equity	774,804	597,661
Total liabilities and equity	1,163,706	1,238,119

(2) Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

Consolidated statement of profit or loss

(Millions of yen)

	Notes	Year ended 31 August 2015	Year ended 31 August 2016
Revenue		1,681,781	1,786,473
Cost of sales		(833,243)	(921,475)
Gross profit		848,538	864,998
Selling, general and administrative expenses	5	(671,863)	(702,956)
Other income	6	8,782	2,363
Other expenses	6,8	(20,992)	(37,112)
Operating profit		164,463	127,292
Finance income	7	17,354	2,364
Finance costs	7	(1,141)	(39,420)
Profit before income taxes		180,676	90,237
Income taxes		(63,287)	(36,162)
Profit for the year		117,388	54,074
Attributable to:			
Owners of the parent		110,027	48,052
Non-controlling interests		7,360	6,021
Profit for the year		117,388	54,074
Earnings per share			
Basic (Yen)	9	1,079.42	471.31
Diluted (Yen)	9	1,078.08	470.69

Consolidated statement of comprehensive income

(Millions of yen)

	Year ended 31 August 2015	Year ended 31 August 2016
Profit for the year	117,388	54,074
Other comprehensive income		
Other comprehensive income not to be reclassified to profit or loss in subsequent periods	—	—
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Net gain/(loss) on revaluation of available-for-sale investments	(655)	105
Exchange differences on translation of foreign operations	14,040	(43,312)
Cash flow hedges	40,350	(150,239)
Other comprehensive income, net of taxes	53,735	(193,447)
Total comprehensive income for the year	171,124	(139,372)
Attributable to:		
Owners of the parent	163,871	(141,345)
Non-controlling interests	7,253	1,972
Total comprehensive income for the year	171,124	(139,372)

(3) Consolidated Statement of Changes in Equity

For the year ended 31 August 2015

(Millions of yen)

					Other components of equity						
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Available-for-sale reserve	Foreign currency translation reserve	Cash-flow hedge reserve	Total	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at 1 September 2014	10,273	9,803	525,722	(15,790)	798	23,035	64,536	88,371	618,381	17,660	636,041
Net changes during the year											
Comprehensive income											
Profit for the year	—	—	110,027	—	—	—	—	—	110,027	7,360	117,388
Other comprehensive income	—	—	—	—	(655)	14,815	39,683	53,843	53,843	(107)	53,735
Total comprehensive income	—	—	110,027	—	(655)	14,815	39,683	53,843	163,871	7,253	171,124
Transactions with the owners											
Acquisition of treasury stock	—	—	—	(11)	—	—	—	—	(11)	—	(11)
Disposal of treasury stock	—	700	—	102	—	—	—	—	803	—	803
Dividends	—	—	(33,126)	—	—	—	—	—	(33,126)	(1,226)	(34,352)
Share-based payments	—	1,019	—	—	—	—	—	—	1,019	—	1,019
Others	—	—	—	—	—	—	—	—	—	180	180
Total transactions with the owners	—	1,720	(33,126)	90	—	—	—	—	(31,315)	(1,046)	(32,361)
Total net changes during the year	—	1,720	76,901	90	(655)	14,815	39,683	53,843	132,556	6,207	138,763
As at 31 August 2015	10,273	11,524	602,623	(15,699)	143	37,851	104,219	142,214	750,937	23,867	774,804

For the year ended 31 August 2016

(Millions of yen)

					Other components of equity						
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Available-for-sale reserve	Foreign currency translation reserve	Cash-flow hedge reserve	Total	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at 1 September 2015	10,273	11,524	602,623	(15,699)	143	37,851	104,219	142,214	750,937	23,867	774,804
Net changes during the year											
Comprehensive income											
Profit for the year	—	—	48,052	—	—	—	—	—	48,052	6,021	54,074
Other comprehensive income	—	—	—	—	105	(40,663)	(148,839)	(189,397)	(189,397)	(4,049)	(193,447)
Total comprehensive income	—	—	48,052	—	105	(40,663)	(148,839)	(189,397)	(141,345)	1,972	(139,372)
Transactions with the owners											
Acquisition of treasury stock	—	—	—	(6)	—	—	—	—	(6)	—	(6)
Disposal of treasury stock	—	546	—	72	—	—	—	—	619	—	619
Dividends	—	—	(36,702)	—	—	—	—	—	(36,702)	(3,268)	(39,970)
Share-based payments	—	945	—	—	—	—	—	—	945	—	945
Others	—	53	—	—	—	—	—	—	53	587	641
Total transactions with the owners	—	1,546	(36,702)	66	—	—	—	—	(35,090)	(2,680)	(37,770)
Total net changes during the year	—	1,546	11,350	66	105	(40,663)	(148,839)	(189,397)	(176,435)	(708)	(177,143)
As at 31 August 2016	10,273	13,070	613,974	(15,633)	248	(2,811)	(44,619)	(47,183)	574,501	23,159	597,661

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended 31 August 2015	Year ended 31 August 2016
Profit before income taxes	180,676	90,237
Depreciation and amortization	37,758	36,797
Impairment losses	16,146	22,397
Increase/(decrease) in allowance for doubtful accounts	372	46
Increase/(decrease) in other provisions	5,096	328
Interest and dividend income	(1,477)	(2,364)
Interest expenses	1,137	2,402
Foreign exchange losses/(gains)	(15,084)	36,955
Share of profit and loss of an associate	—	(132)
Losses on retirement of property, plant and equipment	2,479	1,052
Decrease/(increase) in trade and other receivables	3,977	(2,364)
Decrease/(increase) in inventories	(29,295)	(34,908)
Increase/(decrease) in trade and other payables	(8,031)	18,598
Decrease/(increase) in other assets	(1,900)	1,868
Increase/(decrease) in other liabilities	12,260	(1,356)
Others, net	1,339	(476)
Subtotal	205,456	169,079
Interest and dividend income received	1,477	2,364
Interest paid	(1,155)	(2,163)
Income taxes paid	(84,728)	(88,512)
Income taxes refund	13,881	17,987
Net cash from operating activities	134,931	98,755
Decrease/(increase) in bank deposits with maturity over 3 months	(16,173)	(186,536)
Purchases of property, plant and equipment	(44,663)	(34,158)
Proceeds from sales of property, plant and equipment	261	1,137
Purchases of intangible assets	(6,503)	(9,470)
Payments for lease and guarantee deposits	(8,849)	(7,434)
Proceeds from collection of lease and guarantee deposits	3,442	3,983
Investment in an associate	—	(13,000)
Increase in construction assistance fund receivables	(2,445)	(1,323)
Decrease in construction assistance fund receivables	1,895	1,909
Others, net	(109)	(1,045)
Net cash used in investing activities	(73,145)	(245,939)

(Millions of yen)

	Year ended 31 August 2015	Year ended 31 August 2016
Net increase/(decrease) in short-term loans payable	1,814	(243)
Repayment of long-term loans payable	(5,090)	(4,937)
Proceeds from issuance of corporate bonds	—	249,369
Cash dividends paid	(33,127)	(36,700)
Cash dividends paid to non-controlling interests	(1,226)	(3,076)
Repayments of lease obligations	(4,587)	(4,313)
Others, net	431	1,330
Net cash from/(used in) financing activities	(41,784)	201,428
Effect of exchange rate changes on cash and cash equivalents	21,162	(24,025)
Net increase/(decrease) in cash and cash equivalents	41,162	30,218
Cash and cash equivalents at beginning of year	314,049	355,212
CASH AND CASH EQUIVALENTS AT END OF YEAR	355,212	385,431

(5) Notes regarding Going Concern Assumptions

Not applicable.

(6) Notes to the Consolidated Financial Statements

1. Reporting Entity

FAST RETAILING CO., LTD. (the “Company”) is a company incorporated in Japan. The locations of the registered headquarters and principal offices of the Company are disclosed at our 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 and Theory business (apparel designing and marketing 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 International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

(4) Use of Estimates and Judgments

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

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

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

- Useful lives of property, plant and equipment, and intangible assets
- Recoverable amounts from cash-generating units for impairment test
- Recoverability of deferred tax assets
- Valuation of inventories
- Recoverability of trade and other receivables
- Accounting treatment and valuation of provisions
- Fair value measurement of financial instruments
- Fair value unit price for share-based payments
- Probability of outflow of future economic benefits from contingent liabilities

3. Significant Accounting Policies

(1) Basis of Consolidation

1. Subsidiaries

"Subsidiaries" refers to enterprises that are controlled by the Company (including businesses established by the Company). The Group controls enterprises where it is exposed 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 the 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 control begins until the date control ends.

The subsidiaries adopted consistent accounting policies as the Company in the preparation of their financial statements.

All intra-group balances, transactions within the Group as well as unrealized profit and loss resulting from transactions within the Group are eliminated at the time of preparation of the consolidated financial statements.

The reporting date for FAST RETAILING (CHINA) TRADING CO., LTD., Theory Shanghai International Trading Co., Ltd., UNIQLO TRADING CO., LTD., Fast Retailing (Shanghai) Business Management Consulting Co., Ltd., FAST RETAILING (SHANGHAI) TRADING CO., LTD., GU (Shanghai) Trading Co., Ltd., Comptoir des Cotonniers (Shanghai) Trading Co., Ltd., PRINCESSE TAM.TAM (SHANGHAI) TRADING CO., LTD. and LLC UNIQLO (RUS) is 31 December. The management accounts of these subsidiaries are used for the Group's consolidation purpose. The financial statements of other subsidiaries are prepared using the same reporting period as the parent company.

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

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

The number of consolidated subsidiaries as at 31 August 2016 is 120.

2. Investments in associates

"Associates companies", has not been controlled by the Group, refers to the enterprises 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 estimated that the Group has a significant influence over the other enterprise. Investments in associates companies, perform the accounting treatment by applying the equity method, and measured at historical cost at the time of acquisition. Thereafter the investment is changed in accordance with the change of the Group's share of net assets of associates companies. At that time, the Group's share of the net profit or loss of associated companies is recognized in the consolidated income statement. In addition, among the other comprehensive income of affiliated companies, the Group's share of the net profit or loss is recognized in other comprehensive income in the consolidated statement of comprehensive income. Gains on significant intercompany transactions have been eliminated in accordance with the equity interest in associate companies.

The number of associate as at 31 August 2016 is 1.

(2) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregation of the fair value at the acquisition date of the assets transferred, liabilities assumed and equity instruments 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 income 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 if the acquisitions took place during a period (measurement period) when it is believed that, had facts and circumstances that existed at the acquisition date been known at that time, they would have affected the amounts recognized on that date. Additional assets and liabilities are recognized if new information results in the recognition of additional assets or liabilities. The measurement period should be within one year.

(3) Foreign Currencies

(i) Transactions and balances

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

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

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

(ii) Foreign Operations

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

(4) Financial Instruments

Derivative financial instruments and hedge accounting

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

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

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

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

Cash flow hedges

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

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

Non-derivative financial instruments

(i) Initial recognition and measurement

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

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

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

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

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

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

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

(a) If such designation eliminates or significantly reduces a measurement or recognition inconsistency (“accounting mismatch”) is likely to arise;

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

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

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of profit or loss. Recognized profits or losses, including the above, are recognized in the consolidated statement of profit or loss as dividend income, interest income or gain or loss on changes in fair value.

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

Available-for-sale listed equity securities that are traded on a market are measured using quoted market prices. Unlisted equity securities are measured at fair value using reasonable methods. Profits or losses arising from changes in fair value are recognized as other comprehensive income. Impairment losses or foreign currency gains or losses associated with monetary assets are treated as exceptions and recognized in profit or loss.

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

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

(v) Impairment of financial assets

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

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

(a) Significant deterioration in the financial condition of the issuer or counterparty;

(b) Default or delinquency in interest or principal payments; or

(c) Probability that the issuer will enter bankruptcy or financial reorganization.

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

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

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

(vi) Derecognition of financial assets

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

Non-derivative equity instruments and financial liabilities

(i) Equity instruments (stocks)

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

(ii) Financial liabilities

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

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

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

A financial liability is classified as being held for trading purposes if any of the following applies:

(a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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

(a) If such designation eliminates or significantly reduces a measurement or recognition inconsistency (“accounting mismatch”) is likely to arise;

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

(c) If the contract contains at least one embedded derivative (IAS 39 allows the entire hybrid (combined) contract (assets and liabilities) to be designated as “financial liabilities at fair value through profit or loss”).

Financial liabilities designated as “financial liabilities at fair value through profit or loss” are measured at fair value, with any changes recognized in profit or loss. Recognized profits and losses, including the above, are recognized in the consolidated statement of profit or loss as interest expenses or gain or loss on change in fair value.

(iv) Other financial liabilities

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

(v) Derecognition of financial liabilities

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

(vi) Fair value of financial instruments

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

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

(vii) Offsetting financial instruments

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

(5) Cash and cash equivalents

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

(6) Inventories

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

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

(i) Recognition and measurement

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

(ii) Depreciation

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

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

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

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

(i) Goodwill

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

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

(ii) Intangible assets

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

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

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

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

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

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

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

(9) Leases

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

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

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

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

(10) Impairment

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

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

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

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

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

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

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

(11) Provisions

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

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

Each provision is described below:

(i) Allowance for bonuses

The amount expected to be borne as bonuses in the current reporting period is recorded as a provision for the payment of bonuses to employees of the Group.

(ii) 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 0.37–0.99% is generally used as the discount rate in calculations.

(12) 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.

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 number of stock options that will ultimately vest.

(13) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable by the Group, less returns, trade discounts and rebates. If a single transaction has multiple identifiable elements, the transaction is apportioned among the elements and revenue is recognized for each element. When two or more transactions make commercial sense only when considered together as a single entity, revenue is recognized for the transactions together. The recognition standards and method of presentation for revenue are described below.

(i) Revenue recognition standards

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

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

(ii) Method of presentation for revenue

If the Group is acting as a principal in a transaction, revenue is stated as the total amount of consideration received from the customer.

(14) Income taxes

Income taxes comprise current and deferred taxes. These are recognized in profit or loss, except for the 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 generate 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.

From the current consolidated fiscal year, the Company and 100% owned domestic subsidiaries will apply the consolidated taxation system.

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

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

(15) Earnings per share

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

4. Segment Information

(1) Description of reportable segments

The Group's reportable segments are components for which discrete financial information is available and is 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 three reportable operating segments: UNIQLO Japan, UNIQLO International 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
Global Brands: GU, Theory, Comptoir des Cotonniers, Princesse tam.tam and J Brand clothing operations

(2) Method of calculating segment revenue and results

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

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

(3) Segment information

Year ended 31 August 2015

(Millions of yen)

	Reportable segments			Total	Others (Note1)	Adjustments (Note2)	Consolidated Statement of Profit or Loss
	UNIQLO Japan	UNIQLO International	Global Brands				
Revenue	780,139	603,684	295,316	1,679,140	2,641	—	1,681,781
Operating profit/(losses)	117,249	43,376	14,418	175,045	114	(10,695)	164,463
Segment income/(losses) (profit before income taxes)	119,651	42,914	14,362	176,928	114	3,633	180,676
Other disclosure:							
Depreciation and amortization	7,475	16,865	6,682	31,024	181	6,552	37,758
Impairment losses	106	3,426	6,083	9,616	—	6,530	16,146

(Note1) "Others" include real estate leasing business, etc.

(Note2) "Adjustments" mainly include revenue and corporate expenses which are not allocated to individual reportable segments. Please refer to "8. Impairment losses" for details related to IT system investment.

Year ended 31 August 2016

(Millions of yen)

	Reportable segments			Total	Others (Note1)	Adjustments (Note2)	Consolidated Statement of Profit or Loss
	UNIQLO Japan	UNIQLO International	Global Brands				
Revenue	799,817	655,406	328,557	1,783,782	2,691	—	1,786,473
Operating profit/(losses)	102,462	37,438	9,520	149,421	235	(22,364)	127,292
Segment income/(losses) (profit before income taxes)	100,456	37,138	9,297	146,892	235	(56,890)	90,237
Other disclosure:							
Depreciation and amortization	7,190	17,623	6,605	31,419	156	5,221	36,797
Impairment losses	1,747	5,833	14,816	22,397	—	—	22,397

(Note1) "Others" include real estate leasing business, etc.
(Note2) "Adjustments" mainly include revenue and corporate expenses which are not allocated to individual reportable segments.

(4) Geographic Information
Year ended 31 August 2015
1. External Revenue

(Millions of yen)

Japan	PRC	Overseas (Others)	Total
967,178	204,916	509,687	1,681,781

2. Non-current assets (excluding financial assets and deferred tax assets)

(Millions of yen)

Japan	PRC	Overseas (Others)	Total
56,670	25,143	120,548	202,362

Year ended 31 August 2016
1. External Revenue

(Millions of yen)

Japan	PRC	Overseas (Others)	Total
1,033,058	239,720	513,694	1,786,473

2. Non-current assets (excluding financial assets and deferred tax assets)

(Millions of yen)

Japan	PRC	Overseas (Others)	Total
63,945	22,194	92,281	178,421

5. 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 2015	Year ended 31 August 2016
Selling, general and administrative expenses		
Advertising and promotion	68,474	71,611
Rental expenses	166,437	171,356
Depreciation and amortization	37,758	36,797
Outsourcing	29,324	33,602
Salaries	230,815	242,033
Others	139,053	147,555
Total	671,863	702,956

6. Other income and other expenses

The breakdown of other income and other expenses for each year is as follows:

(Millions of yen)

	Year ended 31 August 2015	Year ended 31 August 2016
Other income		
Foreign exchange gains*	5,809	—
Gains on sales of property, plant and equipment	43	135
Share of profit and loss of an associate	—	132
Others	2,929	2,095
Total	8,782	2,363

(Millions of yen)

	Year ended 31 August 2015	Year ended 31 August 2016
Other expenses		
Foreign exchange losses*	—	11,095
Loss on retirement of property, plant and equipment	2,479	1,052
Impairment losses	16,146	22,397
Others	2,366	2,567
Total	20,992	37,112

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

7. Finance income and finance costs

The breakdown of finance income and finance costs for each year is as follows:

(Millions of yen)

	Year ended 31 August 2015	Year ended 31 August 2016
Finance income		
Foreign exchange gains*	15,084	—
Interest income	1,434	2,349
Dividend income	42	14
Others	792	—
Total	17,354	2,364

(Millions of yen)

	Year ended 31 August 2015	Year ended 31 August 2016
Finance costs		
Foreign exchange losses*	—	36,955
Interest expenses	1,137	2,402
Others	3	62
Total	1,141	39,420

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

8. Impairment losses

During the year ended 31 August 2016, the Group recognized impairment losses of some store assets, goodwill and intangible assets owned by J Brand business, leasehold rights and key money, mainly due to a decline in their profitability.

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

(Millions of yen)

	Year ended 31 August 2015	Year ended 31 August 2016
Buildings and structures	3,334	6,150
Furniture and equipment	772	1,387
Land	387	—
Leased assets	365	384
Subtotal impairment losses on property, plant and equipment	4,858	7,922
Software	6,135	—
Goodwill	1,420	7,565
Trademark	1,469	3,902
Other intangible assets	2,232	2,995
Subtotal impairment losses on intangible assets	11,258	14,463
Other non-current assets (long-term prepayments)	29	11
Total impairment losses	16,146	22,397

(Note) Leased assets include furniture and equipment.

The Group’s impairment losses during the year ended 31 August 2016 amounted to 22,397 million yen, compared with 16,146 million yen during the year ended 31 August 2015, and are included in “other expenses” on the consolidated statement of profit or loss.

Year ended 31 August 2015

(1) Property, plant and equipment

The grouping is based on the smallest cash-generating unit that independently generates cash inflow. In principle, each store is considered a cash-generating unit and recoverable amounts of cash-generating units are calculated based on value in use.

Impairment losses represented write down of the carrying amount of the store assets to the recoverable amount, mainly due to a reduction in profitability of certain stores.

The value in use is calculated based on estimates and growth rates compiled by management. Since the future cash flow is estimated to be negative, the value in use is deemed to be zero.

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

Operating segments	Cash-generating unit	Type
UNIQLO International	UNIQLO USA LLC stores	Buildings and structures

(2) Goodwill and intangible assets, etc.

(i) Impairment losses related to J Brand business

Out of the total impairment losses amounted to 16,146 million yen, 5,123 million yen represented impairment losses for goodwill, trademarks and customer relationships owned by the J Brand business. The carrying amounts of cash-generating units related to J Brand business after recognition of impairment losses are 11,401 million yen of goodwill, 7,005 million yen of trademarks and 4,249 million yen of customer relationships.

The recoverable amounts from trademarks, customer relationships and goodwill related to the J Brand business are calculated based on fair value less costs of disposal.

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

① The terminal value of the business added to the 10-year discounted cash flow based on plans projected and approved by management. The post-tax discount rate is calculated at 19.5% (pre-tax discount rate is 27.5%) based on the weighted average cost of capital of the cash-generating units (Income approach).

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

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

(ii) Impairment losses related to IT system investment

Out of the total impairment losses amounted to 16,146 million yen, 6,530 million yen is related to IT system. 6,530 million yen comprised of impairment losses for software assets which amounted to 6,135 million yen and impairment losses for IT system assets which are included in property, plant and equipment and other non-current assets which amount to 395 million yen.

Impairment losses represented write down of the carrying amount of assets to the recoverable amount, mainly due to a reduction in profitability. IT system and related assets are recognized as one cash-generating unit and the recoverable amount was deemed as zero because the assets are going to be disposed.

Year ended 31 August 2016

(1) Property, plant and equipment

Out of the total impairment losses amounted to 22,397 million yen, 7,934 million yen represented write down of the carrying amount of the store assets to the recoverable amount, mainly due to a reduction in profitability of certain stores.

The grouping is based on the smallest cash-generating unit that independently generates cash inflow. In principle, each store is considered as a cash-generating unit and recoverable amounts of cash-generating units are calculated based on value in use.

The value in use is calculated based on the cash flow projections based on estimates and growth rates compiled by management at a discount rate of 13.9%. Theoretically, the projected cash flows cover a 5-year period, and do not use a growth rate that exceeds the long term average market growth rate.

The pre-tax discount rate calculation is based on the weighted average cost of capital.

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

Operating segments	Cash-generating unit	Type
UNIQLO Japan	UNIQLO CO., LTD. stores	Buildings and structures
UNIQLO International	UNIQLO USA LLC etc. stores	Buildings and structures

(2) Goodwill and intangible assets, etc.

(i) Impairment losses related to J Brand business

Out of the total impairment losses amounted to 22,397 million yen, 13,861 million yen represented impairment losses for goodwill, trademarks and customer relationships owned by the J Brand business. The carrying amounts of cash-generating units related to J Brand business after recognition of impairment losses are 2,018 million yen of goodwill, 1,987 million yen of trademarks and 731 million yen of customer relationships.

The recoverable amounts from trademarks, customer relationships and goodwill related to the J Brand business are calculated based on fair value less costs of disposal.

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

① The terminal value of the business added to the 10-year discounted cash flow based on plans projected and approved by management. The discount rate (post-tax) is calculated at 22.0% (pre-tax discount rate is 32.1%) based on the weighted average cost of capital of the cash-generating units (Income approach).

In addition, deviation from the amount of future cash flows or the predictions about the implementation timing is reflected mainly in the discount rate.

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

This measurement of fair value is classified as level 3 in the fair value hierarchy based on significant inputs in used valuation techniques. Adverse change in key assumptions — lower estimated future cash flow or higher discount rate (post-tax), would cause further impairment loss to be recognized.

(ii) Impairment losses on leasehold rights and key money, etc.

Out of the impairment loss 22,397 million yen, 601 million yen represented the impairment losses on leasehold rights and key money, etc., which are included in other intangible assets. The leasehold rights and key money, etc., are intangible assets with indefinite useful lives. The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

The recoverable amount of such as the store rental agreement related rights fair value less disposal costs, which is calculated based on the evaluation carried out by accredited independent expert or, are measured at whichever is the greater amount of value in use.

9. Earnings per share

Year ended 31 August 2015		Year ended 31 August 2016	
Equity per share attributable to owners of the parent (Yen)	7,366.07	Equity per share attributable to owners of the parent (Yen)	5,634.35
Basic earnings per share for the year (Yen)	1,079.42	Basic earnings per share for the year (Yen)	471.31
Diluted earnings per share for the year (Yen)	1,078.08	Diluted earnings per share for the year (Yen)	470.69

(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 2015	Year ended 31 August 2016
Basic earnings per share for the year		
Profit attributable to owners of the parent for the year (Millions of yen)	110,027	48,052
Profit not attributable to common shareholders (Millions of yen)	—	—
Profit attributable to common shareholders (Millions of yen)	110,027	48,052
Average number of common stock during the year (Shares)	101,932,225	101,955,026
Diluted earnings per share for the year		
Adjustment to profit (Millions of yen)	—	—
Increase in number of common stock (Shares)	126,749	134,476
(share subscription rights)	(126,749)	(134,476)

10. Subsequent Events

Year ended 31 August 2015

At the board meeting of the Company held on 8 October 2015, the Board resolved to issue share subscription rights as share-based compensation stock options to some employees of the Company and its subsidiaries based on Articles 236, 238 and 240 of the Companies Act of Japan.

Please refer to "Notice of FAST RETAILING CO., LTD. related to the issuance of share-based compensation stock option (share subscription rights)" which the Company announced on 8 October 2015 for the details of this issuance.

Year ended 31 August 2016

At the board meeting of the Company held on 13 October 2016, the Board resolved to issue share subscription rights as share-based compensation stock options to some employees of the Company and its subsidiaries based on Articles 236, 238 and 240 of the Companies Act of Japan.

Please refer to "Notice of FAST RETAILING CO., LTD. related to the issuance of share-based compensation stock option (share subscription rights)" which the Company announced on 13 October 2016 for the details of this issuance.

Sales breakdown by product category/operation

Segment	Year ended 31 August 2015		Year ended 31 August 2016	
	Revenue (Millions of yen)	Percent of Total (%)	Revenue (Millions of yen)	Percent of Total (%)
Men's clothing	314,587	18.7	319,995	17.9
Women's clothing	371,127	22.1	379,837	21.3
Children's & Baby's clothing	56,526	3.4	55,005	3.1
Goods and other items	19,429	1.1	20,935	1.2
Total sales of UNIQLO Japan	761,671	45.3	775,773	43.5
Franchise-related income & alteration charges	18,467	1.1	24,044	1.3
Total UNIQLO Japan Operations	780,139	46.4	799,817	44.8
UNIQLO International Operations	603,684	35.9	655,406	36.7
Total UNIQLO Operations	1,383,824	82.3	1,455,224	81.5
Global Brands Operations	295,316	17.6	328,557	18.4
Other Operations	2,641	0.1	2,691	0.1
Total	1,681,781	100.0	1786,473	100.0

(Notes) 1. Franchise-related income refers to the proceeds from garment sales to franchise stores, plus royalty income. Alteration charges refer to income generated from embroidery prints and alterations to pants length.

2. UNIQLO operations cover the selling of UNIQLO brand casual clothing.

3. Global Brands Operations consist of GU operations (selling of GU brand casual clothing), Theory operations (selling of Theory, Helmut Lang and PLST brand clothing), COMPTOIR DES COTONNIERS operations (selling of COMPTOIR DES COTONNIERS brand clothing), PRINCESSE TAM. TAM operations (selling of PRINCESSE TAM. TAM brand clothing), and J Brand operations (selling of J BRAND brand clothing).

4. Other operations include real-estate leasing business.

5. E-commerce revenue from UNIQLO Japan
Fiscal year ended 31 August 2015: 32,409 million yen;
Fiscal year ended 31 August 2016: 42,167 million yen.

6. The above amounts do not include consumption taxes, etc.

6. Non-consolidated Financial Statements

(1) Balance Sheet

(Millions of yen)

	As at 31 August 2015	As at 31 August 2016
ASSETS		
Current assets		
Cash and deposits	145,192	177,827
Trade accounts receivable	11,818	12,232
Short-term investment securities	39,943	115,357
Short-term loans receivable from subsidiaries and affiliates	49,226	51,689
Income taxes receivable	17,979	20,597
Accounts receivable from subsidiaries and affiliates	3,036	12,156
Deferred tax assets	867	1,011
Others	1,821	2,782
Allowance for doubtful accounts	(0)	(187)
Total current assets	269,886	393,466
Non-current assets		
Property, plant and equipment		
Buildings	5,860	6,231
Accumulated depreciation	(4,412)	(4,703)
Buildings, net	1,448	1,527
Structures	298	298
Accumulated depreciation	(212)	(217)
Structures, net	86	81
Tools, furniture and equipment	1,475	1,512
Accumulated depreciation	(1,355)	(1,399)
Tools, furniture and equipment, net	119	112
Land	1,158	1,158
Leased assets	135	52
Accumulated depreciation	(133)	(0)
Leased assets, net	2	52
Construction in progress	—	3,677
Total property, plant and equipment	2,815	6,609
Intangible assets		
Software	10,179	13,601
Software in progress	1,124	2,583
Others	73	64
Total intangible assets	11,377	16,249
Investments and other assets		
Investment securities	553	14,620
Investments in subsidiaries and affiliates	75,810	111,595
Investments in capital of subsidiaries and affiliates	12,629	10,336
Long-term loans receivable from subsidiaries and affiliates	29,898	70,555
Leases and guarantee deposits	5,986	5,065
Deferred tax assets	—	570
Others	1,051	2,015
Allowance for doubtful accounts	(0)	—
Total investments and other assets	125,930	214,760
Total non-current assets	140,122	237,619
Total assets	410,009	631,086

(Millions of yen)

	As at 31 August 2015	As at 31 August 2016
LIABILITIES		
Current liabilities		
Accounts payable	4,251	8,102
Accruals	715	649
Deposits received	23,939	22,693
Allowance for bonuses	1,614	1,620
Others	521	428
Total current liabilities	31,043	33,494
Non-current liabilities		
Corporate bonds	—	250,000
Guarantee deposits received	1,126	1,100
Deferred tax liabilities	1,072	—
Others	759	716
Total non-current liabilities	2,959	251,817
Total liabilities	34,002	285,312
NET ASSETS		
Shareholders' equity		
Capital stock	10,273	10,273
Capital surplus		
Capital reserve	4,578	4,578
Other capital surplus	2,550	3,071
Total capital surplus	7,129	7,650
Retained earnings		
Legal reserve	818	818
Other retained earnings		
Special reserve fund	185,100	185,100
Retained earnings carried forward	185,400	154,782
Total retained earnings	371,318	340,701
Treasury stock	(15,699)	(15,633)
Total shareholders' equity	373,023	342,992
Valuation and translation adjustments		
Unrealized gains/(losses) on available-for-sale securities	329	(818)
Total valuation and translation adjustments	329	(818)
Share subscription rights	2,654	3,599
Total net assets	376,007	345,773
Total liabilities and net assets	410,009	631,086

(2) Statement of Income

(Millions of yen)

	Year ended 31 August 2015	Year ended 31 August 2016
Operating revenue		
Management income from operating companies	30,265	30,377
Dividends income from subsidiaries and affiliates	88,805	68,911
Total operating revenue	119,071	99,289
Operating expenses		
Selling, general and administrative expenses		
Salaries	4,280	4,777
Bonuses	396	298
Allowance for bonuses	1,106	1,289
Rental expenses	4,419	5,045
Depreciation	6,438	4,940
Outsourcing expenses	13,923	15,832
Others	10,662	11,467
Total operating expenses	41,227	43,651
Operating income	77,844	55,637
Non-operating income		
Interest income	292	517
Interest income from investment securities	39	99
Foreign exchange gains	11,218	—
Others	132	181
Total non-operating income	11,683	799
Non-operating expenses		
Interest expenses	42	802
Foreign exchange losses	—	45,657
Others	239	706
Total non-operating expenses	282	47,166
Ordinary income	89,245	9,270
Extraordinary income		
Gain on sales of investments in short-term investment securities	1,773	—
Others	1	—
Total extraordinary income	1,775	—
Extraordinary losses		
Losses on retirement of non-current assets	9	0
Losses on sales of investments in short-term investment securities	1,081	—
Impairment losses of investments in investment securities	15,591	18,996
Impairment losses	6,530	—
Others	—	489
Total extraordinary losses	23,212	19,486
Income (or loss) before income taxes	67,808	(10,215)
Income taxes – current	586	(15,002)
Income taxes – deferred	(3,005)	(1,297)
Total income taxes	(2,418)	(16,300)
Net income	70,227	6,084

(3) Statement of Changes in Net Assets

Year ended 31 August 2015

(Millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Capital reserve	Other capital surplus	Total capital surplus	Legal reserve	Other retained earnings		Total retained earnings
						Special reserve fund	Retained earnings carried forward	
Balance at the beginning of year	10,273	4,578	1,856	6,435	818	185,100	148,299	334,217
Changes during the year								
Exercise of share subscription rights			694	694				
Dividends							(33,126)	(33,126)
Net income							70,227	70,227
Acquisition of treasury stock								
Disposal of treasury stock								
Net changes of items other than those in shareholders' equity								
Net changes during the year	—	—	694	694	—	—	37,101	37,101
Balance at the end of year	10,273	4,578	2,550	7,129	818	185,100	185,400	371,318

	Shareholders' equity		Valuation and translation adjustments		Share subscription rights	Total net assets
	Treasury stock	Total shareholders' equity	Unrealized gains/(losses) on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of year	(15,790)	335,136	(4,515)	(4,515)	1,634	332,255
Changes during the year						
Exercise of share subscription rights		694				694
Dividends		(33,126)				(33,126)
Net income		70,227				70,227
Acquisition of treasury stock	(11)	(11)				(11)
Disposal of treasury stock	102	102				102
Net changes of items other than those in shareholders' equity			4,845	4,845	1,019	5,865
Net changes during the year	90	37,886	4,845	4,845	1,019	43,751
Balance at the end of year	(15,699)	373,023	329	329	2,654	376,007

Year ended 31 August 2016

(Millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Capital reserve	Other capital surplus	Total capital surplus	Legal reserve	Other retained earnings		Total retained earnings
						Special reserve fund	Retained earnings carried forward	
Balance at the beginning of year	10,273	4,578	2,550	7,129	818	185,100	185,400	371,318
Changes during the year								
Exercise of share subscription rights			521	521				
Dividends							(36,702)	(36,702)
Net income							6,084	6,084
Acquisition of treasury stock								
Disposal of treasury stock								
Net changes of items other than those in shareholders' equity								
Net changes during the year	—	—	521	521	—	—	(30,617)	(30,617)
Balance at the end of year	10,273	4,578	3,071	7,650	818	185,100	154,782	340,701

	Shareholders' equity		Valuation and translation adjustments		Share subscription rights	Total net assets
	Treasury stock	Total shareholders' equity	Unrealized gains/(losses) on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of year	(15,699)	373,023	329	329	2,654	376,007
Changes during the year						
Exercise of share subscription rights		521				521
Dividends		(36,702)				(36,702)
Net income		6,084				6,084
Acquisition of treasury stock	(6)	(6)				(6)
Disposal of treasury stock	72	72				72
Net changes of items other than those in shareholders' equity			(1,148)	(1,148)	945	(202)
Net changes during the year	66	(30,030)	(1,148)	(1,148)	945	(30,233)
Balance at the end of year	(15,633)	342,992	(818)	(818)	3,599	345,773

7. Others

Changes in Officers

(1) Change in representative

Not applicable.

(2) Other changes in executives scheduled for 24 November 2016

Changes in directors assume approval by the Shareholders General Meeting for the 55th fiscal term, scheduled to be held on 24 November 2016.

(i) Candidates for reappointment as directors

Director	Tadashi Yanai	(current Chairman, President and CEO)
Director	Toru Hambayashi	(current Director)
Director	Nobumichi Hattori	(current Director)
Director	Toru Murayama	(current Director)
Director	Masaaki Shintaku	(current Director)
Director	Takashi Nawa	(current Director)

(Note) Tadashi Yanai is expected to be reappointed Chairman, President and CEO after re-election by the Ordinary General Meeting of Shareholders scheduled for 24 November 2016.

Toru Hambayashi, Nobumichi Hattori, Toru Murayama, Masaaki Shintaku and Takashi Nawa are External Directors as stipulated in Article 2-15 of the Companies Act.

(ii) Candidates for reappointment as statutory auditors

Auditor	Masaaki Shinjo	(statutory Auditor)
Auditor	Takaharu Yasumoto	(statutory Auditor)
Auditor	Keiko Kaneko	(statutory Auditor)

(Note) Takaharu Yasumoto and Keiko Kaneko are statutory auditors as stipulated in Article 2-16 of the Companies Act.

8. Resumption of Trading

At the request of the Company, trading in its Hong Kong depositary receipts on the Stock Exchange was halted with effect from 1:00 p.m. on Thursday, 13 October 2016 pending the release of this announcement. An application will be made by the Company to the Stock Exchange for resumption of trading in the Hong Kong depositary receipts with effect from 9:00 a.m. on Friday, 14 October 2016.

On Behalf of the Board
FAST RETAILING CO., LTD.
Tadashi Yanai
Chairman, President and Chief Executive Officer

Japan, 13 October 2016

As of the date of this announcement, the Executive Director is Mr. Tadashi Yanai, the Independent Non-executive Directors are Mr. Toru Hambayashi, Mr. Nobumichi Hattori and Mr. Masaaki Shintaku, and the Non-executive Directors are Mr. Toru Murayama and Mr. Takashi Nawa.