

**Flash Report**  
**Consolidated Basis**  
**Results for the Third Quarter of Fiscal 2019**  
**(April 1, 2019—December 31, 2019)**  
**< under IFRS >**

February 7, 2020

<b>Company name:</b>	Nippon Steel Corporation
<b>Stock listing:</b>	Tokyo, Nagoya, Sapporo, Fukuoka stock exchanges
<b>Code number:</b>	5401
<b>URL:</b>	<a href="https://www.nipponsteel.com/en/index.html">https://www.nipponsteel.com/en/index.html</a>
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<b>Scheduled date to submit Securities Report:</b>	February 13, 2020
<b>Scheduled date to pay dividends:</b>	-
<b>Preparation of supplemental explanatory materials:</b>	Yes
<b>Holding of quarterly financial results meeting:</b>	Yes (for investment analysts)

(All amounts have been truncated to the nearest millions of Japanese yen.)

**1. Consolidated Operating Results and Financial Position through the Third Quarter of Fiscal 2019**  
**(April 1, 2019—December 31, 2019)**

**(1) Consolidated Operating Results (Accumulated)**

(Percentage figures are changes from the same period of the previous fiscal year.)

	Revenue		Business profit (*)		Operating profit		Profit before income taxes		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
<b>Third quarter of Fiscal 2019</b>	4,476,014	(2.2)	(279,300)	—	(372,502)	—	(385,629)	—	(351,561)	—
Third quarter of Fiscal 2018	4,575,280	—	263,377	—	241,028	—	228,484	—	208,151	—

	Profit attributable to owners of the parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
<b>Third quarter of Fiscal 2019</b>	(357,379)	—	(361,388)	—	(388.23)	—
Third quarter of Fiscal 2018	206,633	—	40,934	—	234.11	—

(\*)Business Profit on Consolidated Statements of Profit or Loss indicates the results of sustainable business activities, and is an important measure to compare and evaluate the Company's consolidated performance continuously. It is defined as being deducted Cost of sales, Selling general and administrative expenses and Other operating expenses from Revenue, and added Share of profit in investments accounted for using the equity method and Other operating income. Other operating income and expenses is composed mainly of Dividend income, Foreign exchange gains or losses, Losses on disposal of fixed assets.

**(2) Consolidated Financial Position**

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of total equity attributable to owners of the parent to total assets
	Millions of yen	Millions of yen	Millions of yen	%
<b>Third quarter of Fiscal 2019</b>	7,759,638	3,179,062	2,819,003	36.3
Fiscal 2018	8,049,528	3,607,367	3,230,788	40.1

**2. Dividends**

	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Fiscal year
	Yen	Yen	Yen	Yen	Yen
Fiscal 2018	—	40.00	—	40.00	80.00
<b>Fiscal 2019</b>	—	<b>10.00</b>	—		
<b>Fiscal 2019 (Forecasts)</b>				<b>0.00</b>	<b>10.00</b>

Notes: 1. Whether the dividends forecasts under review have been revised: Yes

### 3. Consolidated Financial Forecasts for Fiscal 2019 (April 1, 2019—March 31, 2020)

(Percentage figures are changes from the same period of the previous fiscal year.)

	Revenue		Business profit		Profit attributable to owners of the parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal 2019	5,900,000	(4.5)	(310,000)	—	(440,000)	—	(478.00)

Notes: 1. Whether the consolidated financial forecasts for fiscal 2019 under review have been revised: Yes

2. For further details, please refer to page 5, “1. Qualitative Information for the Third quarter of Fiscal 2019 (2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts.”

#### \* Notes

(1) Changes in significant subsidiaries during the period: None

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

(a) Changes in accounting policies required by IFRS: Yes

(b) Changes other than those in (a) above: None

(c) Changes in accounting estimates: None

Note: For further details, please refer to page 12, “2. Quarterly Condensed Consolidated Financial Statements and Major Notes

(4) Notes to the Quarterly Condensed Consolidated Financial Statements (Changes in Accounting Policies Required by IFRS).”

(3) Number of shares outstanding (common shares)

(a) Number of shares outstanding at the end of the period (including treasury stock)

Third quarter of Fiscal 2019 950,321,402 shares

Fiscal 2018 950,321,402 shares

(b) Number of treasury stock at the end of the period

Third quarter of Fiscal 2019 29,631,273 shares

Fiscal 2018 29,797,955 shares

(c) Weighted average number of shares outstanding

Third quarter of Fiscal 2019 920,536,633 shares

Third quarter of Fiscal 2018 882,602,690 shares

\* This quarterly flash report is not subject to quarterly review procedures.

\* Explanation of the appropriate use of performance forecasts and other related items

(Explanation of the appropriate use of performance forecasts)

The forward-looking statements included in this flash report are based on the assumptions, forecasts, and plans of the Company as of the date on which this document is made public. The Company’s actual results may differ substantially from such statements due to various risks and uncertainties.

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## 1. Qualitative Information for the Third Quarter of Fiscal 2019

### (1) Explanation of Operating Results

#### Global and Domestic Economic Conditions in the Third Quarter of Fiscal 2019

The global economy was characterized by ongoing solid consumer spending in the United States, but slower consumer spending and overall economic growth in China, on the back of the U.S.-China trade friction, where the government continued investment in infrastructure and other economic stimulus measures. In Japan, employment and income conditions remained stable, but the trade friction and a slowdown in overseas demand worsened business conditions in the manufacturing industry and the sense of economic stagnation intensified.

#### Operating Results by Business Segment in the Third Quarter Cumulative Period (Nine Months) of Fiscal 2019

The Nippon Steel Corporation Group's business segments strived to respond to the changing business environment and to improve revenue and profit. An overview of operating results by business segment is shown below.

	(Billions of yen)			
	Revenue		Business Profit	
	3Q FY2019	3Q FY2018	3Q FY2019	3Q FY2018
Steelmaking and Steel Fabrication	3,988.8	4,043.2	(315.3)	220.4
Engineering and Construction	239.4	253.7	8.3	5.7
Chemicals and Materials*	169.3	191.0	17.3	19.7
System Solutions	198.9	190.1	20.2	18.4
Total	4,596.5	4,678.3	(269.4)	264.4
Adjustments	(120.5)	(103.0)	(9.8)	(1.0)
Condensed consolidated total	4,476.0	4,575.2	(279.3)	263.3

\* The Chemicals segment and New Materials segment were merged to form the Chemicals and Materials segment after Nippon Steel

Chemical & Material Co., Ltd. was established in October 2018 following the merger of Nippon Steel & Sumikin Chemical Co., Ltd. and Nippon Steel & Sumikin Materials Co., Ltd.

The figures for the Chemicals and Materials segment in fiscal 2018 are calculated based on the new segmentation.

#### Steelmaking and Steel Fabrication

Steel demand in Japan and abroad lacked strength, particularly for flat steel products, partly due to a decline in production of consumer goods driven by concern about deteriorating economic conditions in China. The Steelmaking and Steel Fabrication segment experienced a decline in the level of activities in Japan, compared to the previous fiscal year, in areas related to exports and capital expenditures. Steel prices in Japan have softened somewhat, and steel prices overseas, particularly in ASEAN, have weakened partly because steel products have flowed in from Russia and India while demand has also slowed down.

In these conditions, profit declined year-on-year in the third quarter of fiscal 2019. There was a recovery from the impacts of torrential rains, typhoons, and earthquakes in the previous fiscal year and improving costs and long-term contractual prices were factors that boosted profit. Despite this, business profit was adversely affected by factors including lower production and shipment volume, higher raw material prices, falling prices for steel products in overseas markets, disasters that occurred in fiscal 2019 (a power outage at the Kimitsu Works due to lightning strikes in Chiba, a fire at the Nippon Steel Nisshin Kure Works No. 1 steelmaking plant, and the impact of Typhoon 15 (Faxai) on the

Kimitsu Works again and other facilities), an inventory valuation difference, and deterioration of earnings at group companies.

In addition, the Company booked impairment losses based on current business conditions and the ongoing losses being reported by the Kashima Works, Nagoya Works, and Hirohata Works.

The Steelmaking and Steel Fabrication segment recorded revenue of ¥3,988.8 billion (¥4,043.2 billion in the same period of the previous fiscal year) and business loss of ¥315.3 billion (business profit of ¥220.4 billion).

### **Engineering and Construction**

Nippon Steel Engineering Co., Ltd. builds and operates plants in the steelworks, environmental, and energy fields and provides services utilizing comprehensive engineering technology worldwide for various types of structures, including large steel structure buildings, ultra-high-rise buildings, and pipeline facilities. In the third quarter cumulative period of fiscal 2019, the company achieved steady progress in projects in various fields through strict project execution management and recorded robust sales. In addition to favorable sales in line with the completion of a number of projects in Japan, an improvement in earnings of its affiliated companies and other factors contributed to the third quarter results.

The Engineering and Construction segment recorded revenue of ¥239.4 billion (¥253.7 billion in the same period of the previous fiscal year) and business profit of ¥8.3 billion (¥5.7 billion).

### **Chemicals and Materials**

Nippon Steel Chemical & Material Co., Ltd. suffered from declining demand for needle coke used in graphite electrodes, which had achieved strong sales, and experienced a continued sluggish market for styrene monomer. In the functional materials business, sales growth slowed for circuit board materials for smartphones but the company started mass production of a new grade of materials for 5G (fifth generation wireless technology) systems, demand for which is expected to increase. Moreover, sales of metallic foils used in HDD suspensions grew thanks to an increase in demand for hard disk drives accompanying a recovery in investment in data centers.

The Chemicals and Materials segment recorded revenue of ¥169.3 billion (¥191.0 billion in the same period of the previous fiscal year) and business profit of ¥17.3 billion (¥19.7 billion).

### **System Solutions**

Nippon Steel Solutions Co., Ltd. (NS Solutions) provides advanced solution services in the planning, configuration, operation, and maintenance of IT systems for clients in a wide range of business fields to keep pace with changing business environments. Business conditions remained favorable as customers continued to actively invest in IT in pursuit of digital transformation (DX). The segment continued to aggressively promote sales of solutions incorporating IoT and worked on development for sales of 5G-related solutions.

The System Solutions segment recorded revenue of ¥198.9 billion (¥190.1 billion in the same period of the previous fiscal year) and business profit of ¥20.2 billion (¥18.4 billion).

**Revenue and Profit for the Third Quarter (Nine Months) of Fiscal 2019**

In the third quarter cumulative period (nine months) of fiscal 2019, Nippon Steel recorded revenue of ¥4,476.0 billion (¥4,575.2 billion in the same period of the previous fiscal year), business loss of ¥279.3 billion (business profit of ¥263.3 billion). In addition, due to the posting of losses on reorganization, the partial reversal of deferred tax assets, and other factors, the Company recorded loss attributable to owners of the parent of ¥357.3 billion (profit attributable to owners of the parent of ¥206.6 billion).

## **(2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts**

### **Consolidated Earnings Forecasts**

Nippon Steel expects the global economy to continue slowing amid increased uncertainty stemming from protectionist measures and other factors. The outlook for the Japanese economy is also very uncertain, reflecting the potential impact of global economic conditions and concerns over the deteriorating consumer mindset accompanying the consumption tax hike.

Domestic and overseas steel demand is experiencing heightened downside risk in all fields associated with the uncertain global economic outlook. Global steel demand and prices continue to require monitoring, together with domestic conditions, because of uncertainties in the overseas outlook.

Concerning consolidated earnings for fiscal 2019, while Nippon Steel has continued to advance measures to enhance the overall stability of its facilities and operations and to ensure steady improvements in costs and long-term contractual prices, it has substantially lowered its forecasts compared to the previous forecasts announced at the release of its first-half earnings results (on November 1, 2019) to business loss of ¥310.0 billion, mainly due to lower production and shipment volume, deteriorating earnings at group companies, and the recording of impairment losses on operating assets. In addition, due to the posting of losses on reorganization, the partial reversal of deferred tax assets, and other factors, loss attributable to owners of the parent of ¥440.0 billion is expected. .

### **Basic Profit Distribution Policy and the Year-End Dividend Distribution**

Nippon Steel's basic profit distribution policy is to pay dividends from distributable funds at the end of the first half (interim) and second half (year-end) of the fiscal year, in consideration of the consolidated operating results and such factors as capital requirements for investment and other activities aimed at raising corporate value and performance prospects while also considering the financial structure of the Company on both consolidated and non-consolidated bases. The Company has adopted a consolidated annual dividend payout ratio target of around 30% as the benchmark for the "payment of dividends from distributable funds in consideration of the consolidated operating results." The level of the first half dividend is determined based on consideration of interim performance figures and forecasts for the full fiscal year performance.

Regarding the dividend distribution from retained earnings for the end of the fiscal year, while a year-end dividend distribution plan had not been determined at the first half earnings announcement (November 1, 2019), the Company has decided that, in accordance with the policy described above and after giving due consideration to full-year forecasts, it plans to forgo a year-end dividend payment (the dividend for the full year will therefore be ¥10 per share).

In the medium- to long-term, Nippon Steel has to expect a decline in steel demand, associated with factors such as Japan's declining and aging population and expanded overseas production by our Japanese customers, as well as intensified competition in the overseas market. In the meantime, Nippon Steel Group's major steelworks have been operating for over 50 years since construction and are in need of large-scale investment for renewal in order to maintain

their current production capacity. In light of such a difficult environment, the Company decided and announced today the “Implementation of Production Facility Structural Measures and Management Reform Measures”.

Based on the production facility structure decided at this time, the Company will build up synergy effects from steelworks integration and effects of improvement in labor productivity and variable cost through rationalization. Moreover, regarding the new production facility structure as the first step, it will continue to consider establishing a more competitive optimal production structure, and at the same time carry out the selection and concentration in capital spending, ascertain factors such as future supply-demand balance in Japan and overseas, and our potential profit trend under that balance, and implement measures according to changing business environment.

Nippon Steel will concurrently make strategic investments in growing business fields and regions. This includes investments in the enhancement of the supply network for ultra-high-tensile steel sheets, the expansion of production capacity and enhancement of the quality of electrical steel sheet, and the acquisition of Essar Steel India Limited. The Company also intends to accelerate the reorganization of or withdrawal from unprofitable overseas businesses with no prospects of a future profit recovery. These are some of the various measures to enhance the profit base which are determined to be implemented.

Nippon Steel will continue efforts to rebuild its “strength in manufacturing” and improve its long-term contractual prices. At the same time, through implementation of the various measures, which were decided today, the Company will strive to quickly reestablish the profit base and improve the financial position in order to return profits to shareholders.



## **2. Quarterly Condensed Consolidated Financial Statements and Major Notes**

### (1) Quarterly Condensed Consolidated Statements of Financial Position

	(Millions of Yen)	
<b>ASSETS</b>	March 31, 2019	December 31, 2019
<b>Current assets :</b>		
Cash and cash equivalents	163,176	260,184
Trade and other receivables	968,333	755,555
Inventories	1,567,116	1,586,117
Other financial assets	16,915	208,443
Other current assets	143,669	136,476
<b>Total current assets</b>	2,859,211	2,946,777
<b>Non-current assets :</b>		
Property, plant and equipment	3,246,669	2,787,292
Right-of-use assets	—	81,289
Goodwill	52,803	47,837
Intangible assets	106,131	93,885
Investments accounted for using the equity method	793,146	890,258
Other financial assets	812,668	665,549
Defined benefit assets	82,247	72,331
Deferred tax assets	88,357	166,991
Other non-current assets	8,292	7,424
<b>Total non-current assets</b>	5,190,316	4,812,861
<b>Total assets</b>	8,049,528	7,759,638

(Millions of Yen)

<b>LIABILITIES</b>	March 31, 2019	December 31, 2019
<b>Current liabilities :</b>		
Trade and other payables	1,611,403	1,407,128
Bonds, borrowings and lease liabilities	515,355	590,575
Other financial liabilities	1,017	1,602
Income taxes payable	38,719	18,065
Other current liabilities	34,042	42,701
<b>Total current liabilities</b>	2,200,538	2,060,074
<b>Non-current liabilities :</b>		
Bonds, borrowings and lease liabilities	1,853,876	2,142,886
Other financial liabilities	6,501	4,809
Defined benefit liabilities	186,755	169,302
Deferred tax liabilities	28,253	31,531
Other non-current liabilities	166,235	171,972
<b>Total non-current liabilities</b>	2,241,622	2,520,502
<b>Total liabilities</b>	4,442,160	4,580,576
<b>EQUITY</b>		
Common stock	419,524	419,524
Capital surplus	393,917	394,308
Retained earnings	2,300,175	1,964,629
Treasury stock	(58,831)	(58,487)
Other components of equity	176,000	99,027
<b>Total equity attributable to owners of the parent</b>	3,230,788	2,819,003
Non-controlling interests	376,579	360,059
<b>Total equity</b>	3,607,367	3,179,062
<b>Total liabilities and equity</b>	8,049,528	7,759,638

**(2) Quarterly Condensed Consolidated Statements of Profit or Loss and  
Quarterly Condensed Consolidated Statements of Comprehensive Income or Loss**

Quarterly Condensed Consolidated Statements of Profit or Loss	(Millions of Yen)	
	Third quarter of Fiscal 2018	Third quarter of Fiscal 2019
Revenue	4,575,280	4,476,014
Cost of sales	(3,976,280)	(4,023,034)
<b>Gross profit</b>	<b>599,000</b>	<b>452,980</b>
Selling, general and administrative expenses	(421,620)	(430,973)
Share of profit in investments accounted for using the equity method	67,047	37,918
Other operating income	58,569	63,855
Other operating expenses	(39,619)	(403,080)
<b>Business profit(loss)</b>	<b>263,377</b>	<b>(279,300)</b>
Losses on natural disaster	(22,349)	—
Losses on reorganization	—	(93,202)
<b>Operating profit(loss)</b>	<b>241,028</b>	<b>(372,502)</b>
Finance income	4,481	4,885
Finance costs	(17,024)	(18,013)
<b>Profit(loss) before income taxes</b>	<b>228,484</b>	<b>(385,629)</b>
Income tax expense	(20,333)	34,068
<b>Profit(loss)</b>	<b>208,151</b>	<b>(351,561)</b>
<b>Profit(loss) attributable to :</b>		
Owners of the parent	206,633	(357,379)
Non-controlling interests	1,518	5,818
<b>Earnings(loss) per share</b>		
Basic earnings(loss) per share (Yen)	234.11	(388.23)

Quarterly Condensed Consolidated Statements of Comprehensive Income or Loss	(Millions of Yen)	
	Third quarter of Fiscal 2018	Third quarter of Fiscal 2019
Profit(loss)	208,151	(351,561)
Other comprehensive income		
Items that cannot be reclassified to profit or loss		
Changes in fair value of financial assets measured at fair value through other comprehensive income	(111,935)	13,480
Remeasurements of defined benefit plans	(8,210)	16,511
Share of other comprehensive income of investments accounted for using the equity method	(2,653)	2,487
Subtotal	(122,798)	32,480
Items that might be reclassified to profit or loss		
Changes in fair value of cash flow hedges	(535)	(515)
Foreign exchange differences on translation of foreign operations	(23,949)	(26,536)
Share of other comprehensive income of investments accounted for using the equity method	(19,933)	(15,255)
Subtotal	(44,418)	(42,306)
<b>Total other comprehensive income, net of tax</b>	<b>(167,217)</b>	<b>(9,826)</b>
<b>Total comprehensive income</b>	<b>40,934</b>	<b>(361,388)</b>
<b>Comprehensive income attributable to:</b>		
Owners of the parent	44,818	(366,418)
Non-controlling interests	(3,884)	5,030

**(3) Quarterly Condensed Consolidated Statements of Changes in Equity**

Third quarter of Fiscal 2018

(Millions of Yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	
					Changes in fair value of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance at beginning of the year	419,524	386,867	2,141,658	(132,162)	334,701	—
Changes of the year						
Comprehensive income						
Profit(loss)			206,633			
Other comprehensive income					(110,268)	(8,535)
Total comprehensive income	—	—	206,633	—	(110,268)	(8,535)
Transactions with owners and others						
Cash dividends			(70,710)			
Purchases of treasury stock				(41)		
Disposals of treasury stock		0		4		
Changes in ownership interests in subsidiaries		(3,077)				
Transfer from other components of equity to retained earnings			1,933		(10,469)	8,535
Changes in scope of consolidation				(3)		
Subtotal	—	(3,076)	(68,777)	(40)	(10,469)	8,535
<b>Balance as of December 31, 2018</b>	<b>419,524</b>	<b>383,791</b>	<b>2,279,515</b>	<b>(132,202)</b>	<b>213,963</b>	<b>—</b>

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Other components of equity			Total equity attributable to owners of the parent		
	Changes in fair value of cash flow hedges	Foreign exchange differences on translation of foreign operations	Total			
Balance at beginning of the year	(6,600)	(6,998)	321,101	3,136,991	387,905	3,524,896
Changes of the year						
Comprehensive income						
Profit(loss)			—	206,633	1,518	208,151
Other comprehensive income	(211)	(42,798)	(161,815)	(161,815)	(5,402)	(167,217)
Total comprehensive income	(211)	(42,798)	(161,815)	44,818	(3,884)	40,934
Transactions with owners and others						
Cash dividends			—	(70,710)	(7,480)	(78,190)
Purchases of treasury stock			—	(41)		(41)
Disposals of treasury stock			—	4		4
Changes in ownership interests in subsidiaries			—	(3,077)	(6,498)	(9,576)
Transfer from other components of equity to retained earnings			(1,933)	—		—
Changes in scope of consolidation			—	(3)	(182)	(185)
Subtotal	—	—	(1,933)	(73,827)	(14,161)	(87,988)
<b>Balance as of December 31, 2018</b>	<b>(6,811)</b>	<b>(49,797)</b>	<b>157,353</b>	<b>3,107,982</b>	<b>369,859</b>	<b>3,477,842</b>

Third Quarter of Fiscal 2019

(Millions of Yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	
					Changes in fair value of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance at beginning of the year	419,524	393,917	2,300,175	(58,831)	248,020	—
Changes of the year						
Comprehensive income						
Profit(loss)			(357,379)			
Other comprehensive income					12,893	17,392
Total comprehensive income	—	—	(357,379)	—	12,893	17,392
Transactions with owners and others						
Cash dividends			(46,101)			
Purchases of treasury stock				(38)		
Disposals of treasury stock		(104)		623		
Changes in ownership interests in subsidiaries		494				
Transfer from other components of equity to retained earnings			67,934		(50,541)	(17,392)
Changes in scope of consolidation				(241)		
Subtotal	—	390	21,833	344	(50,541)	(17,392)
<b>Balance as of December 31, 2019</b>	<b>419,524</b>	<b>394,308</b>	<b>1,964,629</b>	<b>(58,487)</b>	<b>210,371</b>	<b>—</b>

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Other components of equity			Total equity attributable to owners of the parent		
	Changes in fair value of cash flow hedges	Foreign exchange differences on translation of foreign operations	Total			
Balance at beginning of the year	(4,433)	(67,585)	176,000	3,230,788	376,579	3,607,367
Changes of the year						
Comprehensive income						
Profit(loss)			—	(357,379)	5,818	(351,561)
Other comprehensive income	631	(39,956)	(9,038)	(9,038)	(788)	(9,826)
Total comprehensive income	631	(39,956)	(9,038)	(366,418)	5,030	(361,388)
Transactions with owners and others						
Cash dividends			—	(46,101)	(8,035)	(54,136)
Purchases of treasury stock			—	(38)		(38)
Disposals of treasury stock			—	519		519
Changes in ownership interests in subsidiaries			—	494	(320)	173
Transfer from other components of equity to retained earnings			(67,934)	—		—
Changes in scope of consolidation			—	(241)	(13,194)	(13,435)
Subtotal	—	—	(67,934)	(45,366)	(21,550)	(66,916)
<b>Balance as of December 31, 2019</b>	<b>(3,802)</b>	<b>(107,541)</b>	<b>99,027</b>	<b>2,819,003</b>	<b>360,059</b>	<b>3,179,062</b>

**(4) Notes to the Quarterly Condensed Consolidated Financial Statements**  
**(Going Concern Assumption)**

None

**(Changes in Accounting Policies Required by IFRS)**

From the beginning of the first quarter of Fiscal 2019 (April 1, 2019—June 30, 2019), the Group has adopted IFRS 16 “Leases” (Issued in January 2016) (“IFRS 16”). In adopting IFRS 16, the Group has applied an approach of recognizing the cumulative effect of applying the standard as an adjustment to the beginning balance at the date of initial application, which is approved as a transitional measure.

In adopting IFRS 16, the Group has elected to apply the practical expedient detailed in paragraph C3 of IFRS 16 in determining whether a contract is, or contains, a lease by maintaining its previous assessment under IAS 17 “Leases” (“IAS 17”) and IFRIC 4 “Determining whether an Arrangement Contains a Lease”. On and after the date of initial application, the Group has determined whether a contract is, or contains, a lease in accordance with IFRS 16.

For leases previously classified as finance leases under IAS 17 and in which the Group is a lessee, the carrying amounts of the right-of-use assets and lease obligations as of the date of initial application have been respectively measured at the carrying amounts of the leased assets and lease liabilities under IAS 17 immediately before the date of initial application.

For leases previously classified as operating leases under IAS 17 and in which the Group is a lessee, the Group has recognized the right-of-use assets and lease liabilities as of the date of initial application. The lease liabilities are measured at the present value of the minimum lease payments as of the date of initial application discounted by the lessee’s incremental borrowing rate. The weighted average of the incremental borrowing rate is 0.5%. The right-of-use assets are measured at the carrying amounts computed under the assumption of applying the standard at the commencement date of the contract. The discount rate applied is the lessee’s incremental borrowing rate as of the date of initial application.

The breakdown of difference between the amount of non-cancellable operating lease contracts under IAS 17 as of the end of the Fiscal 2018 and the amount of lease liabilities recognized in the Quarterly Condensed Consolidated Statements of Financial Position as of the date of initial application is as follows.

	(Millions of Yen)
Non-cancellable operating lease contracts as of March 31, 2019	45,800
Finance lease liabilities as of March 31, 2019	46,754
Non-cancellable lease contracts effective on or after the date of initial application	(12,226)
Lease liabilities as of the date of initial application (April 1, 2019)	80,328

The right-of-use assets recognized at the date of initial application in the Quarterly Condensed Statements of Financial Position is ¥79,770 million.

In adopting IFRS 16, the Group has applied the following practical expedients.

- As an alternative of performing an impairment review, the Group relies on a previous assessment of whether leases are onerous in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” immediately before the date of initial application.
- Exclusion of initial direct costs from the measurement of the right-of-use assets as of the date of initial application.
- Use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.