NIPPON STEEL CORPORATION

Financial Report 2019

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Millions of Yen)

ASSETS		As of March 31, 2019	**As of March 31, 2020**
Current assets :			
Cash and cash equivalents	(Notes 8 and 33)	163,176	**289,459**
Trade and other receivables	(Notes 9, 33 and 34)	968,333	**826,596**
Inventories	(Note 10)	1,567,116	**1,532,181**
Other financial assets	(Note 33)	16,915	**17,340**
Other current assets		143,669	**119,396**
Total current assets		2,859,211	**2,784,974**
Non-current assets :			
Property, plant and equipment	(Notes 11, 12 and 30)	3,246,669	**2,812,542**
Right-of-use assets	(Note 14)	—	**93,663**
Goodwill	(Notes 7, 13 and 30)	52,803	**45,486**
Intangible assets	(Notes 13 and 30)	106,131	**96,677**
Investments accounted for using the equity method	(Notes 15 and 30)	793,146	**878,271**
Other financial assets	(Note 33)	812,668	**481,117**
Defined benefit assets	(Note 19)	82,247	**58,643**
Deferred tax assets	(Note 16)	88,357	**186,457**
Other non-current assets		8,292	**7,132**
Total non-current assets		5,190,316	**4,659,990**
Total assets		8,049,528	**7,444,965**

(Millions of Yen)

LIABILITIES		As of March 31, 2019	**As of March 31, 2020**
Current liabilities :			
Trade and other payables	(Notes 17 and 33)	1,611,403	**1,449,801**
Bonds, borrowings and lease liabilities	(Notes 11, 14 18 and 33)	515,355	**376,900**
Other financial liabilities	(Note 33)	1,017	**2,189**
Income taxes payable		38,719	**27,323**
Other current liabilities		34,042	**38,978**
Total current liabilities		2,200,538	**1,895,192**
Non-current liabilities :			
Bonds, borrowings and lease liabilities	(Notes 11, 14, 18 and 33)	1,853,876	**2,111,841**
Other financial liabilities	(Note 33)	6,501	**4,621**
Defined benefit liabilities	(Note 19)	186,755	**236,758**
Deferred tax liabilities	(Note 16)	28,253	**27,765**
Other non-current liabilities	(Note 33)	166,235	**172,154**
Total non-current liabilities		2,241,622	**2,553,141**
Total liabilities		4,442,160	**4,448,333**
EQUITY			
Common stock	(Note 20)	419,524	**419,524**
Capital surplus	(Note 20)	393,917	**394,404**
Retained earnings	(Note 20)	2,300,175	**1,870,948**
Treasury stock	(Note 20)	(58,831)	**(58,505)**
Other components of equity		176,000	**15,245**
Total equity attributable to owners of the parent		3,230,788	**2,641,618**
Non-controlling interests		376,579	**355,013**
Total equity		3,607,367	**2,996,631**
Total liabilities and equity		8,049,528	**7,444,965**

Consolidated Statements of Profit or Loss and Consolidated Statements of Comprehensive Income or Loss

Consolidated Statements of Profit or Loss (Millions of Yen)

		Years ended March 31, 2019	**Years ended March 31, 2020**
Revenue	(Notes 22 and 34)	6,177,947	**5,921,525**
Cost of sales	(Note 24)	(5,391,493)	**(5,312,367)**
Gross profit		786,453	**609,158**
Selling, general and administrative expenses	(Notes 23, 24 and 34)	(568,409)	**(571,781)**
Share of profit in investments accounted for using the equity method	(Note 15)	86,411	**38,395**
Other operating income	(Note 25)	102,606	**104,844**
Other operating expenses	(Note 25)	(70,120)	**(465,035)**
Business profit(loss)	(Note 26)	336,941	**(284,417)**
Losses on natural disaster	(Note 27)	(22,349)	—
Losses on reorganization	(Note 28)	(49,480)	**(121,702)**
Operating profit(loss)		265,111	**(406,119)**
Finance income	(Note 29)	6,104	**7,706**
Finance costs	(Note 29)	(22,445)	**(25,159)**
Profit(loss) before income taxes		248,769	**(423,572)**
Income tax expense	(Note 16)	8,809	**(2,548)**
Profit (loss) for the year		257,579	**(426,120)**
Profit(loss) for the year attributable to :			
Owners of the parent		251,169	**(431,513)**
Non-controlling interests		6,409	**5,393**
Earnings(loss) per share			
Basic earnings(loss) per share (Yen)	(Note 32)	281.77	**(468.74)**

Consolidated Statements of Comprehensive Income or Loss (Millions of Yen)

		Years ended March 31, 2019	**Years ended March 31, 2020**
Profit(loss) for the year		257,579	**(426,120)**
Other comprehensive income	(Note 31)		
Items that cannot be reclassified to profit or loss			
Changes in fair value of financial assets measured at fair value through other comprehensive income		(104,557)	**(83,305)**
Remeasurements of defined benefit plans		(3,531)	**(1,449)**
Share of other comprehensive income of investments accounted for using the equity method	(Note 15)	(2,953)	**(6,785)**
Subtotal		(111,042)	**(91,540)**
Items that might be reclassified to profit or loss			
Changes in fair value of cash flow hedges		1,522	**(1,821)**
Foreign exchange differences on translation of foreign operations		(41,256)	**(14,812)**
Share of other comprehensive income of investments accounted for using the equity method	(Note 15)	(21,687)	**(9,346)**
Subtotal		(61,421)	**(25,981)**
Total other comprehensive income, net of tax		(172,464)	**(117,521)**
Total comprehensive income for the year		85,114	**(543,642)**
Comprehensive income for the year attributable to:			
Owners of the parent		84,126	**(543,881)**
Non-controlling interests		988	**238**

Consolidated Statements of Changes in Equity

Years ended March 31, 2019 (Millions of Yen)

		Equity attributable to owners of the parent				
					Other components of equity	
	Common stock	Capital surplus	Retained earnings	Treasury stock	Changes in fair value of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance as of March 31, 2018	419,524	386,867	2,141,658	(132,162)	334,701	—
Changes of the year						
Comprehensive income						
Profit(loss) for the year			251,169			
Other comprehensive income (Note 31)					(104,254)	(4,369)
Total comprehensive income	—	—	251,169	—	(104,254)	(4,369)
Transactions with owners and others						
Cash dividends (Note 21)			(70,710)			
Purchases of treasury stock (Note 20)				(82)		
Disposals of treasury stock (Note 20)		(1,427)		73,656		
Changes in ownership interests in subsidiaries		8,477				
Transfer from other components of equity to retained earnings			(21,942)		17,573	4,369
Changes in scope of consolidation				(242)		
Subtotal	—	7,050	(92,652)	73,331	17,573	4,369
Balance as of March 31, 2019	**419,524**	**393,917**	**2,300,175**	**(58,831)**	**248,020**	**—**

	Equity attributable to owners of the parent					
	Other components of equity					
	Changes in fair value of cash flow hedges	Foreign exchange differences on translation of foreign operations	Total	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of March 31, 2018	(6,600)	(6,998)	321,101	3,136,991	387,905	3,524,896
Changes of the year						
Comprehensive income						
Profit(loss) for the year			—	251,169	6,409	257,579
Other comprehensive income (Note 31)	2,166	(60,586)	(167,043)	(167,043)	(5,420)	(172,464)
Total comprehensive income	2,166	(60,586)	(167,043)	84,126	988	85,114
Transactions with owners and others						
Cash dividends (Note 21)			—	(70,710)	(7,604)	(78,315)
Purchases of treasury stock (Note 20)			—	(82)		(82)
Disposals of treasury stock (Note 20)			—	72,228		72,228
Changes in ownership interests in subsidiaries			—	8,477	(94,092)	(85,614)
Transfer from other components of equity to retained earnings			21,942	—		—
Changes in scope of consolidation			—	(242)	89,383	89,140
Subtotal	—	—	21,942	9,670	(12,314)	(2,643)
Balance as of March 31, 2019	**(4,433)**	**(67,585)**	**176,000**	**3,230,788**	**376,579**	**3,607,367**

Years ended March 31, 2020 (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 as of March 31, 2019		419,524	393,917	2,300,175	(58,831)	248,020	—
Changes of the year							
Comprehensive income							
Profit(loss) for the year				(431,513)			
Other comprehensive income	(Note 31)					(85,278)	(2,429)
Total comprehensive income		—	—	(431,513)	—	(85,278)	(2,429)
Transactions with owners and others							
Cash dividends	(Note 21)			(46,101)			
Purchases of treasury stock	(Note 20)				(49)		
Disposals of treasury stock	(Note 20)		(104)		625		
Changes in ownership interests in subsidiaries			591				
Transfer from other components of equity to retained earnings				48,387		(50,817)	2,429
Changes in scope of consolidation					(250)		
Subtotal		—	486	2,286	325	(50,817)	2,429
Balance as of March 31, 2020		**419,524**	**394,404**	**1,870,948**	**(58,505)**	**111,924**	—

		Equity attributable to owners of the parent: Other components of equity: Changes in fair value of cash flow hedges	Foreign exchange differences on translation of foreign operations	Total	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of March 31, 2019		(4,433)	(67,585)	176,000	3,230,788	376,579	3,607,367
Changes of the year							
Comprehensive income							
Profit(loss) for the year				—	(431,513)	5,393	(426,120)
Other comprehensive income	(Note 31)	(387)	(24,271)	(112,367)	(112,367)	(5,154)	(117,521)
Total comprehensive income		(387)	(24,271)	(112,367)	(543,881)	238	(543,642)
Transactions with owners and others							
Cash dividends	(Note 21)			—	(46,101)	(8,045)	(54,146)
Purchases of treasury stock	(Note 20)			—	(49)		(49)
Disposals of treasury stock	(Note 20)			—	520		520
Changes in ownership interests in subsidiaries				—	591	(942)	(351)
Transfer from other components of equity to retained earnings				(48,387)	—		—
Changes in scope of consolidation				—	(250)	(12,817)	(13,067)
Subtotal		—	—	(48,387)	(45,288)	(21,804)	(67,093)
Balance as of March 31, 2020		**(4,821)**	**(91,857)**	**15,245**	**2,641,618**	**355,013**	**2,996,631**

Consolidated Statements of Cash Flows

(Millions of yen)

		Year ended March 31, 2019	**Year ended March 31, 2020**
Cash flows from operating activities :			
Profit (loss) before income taxes		248,769	**(423,572)**
Depreciation and amortization		408,616	**417,339**
Impairment losses		—	**333,968**
Finance income		(6,104)	**(7,706)**
Finance costs		22,445	**25,159**
Share of profit in investments accounted for using the equity method		(86,411)	**(38,395)**
Gains on sales of property, plant and equipment and intangible assets		(5,801)	**(6,105)**
Losses on reorganization		49,480	**121,702**
(Increase) decrease in trade and other receivables		(114,662)	**157,635**
(Increase) in inventories		(129,483)	**13,864**
Increase in trade and other payables		81,058	**(152,856)**
Other, net		21,640	**98,809**
Subtotal		489,547	**539,842**
Interest received		5,796	**7,887**
Dividends received		57,088	**61,024**
Interest paid		(19,278)	**(21,913)**
Income taxes paid		(80,811)	**(92,510)**
Net cash flows provided by operating activities		452,341	**494,330**
Cash flows from investing activities :			
Purchases of property, plant and equipment and intangible assets		(438,758)	**(460,555)**
Proceeds from sales of property, plant and equipment and intangible assets		12,841	**13,283**
Purchases of investment securities		(8,362)	**(1,793)**
Proceeds from sales of investment securities		87,693	**191,924**
Purchases of investments in affiliates		(2,787)	**(112,302)**
Proceeds from sales of investments in affiliates		5,348	**12,404**
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(Note 7)	(35,658)	**—**
Loans to associates and others		(11,870)	**(225,850)**
Collection of loans from associates and others		3,948	**238,418**
Other, net		5,798	**(1,155)**
Net cash flows used in investing activities		(381,805)	**(345,627)**
Cash flows from financing activities :			
Increase in short-term borrowings, net	(Note 18)	67,401	**(89,452)**
Proceeds from long-term borrowings	(Note 18)	285,857	**46,020**
Repayments of long-term borrowings	(Note 18)	(192,799)	**(211,628)**
Proceeds from issuance of bonds	(Note 18)	60,000	**377,550**
Redemption of bonds	(Note 18)	(85,700)	**(60,000)**
Purchases of treasury stock		(55)	**(43)**
Cash dividends paid	(Note 21)	(70,710)	**(46,101)**
Dividends paid to non-controlling interests		(7,604)	**(8,045)**
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		—	**1,910**
Other, net		(99,289)	**(24,791)**
Net cash flows used in financing activities		(42,900)	**(14,582)**
Effect of exchange rate changes on cash and cash equivalents		(7,328)	**(7,838)**
Net increase in cash and cash equivalents		20,306	**126,283**
Cash and cash equivalents at beginning of the year		142,869	**163,176**
Cash and cash equivalents at end of the year	(Note 8)	163,176	**289,459**

The accompanying notes are integral parts of these statements.

Notes to the consolidated financial statements

1. Reporting Entity

NIPPON STEEL CORPORATION (hereinafter referred to as the “Company” or “NSC”) is a corporation domiciled in Japan. The consolidated financial statements for the year ended March 31, 2019 and 2020 are composed of the Company and its consolidated subsidiaries and equity-method affiliates (collectively hereinafter referred to as the “Group”). The principal businesses of the Group consist of Steelmaking and Steel Fabrication business, Engineering and Construction business, Chemicals & Materials business, and System Solutions business. The details are described in Note “6. Segment Information”.

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The term IFRS also includes International Accounting Standards (“IAS”) and the related interpretations of the interpretations committees (“SIC” and” IFRIC”).

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain assets and liabilities as separately stated in Note “3. Significant Accounting Policies”.

(3) Functional currency and presentation currency

The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. All amounts have been truncated to the nearest millions of Japanese yen, unless otherwise indicated.

(4) Changes in presentation methods

(Related to consolidated statements of cash flows)

“Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation” (3,575 million yen in year ended March 31, 2019) in “Cash flows from investing activities” have become immaterial and therefore are included in and presented as “Other, net” in “Cash flows from investing activities” for the year ended March 31, 2020. In addition, “Payments for changes in ownership interests in subsidiaries that do not result in change in scope of consolidation” ((4,874) million yen in year ended March 31, 2019) in “Cash flows from financing activities” have become immaterial and therefore are included in and presented as “Other, net” in “Cash flows from financing activities” for the year ended March 31, 2020. The consolidated statements of cash flows for the year ended March 31, 2019 are reclassified to reflect these changes in presentation methods.

(5) Authorization of the consolidated financial statements

The consolidated financial statements were authorized for issuance by Eiji Hashimoto, Representative Director and President of the Company on July 2, 2020.

3. Significant Accounting Policies

(1) Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when control is obtained until the date when control is lost. If the Group loses control of a subsidiary, any gain or loss resulting from the loss of control is recognized in profit or loss. Changes in the Group’s interest in a subsidiary not resulting in a loss of control are accounted for as equity transactions, and the difference between the adjustment to the non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the accounting policies of the subsidiaries are different from those of the Group, the financial statements of subsidiaries are adjusted to ensure that the accounting policies are consistent with those of the Group.
All intragroup balances, transaction amounts and unrealized gains and losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements. Intragroup losses are eliminated in full except to the extent that the underlying asset is impaired.

(b) Investments in associates

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but there are no control. In principle, it is presumed that the Group has significant influence over an investee when the Group holds 20% or more but no more than 50% of the voting rights of the investee. An investee is determined as an associate when the Group has significant influence over it in one or more ways, not only the ratio of the voting rights, but also through participation in the policy-making progress and other right.

An investment in an associate is accounted for under the equity method from the date when the Group has significant influence over it until the date when the significant influence is lost. Under the equity method, the investment is initially recognized at cost, and any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment is recognized as goodwill that is included in the carrying amount of the investment. Thereafter, the investment is adjusted for the change in the Group's share of the investee's profit or loss and other comprehensive income. When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to zero and recognition of further losses over the carrying amount of the investment is discontinued except to the extent that the Group assumes obligations or makes payments on behalf of the investee.

When the Group ceases to have significant influence over an associate and discontinues the use of the equity method, gain or loss arising from discontinuance of the use of the equity method is recognized in profit or loss.

Goodwill arising from the acquisition of an associate forms a part of the carrying amount of investments in the associate and is not separately recognized. Therefore, the goodwill of investment in an associate is not subject to impairment test separately. However, whenever there is any possibility that an investment in an associate may be impaired, the entire carrying amount of the investment is tested for impairment as a single asset. Regarding impairment of goodwill, refer to (10) "Impairment of non-financial assets".

(c) Joint arrangements

The Group determines the type of a joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. When the parties that have joint control of an arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement, the arrangement is classified as a joint operation. When the parties that collectively control the arrangement have rights to the net assets of the arrangement and decisions about the relevant activities require the unanimous consent of those parties, that arrangement is classified as a joint venture.
The Group recognizes assets, liabilities, income and expenses generated from operating activities of joint operations only in a ratio equivalent to its shares. As for joint ventures, the Group uses the equity method.

(d) Scope of consolidation and application of equity method

Number of consolidated subsidiaries: 408 companies
Names of principal subsidiaries are listed in "Principal Subsidiaries and Affiliates"
In the year ended March 31, 2020, the scope of consolidation expanded by 6 companies, including 4 newly established companies. 18 companies—7 merged companies and 6 liquidations, etc.—were eliminated from the scope of consolidation in the year ended March 31, 2020.

Number of equity-method affiliates (associates, joint operations and joint ventures): 118 companies
Names of principal affiliates are listed in "Principal Subsidiaries and Affiliates"
During the year ended March 31, 2020, 3 companies were added to the scope of equity-method affiliates and 4 companies were removed from the scope of equity-method affiliates.

(2) Business combinations

Business combinations are accounted for using the acquisition method when control is obtained. The identifiable assets acquired and the liabilities assumed of the acquiree are recognized at fair value as of the acquisition date.

When the total of consideration transferred in business combinations and amount of non-controlling interests in the acquiree exceeds the net of identifiable assets acquired and liabilities assumed on the acquisition date, the excess amount is recognized as goodwill. Conversely, when the total of consideration transferred and amount of non-controlling interests is lower than the net of identifiable assets acquired and liabilities assumed, the difference is recognized as profit.

The consideration transferred for the acquisition is measured as the total of fair value of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity interests issued by the acquirer. In addition, the fair value of equity interest in the acquiree that the Group held before the date of obtaining control is included in the consideration transferred for a business combination achieved in stages. Acquisition costs attributable to a business combination are recognized as expenses as incurred.

Non-controlling interests are initially measured at fair value or at non-controlling interests' proportionate share of the acquiree's identifiable net assets on an acquisition-by-acquisition basis.

The components of profit or loss and other comprehensive income are attributed to owners of the parent and non-controlling interests based on the proportionate shares held.

(3) Foreign currency translation

(a) Functional currency and presentation currency

The financial statements of each Group entity are presented in its functional currency that is the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company.

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the transaction date or using the foreign exchange rate that approximates such rate. Foreign currency monetary items at the end of each reporting period are translated into the functional currency using the exchange rate at the end of each reporting period. Non-monetary items measured at historical cost in foreign currencies are translated into the functional currency using the exchange rates at the transaction date. Non-monetary items measured at fair value that are denominated in foreign currencies are translated into the functional currency using the exchange rates at the date when the fair value is measured. Exchange differences arising from the translation or settlement are recognized in profit or loss, except for those recognized in other comprehensive income.

(c) Foreign operations

The financial performance and financial position of all of foreign operations which use a functional currency other than the presentation currency are translated into the presentation currency of the Company using the following exchange rates:

(i) Assets and liabilities are translated using the exchange rates at the reporting date
(ii) Income and expenses are translated at average exchange rates
(iii) All resulting exchange differences arising from translation of foreign operations are recognized in other comprehensive income.

When a foreign operation is disposed of, the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

(4) Financial instruments

(a) Non-derivative financial assets

(i) Recognition and measurement

The Group recognizes financial assets when it becomes a party to the contractual provisions of the assets. Financial assets purchased or sold in a regular way are recognized on the trade date. Financial assets other than derivative financial instruments are classified at initial recognition as those measured at amortized cost or at fair value through other comprehensive income.

Financial assets measured at amortized cost and fair value through other comprehensive income are initially recognized at their fair value plus transaction costs that are directly attributable to the acquisition of the assets.

Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost only if the assets are held within the Group’s business model with an objective of collecting contractual cash flows, and if the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

However, the trade receivables that do not contain a significant financing component are recognized initially at their transaction price.

Financial assets measured at fair value through other comprehensive income

For certain equity instruments held primarily for the purpose of maintaining or strengthening business relationship with investees, the Group designates these instruments as financial assets measured at fair value through other comprehensive income at initial recognition.

Subsequent changes in fair value are recognized in other comprehensive income. When these financial assets are derecognized or significant deterioration of fair value occurs, a gain or loss accumulated in other comprehensive income is reclassified to retained earnings. Dividends from the financial assets measured at fair value through other comprehensive income are recognized in profit or loss when the Group’s right to receive dividends is established.

(ii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the Group transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another party.

(iii) Impairment of financial assets measured at amortized cost

The Group assesses expected credit loss at the end of each reporting period for the impairment of financial assets measured at amortized cost.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and financial assets with a significant increase in credit risk since initial recognition.

The Group determines whether credit risk has significantly increased based on changes in the risk of a default occurring on the financial assets. When determining whether there are changes in the risk of a default occurring on the financial assets, the Group considers the following;

- Significant deterioration in the financial conditions of an issuer or a borrower;
- A breach of contract, such as default or past-due payment of interest or principal; or
- It has become probable that a borrower will enter into bankruptcy or other financial reorganization

(b) Non-derivative financial liabilities

(i) Recognition and measurement

Financial liabilities other than derivatives are classified as financial liabilities measured at amortized cost.

(ii) Derecognition

The Group derecognizes financial liabilities when the obligation specified in the contract is discharged, cancelled or expires.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(d) Derivatives and hedge accounting

The Group utilizes derivatives, including foreign exchange forward contracts, interest rate swaps and currency swaps, to hedge foreign currency risk and interest rate risk. These derivatives are initially recognized at fair value when the contract is entered into, and are subsequently measured at fair value.

Changes in fair value of derivatives are recognized in profit or loss. However, the effective portion of cash flow hedges is recognized in other comprehensive income.

The Group formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedge transactions in an internal rule titled “Administrative Provisions on Transactions of Derivative Instruments”. The rule stipulates that derivative transactions are conducted only for the purpose of mitigating risks arising from the Group’s principal business activities (including forecast transactions) and the trading of derivatives for speculative purposes is prohibited.

The Group evaluates whether the derivatives designated as a hedging instrument offsets changes in fair value or the cash flows of the hedged items to a great extent when designating a hedging relationship and on an ongoing basis. A hedging relationship that qualifies for hedge accounting is classified and accounted for as follows:

(i) Fair value hedges

Changes in fair value of derivative as a hedging instrument are recognized in profit or loss. Changes in fair value of a hedged item adjust the carrying amount of the hedged item and are recognized in profit or loss.

(ii) Cash flow hedges

The effective portion of changes in fair value of derivative as a hedging instrument is recognized in other comprehensive income. Any ineffective portion of changes in fair value of derivative as the hedging instrument is recognized in profit or loss.

The amount accumulated in other comprehensive income is reclassified to profit or loss when the hedged transactions affect profit or loss. When a hedged item results in the recognition of a non-financial asset or a non-financial liability, the amount recognized as other components of equity is reclassified as an adjustment of initial carrying amount of the non-financial asset or non-financial liability.

(5) Cash and cash equivalents

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

(6) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is measured based on the weighted average method, and comprises of all costs of purchasing and processing as well as other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(7) Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment is initially measured at cost and presented at cost less accumulated depreciation and impairment losses. Acquisition cost includes costs directly attributable to the acquisition of the asset and costs of dismantling, removing and restoration of the asset.

(b) Depreciation

Depreciation of property, plant and equipment is mainly computed by the declining-balance method over the estimated useful lives of each component based on the depreciable amount, except for land and other non-depreciable assets, and buildings and structures which are depreciated by the straight-line method. The depreciable amount is the cost of the asset less the respective estimated residual values.

The estimated useful lives of major property, plant and equipment are as follows:

- Buildings: Principally 31 years
- Machinery: Principally 14 years

The depreciation methods, estimated useful lives and residual values are reviewed at the end of each reporting period, and modified as necessary.

(8) Goodwill and intangible assets

Intangible assets are measured at cost. Intangible assets with finite useful lives are presented at cost less accumulated amortization and impairment losses. Goodwill and intangible assets with indefinite useful lives are presented at cost less accumulated impairment losses.

(a) Goodwill

When the total of consideration transferred in business combinations and amount of non-controlling interests in the acquiree exceeds the net of identifiable assets acquired and liabilities assumed on the acquisition date, the excess amount is recognized as goodwill. Goodwill is not amortized and is allocated to cash-generating units or groups of cash-generating units.

Regarding accounting policy for impairment of goodwill, refer to (10) “Impairment of non-financial assets”.

(b) Intangible assets

Intangible assets acquired separately are measured at cost at the date of initial recognition. The costs of intangible assets acquired in business combinations are measured at fair value at the acquisition date. Intangible assets with finite useful lives are presented at cost less accumulated amortization and impairment losses. Expenditures related to internally generated intangible assets are recognized as expenses when incurred, unless development expenses meet the criteria for capitalization.

(c) Amortization

Amortization of intangible assets with finite useful lives is recognized as an expense by the straight-line method over their estimated useful lives from the date when the assets are available for their intended use. The amortization methods and useful lives are reviewed at the end of each reporting period, and modified as necessary.

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

- Software: Principally 5 years
- Mining rights: Principally 25 years

Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized.

(9) Leases

The Group has adopted IFRS 16 “Leases”. The Group determines whether a contract is, or contains, a lease based on the substance of the contract rather than its legal form at the commencement date of the lease.

The Group recognizes right-of-use assets and lease liabilities at the commencement date of a lease contract or a contract which is determined to contain a lease. Lease liabilities are measured at the discounted present value of the total lease payments that are not paid at the lease commencement date.

Right-of-use assets are initially measured at the amount of initial measurement of the corresponding lease liability, adjusted mainly by any initial direct costs, and any prepaid lease payments, plus costs including restoration obligations under the lease agreement. Right-of -use assets are depreciated mainly on a straight-line basis over the lease term. Finance costs are presented separately from depreciation costs on right-of-use assets on the consolidated statements of profit or loss.

For leases with an initial term of 12 months or less and leases for which the underlying asset is of low value, the Group applied an exemption of IFRS 16 and elected not to recognize the lease payments associated with those leases as right-of-use assets or lease liabilities. The Group recognizes such lease payments as expenses mainly on a straight-line basis over the lease term.

（Changes in Accounting Policies）

From the beginning of the year ended March 31, 2020, 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 year ended March 31, 2019 and the amount of lease liabilities recognized in the 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 consolidated statements of financial position is 79,770 million yen.

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.

(10) Impairment of non-financial assets
For the non-financial assets other than inventories and deferred tax assets, the Group assesses whether there is any indication of impairment on each asset or the cash-generating unit to which the asset belongs at the end of each reporting period. If any indication of impairment exists, the recoverable amount of the asset or the cash-generating unit to which the asset belongs is estimated and impairment tests are performed. Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever an indication of impairment exits.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. When the recoverable amount of the individual asset cannot be estimated, the Group estimates the recoverable amount of the cash-generating unit or the group of cash-generating units to which the asset belongs. The value in use is calculated by discounting the estimated future cash flows to the present value, and a pre-tax discount rate that reflects the time value of money and the risks specific to the asset is used as a discount rate.

The cash-generating unit or the group of cash-generating units to which goodwill is allocated is the lowest level monitored for internal management purposes, and is not larger than an operating segment.

As corporate assets do not independently generate cash inflows, when there is an indication that a corporate asset may be impaired, an impairment test is performed based on the recoverable amount of the cash-generating unit or the group of cash-generating units to which such corporate asset belongs.

If the recoverable amount of the asset or the cash-generating unit is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognized. The impairment loss recognized with respect to the cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

An impairment loss is reversed if there are indications that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased and the recoverable amount of the asset is greater than its carrying amount. The amount to be reversed would not exceed its carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. An impairment loss recognized in goodwill is not reversed.

(11) Employee benefits
Employee benefits include short-term employee benefits, retirement benefits, and other long-term employee benefits.

(a) Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as expenses when the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash incentive plans if the Group has a present legal or constructive obligation to pay in exchange for services provided by the employees in the prior period, and such obligation can be reliably estimated.

(b) Retirement benefits
Retirement benefit plans comprise of defined benefit corporate pension plans, defined contribution plans, and lump-sum retirement payment plans. These retirement benefit plans are accounted for as follows:

(i) Defined benefit corporate pension plans and lump-sum retirement payment plans
The net defined benefit liabilities or assets of defined benefit plans are recognized as the present value of defined benefit obligations less the fair value of any plan assets.

The present value of defined benefit obligations is calculated annually by qualified actuaries using the projected unit credit method. The discount rates are based on the market yields of high quality corporate bonds at the end of each reporting period that have terms consistent with the discount period, which is established as the estimated term of the retirement benefit obligations through to the estimated dates for payments of future benefits.

Remeasurements of defined benefit plans are immediately recognized in other comprehensive income when incurred and then directly transferred to retained earnings, while past service costs are recognized in profit or loss.

(ii) Defined contribution plans
Contributions to defined contribution retirement plans are recognized as expenses in the period when the employees render the related services.

(12) Equity

(a) Ordinary shares

Ordinary shares are classified as equity. Costs directly attributable to the issuance of ordinary shares (net of tax effects) are recognized as a deduction from equity.

(b) Treasury stock

When the Company acquires treasury stocks, the consideration paid, including any directly attributable costs (net of tax effects), is deducted from equity. In case of disposal of treasury stocks, the difference between the consideration received and the carrying amount of treasury stocks is recognized in equity.

(13) Revenue

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” from the fiscal year ended March 31, 2019. Under IFRS 15, revenue is recognized based on the following five-steps.

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when or as the Group satisfies a performance obligation

Revenue generated from Steelmaking and Steel Fabrication segment and Chemicals and Materials segment primarily consists of revenue generated from sale of goods while revenue generated from Engineering and Construction segment primarily consists of construction contracts and revenue generated from System Solutions segment mainly consists of services rendered and construction contracts (built-to-order software).

(a) Performance obligations satisfied at a point in time

The Group recognizes revenue from sale of goods at the point of shipment when the customer obtains control of the goods and therefore a performance obligation is satisfied at a point in time where the Group no longer retains physical possession of the goods upon shipment, the Group has the right to be paid from the customer and their legal title is transferred to the customer.

With respect to revenue from rendering of service whose performance obligation is satisfied at a point in time, the Group recognizes revenue when the rendering of service is completed. Revenue is measured at the amount of consideration received or receivable less discounts and rebates. The consideration of the transaction is primarily collected within one year after the satisfaction of the performance obligation and it does not contain a significant financing component.

(b) Performance obligations satisfied over time

The Group recognizes revenue from construction contracts and built-to-order software on the basis of progress towards satisfaction of performance obligation as the Group transfers control over time. The progress is measured on the basis of percentage of actual costs incurred to date to estimated total costs as it is considered that costs incurred properly reflect the progress of the services. (Input methods)

With respect to revenue from rendering of services whose performance obligation is satisfied over time, the Group recognizes revenue evenly throughout the duration of the service.

(14) Income taxes

Income taxes comprise of current taxes and deferred taxes, and are recognized in profit or loss, except for the items which are recognized directly in equity or other comprehensive income.

Current taxes are measured at the amounts expected to be paid or recovered from the taxation authorities using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are recognized based on future tax consequences attributable to temporary differences between the carrying amounts of assets or liabilities for accounting purposes and the tax bases of the assets or liabilities, carryforward of unused tax losses and tax credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax assets are reviewed at the end of each reporting period and recognized only to the extent that it is probable that the tax benefits can be realized. However, deferred tax assets are not recognized if the initial recognition of an asset or liability in a transaction that is not a business combination affects neither accounting profit nor taxable profit at the time of the transaction.

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements are recognized only to the extent of the following circumstances:

- The temporary difference will reverse in the foreseeable future; and
- Taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, except for the following circumstances:

- On the initial recognition of goodwill;

- On the initial recognition of an asset or liability in a transaction that is not a business combination affects neither accounting profit nor taxable profit at the time of the transaction;
- Taxable temporary differences associated with investments in subsidiaries to the extent that the parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and in either of the following circumstances:
- Income taxes are levied by the same taxation authority on the same taxable entity; or
- Different taxable entities intend either to settle current tax assets and current tax liabilities on a net basis, or to realize the current tax assets and settle the current tax liabilities simultaneously.

(15) Earnings per share

Basic earnings per share is calculated by dividing the profit for the reporting period attributable to owners of the Company by the weighted average number of common stock outstanding during the period in which the number of treasury stock is excluded.

4. Significant Accounting Estimates and Judgments

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

The estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of changes in accounting estimates are recognized in the period in which the estimates are revised.

Although the effects from the COVID-19 to the estimates of “the recoverable amount in impairment of non-financial assets” and “the recoverability of deferred tax assets” of the Group are unclear in both its extent and duration, these estimates are based on the assumption that steel demands will recover through the second half of the fiscal year 2020. While these assumptions are under high uncertainties and any future changes in these assumptions may materially affect the estimated amounts and financial statements.

Information about judgments that have been made in the process of applying the Group’s accounting policies and that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:
- Note 3 (1) “Basis of consolidation” and Note 15 “Interests in Subsidiaries, Associates and Others”
- Note 3 (4) “Financial instruments” and Note 33 “Financial Instruments”

Information about uncertainty of key estimates and assumptions that may have significant risks of causing material adjustments to the carrying amounts of assets and liabilities in the subsequent reporting year is included in the following notes:
- Note 3 (10) “Impairment of non-financial assets” and Note 30 “Impairment of Assets”
- Note 3 (11) “Employee benefits” and Note 19 “Employee Benefits”
- Note 3 (13) “Revenue” and Note 22 “Revenue”
- Note 3 (14) “Income taxes” and Note 16 “Income Taxes”
- Note 36 “Loan Guarantees”

5. New Accounting Standards and Interpretations Not Yet Applied

New standards, interpretations, and amendments to standards and interpretations that have not yet been adopted in the preparation of the consolidated financial statements as of March 31 2020, are as follows. The effect of applying new standards to the Group is now under consideration and cannot be estimated at this time.

Standards	Name of Standards	Effective date (The fiscal year beginning on or after)	Adoption date of the Group	Content
IFRS 7 IFRS 9 IAS 39	-Financial Instruments: Disclosures -Financial Instruments -Financial Instruments: Recognition and Measurement	January 1, 2020	Fiscal year ending March 31, 2021	Amendments of specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform

6. Segment Information

(1) Description of reportable segments

The Company engages in the Steelmaking and Steel Fabrication business and acts as the holding company of the Group. The Group has four operating segments determined mainly based on product and service, which are Steelmaking and Steel Fabrication, Engineering and Construction, Chemicals and Materials, and System Solutions. Each operating segment shares the management strategy of the Group, while conducting its business activities independently from and in parallel with other companies of the Group. The following summary describes the operations of each reportable segment:

Reportable segments	Principal businesses
Steelmaking and Steel Fabrication	Manufacturing and sales of steel products
Engineering and Construction	Manufacturing and sales of industrial machinery, equipment and steel structures, construction projects under contract, waste processing and recycling, and supplying electricity, gas, and heat
Chemicals and Materials	Manufacturing and sales of coal-based chemical products, petrochemicals, electronic materials, materials and components for semiconductors and electronic parts, carbon fiber and composite products, and products that utilize technologies for metal processing
System Solutions	Computer systems engineering and consulting services; IT-enabled outsourcing and other services

(2) Basis of measurement of segment revenue, profit or loss, assets, liabilities, and other items

Inter-segment revenue is based on transaction prices between third parties. Segment profit is measured using business profit.

(3) Information about segment revenue, segment profit, segment assets and liabilities and other items

(Year ended March 31, 2019)

(Millions of Yen)

	Reportable segment				Subtotal	Adjustments (Note 2) (Note 3)	Consolidated
	Steelmaking and Steel Fabrication	Engineering and Construction	Chemicals and Materials (Note 1)	System Solutions			
Revenue							
Revenue from external customers	5,408,633	321,346	243,014	204,952	6,177,947	—	6,177,947
Inter-segment revenue or transfers	45,902	35,360	4,052	62,550	147,867	(147,867)	—
Total	5,454,536	356,707	247,067	267,503	6,325,814	(147,867)	6,177,947
Segment profit (loss)	274,672	9,474	25,095	26,576	335,818	1,122	336,941
Other items							
Depreciation and amortization	398,702	2,605	6,644	4,872	412,825	(4,208)	408,616
Share of profit in investments accounted for using the equity method	76,337	801	1,339	(5)	78,473	7,938	86,411
Segment assets	7,404,841	289,083	194,622	231,994	8,120,542	(71,013)	8,049,528
Other items							
Investments accounted for using the equity method	672,853	6,313	23,629	309	703,105	90,041	793,146
Capital expenditure	431,775	3,021	8,855	2,542	446,194	(5,363)	440,830
Segment liabilities (Interest-bearing debt)	2,365,587	5,937	7,075	2,631	2,381,231	(12,000)	2,369,231

Notes:

1. The Group changed its segments from the year ended March 31, 2019. The Group integrated Chemicals segment and New Materials segment to form Chemicals and Materials segment upon the establishment of NIPPON STEEL Chemical & Material CO., LTD. by a merger of Nippon Steel & Sumikin Chemical Co., Ltd. and Nippon Steel & Sumikin Materials Co., Ltd. in October 2018.
2. The adjustments of segment profit of 1,122 million yen include investment return of 8,237 million yen from the equity method associate Nippon Steel Kowa Real Estate Co., Ltd., and elimination of inter-segment revenue or transfers of (7,114) million yen.
3. The adjustments of segment liabilities include the elimination of inter-segment borrowings.

(Year ended March 31, 2020)

(Millions of Yen)

	Reportable segment				Subtotal	Adjustments (Note 1) (Note 2)	Consolidated
	Steelmaking and Steel Fabrication	Engineering and Construction	Chemicals and Materials	System Solutions			
Revenue							
Revenue from external customers	**5,207,033**	**296,443**	**210,338**	**207,709**	**5,921,525**	—	**5,921,525**
Inter-segment revenue or transfers	**50,310**	**43,960**	**5,395**	**65,584**	**165,251**	**(165,251)**	—
Total	**5,257,344**	**340,404**	**215,733**	**273,294**	**6,086,777**	**(165,251)**	**5,921,525**
Segment profit (loss)	**(325,341)**	**10,717**	**18,477**	**26,162**	**(269,984)**	**(14,433)**	**(284,417)**
Other items							
Depreciation and amortization	**403,127**	**3,722**	**8,403**	**6,664**	**421,918**	**(4,578)**	**417,339**
Share of profit in investments accounted for using the equity method	**31,586**	**(1,615)**	**1,240**	**29**	**31,240**	**7,154**	**38,395**
Segment assets	**6,785,775**	**308,372**	**196,280**	**248,778**	**7,539,206**	**(94,240)**	**7,444,965**
Other items							
Investments accounted for using the equity method	**752,893**	**4,385**	**23,114**	**338**	**780,732**	**97,538**	**878,271**
Capital expenditure	**451,989**	**2,749**	**11,641**	**7,365**	**473,746**	**7,564**	**481,310**
Segment liabilities (Interest-bearing debt)	**2,471,822**	**6,500**	**6,661**	**15,757**	**2,500,741**	**(12,000)**	**2,488,741**

Notes:
1. The adjustments of segment profit of (14,433) million yen include investment return of 7,151 million yen from the equity method associate Nippon Steel Kowa Real Estate Co., Ltd., and elimination of inter-segment revenue or transfers of (21,585) million yen.
2. The adjustments of segment liabilities include the elimination of inter-segment borrowings.

(4) Information about geographical areas

(a) **Revenue**

Revenue information is based on the geographical location of customers and classified by region.

(Year ended March 31, 2019)

(Millions of Yen)

Japan	Overseas Subtotal			Total
		Asia	Other	
4,053,188	2,124,758	1,310,890	813,868	6,177,947

(Year ended March 31, 2020)

(Millions of Yen)

Japan	Overseas Subtotal			Total
		Asia	Other	
3,855,438	**2,066,087**	**1,197,715**	**868,371**	**5,921,525**

(b) Non-current assets

(As of March 31, 2019)

(Millions of Yen)

Japan	Overseas	Total
2,978,818	435,078	3,413,896

(As of March 31, 2020)

(Millions of Yen)

Japan	Overseas	Total
2,663,948	**391,553**	**3,055,501**

Non-current assets are based on the location of the asset and do not include financial assets, deferred tax assets and assets for retirement benefits.

(5) Revenue from major customers

(Millions of Yen)

	Related segment	Year ended March 31, 2019	Year ended March 31, 2020
NIPPON STEEL TRADING CORPORATION (Note 1)	Steelmaking and Steel Fabrication	1,170,241	**1,161,138**
Sumitomo Corporation	Steelmaking and Steel Fabrication	762,888	**715,518**
Metal One Corporation (Note 2)	Steelmaking and Steel Fabrication	631,639	—

Notes:

1. NIPPON STEEL TRADING CORPORATION changed its name from Nippon Steel & Sumikin Bussan Corporation on April 1, 2019.
2. Revenue from the customer in year ended March 31, 2020 is omitted and presented by "—", since its ratio against the total revenue in year ended March 31, 2020 is less than 10%.

7. Business Combinations

(1) Business combinations consummated during the year ended March 31, 2019
(A)Acquisition of Ovako AB
(a) Overview

On June 1, 2018, the Company acquired all outstanding shares of Ovako AB ("Ovako"), which is headquartered in Sweden and is primarily engaged in the manufacturing and sale of special steel products mainly in Europe and secondarily processed products, for cash consideration of 51,767 million yen.

With this acquisition, the Company seeks to strengthen the position of the Group as "The Best Steelmaker with World-Leading Capabilities", thereby aiming to achieve sustainable growth and enhance the Group's corporate value in the mid-to long-term. With the addition of Ovako, the Group will bring together Ovako's high-cleanliness steel for bearing steel and other related products to the Company's product portfolio to strengthen and expand its global special steel business.

(b) Consideration transferred

	(Millions of Yen)
Cash	51,767
Total consideration transferred	51,767

Note:
The Group incurred acquisition-related costs of 1,215 million yen as selling, general and administrative expenses in the consolidated statements of profit and loss.

(c) Fair value of the assets acquired and liabilities assumed and goodwill

	(Millions of Yen)
Current assets	63,555
Non-current assets	53,302
Total assets	116,858
Current liabilities	70,691
Non-current liabilities	17,032
Total liabilities	87,724
Total identifiable net assets acquired	29,133
Total equity attributable to owners of the parent	29,133
Total consideration transferred	51,767
Goodwill	22,634

Note:
The goodwill is attributable mainly to an excess earning power expected to be achieved from the synergies between the Group and the Ovako. The goodwill is not tax-deductible.

(d) Net cash used in the transaction

	(Millions of Yen)
Cash consideration transferred	51,767
Cash and cash equivalents held by the acquiree at the acquisition date	(5,961)
Net cash used in the transaction	45,805

(e) Revenue and profit or loss of the Ovako after the acquisition date
Information about revenue and profit or loss generated subsequent to the acquisition date is not disclosed as it is immaterial to the consolidated financial statements.

(f) Revenue and profit or loss of the Group if the business combination had been completed at the beginning of the year
Information about revenue and profit or loss of the Groups if business combination had been completed at the beginning of the year is not disclosed as it is immaterial to the consolidated financial statements.

(B)Acquisition of Sanyo Special Steel Co., Ltd.

(a) Overview

On March 28, 2019, the Company acquired 36.2% equity interest of Sanyo Special Steel Co., Ltd. ("Sanyo"), which is primarily engaged in the manufacturing and sale of special steel products, powders and formed and fabricated materials, for underwriting of capital increase through third-party allotment. As a result of the acquisition, the equity interests held by the Company increased from 15.3% to 51.5% and Sanyo became a subsidiary of the Company.

The acquisition of Sanyo and Ovako allows the Company to strengthen its medium-to long-term competitiveness of the special steel businesses by bringing together our business foundations, technical and product development capabilities and cost competitiveness of the three companies to respond to globalization of the customers in the automobile and other fields as well as customers' needs for high-quality special steel products.

(b) Consideration transferred

	(Millions of Yen)
Cash	67,235
Fair value of equity interests held before the acquisition date	13,737
Total consideration transferred	80,972

Notes:

1. The Company recorded a loss of 4,592 million yen as other operating expenses in the consolidated statements of profit or loss as a result from fair value measurement conducted at the acquisition date of the equity Interests of Sanyo held prior to the acquisition date.
2. The Group recorded acquisition-related costs of 276 million yen as selling, general and administrative expenses in the consolidated statements of profit and loss.

(c) Fair value of the assets acquired and liabilities assumed, non-controlling interests and bargain purchase gain

While the Company had recorded provisional amounts based on reasonable information available at the end of the year ended March 31, 2019, the Company has completed the recognition of identifiable assets and liabilities and the fair value measurement of assets acquired and liabilities assumed at the acquisition date, the computation of non-controlling interests and bargain purchase gain in the year ended March 31, 2020. There is no change from the provisional amounts.

	(Millions of Yen)
Current assets	210,344
Non-current assets	75,075
Total assets	285,419
Current liabilities	61,789
Non-current liabilities	38,804
Total liabilities	100,593
Total identifiable net assets acquired	184,826
Non-controlling interests	90,274
Total equity attributable to owners of the parent	94,551
Total consideration transferred	80,972
Bargain purchase gain	13,578

Notes:

1. Non-controlling interests are measured at the proportionate share of the fair value of the Sanyo's identifiable total equity.
2. Total equity attributable to owners of the parent of 94,551 million yen which is determined by subtracting the non-controlling interests from the fair value of assets acquired and liabilities assumed based on reasonable information available at the time (such as financial and assets conditions based on due diligence performed by a third-party and valuation of shares performed by a financial advisor) exceeds the consideration transferred for the acquisition of Sanyo of 80,972 million yen. The Group recorded a bargain purchase gain of 13,578 million yen arising from the difference between those two as "Other operating income" in the consolidated statements of profit or loss for the year ended March 31, 2019.

(d) Net cash used in the transaction

	(Millions of Yen)
Cash consideration transferred	67,235
Cash and cash equivalents held by the Sanyo at the acquisition date	(79,196)
Net cash provided in the transaction	(11,961)

Note:

Cash and cash equivalents held by Sanyo at the acquisition date include the proceeds from equity financing in the amount of 67,235 million yen.

(e) Revenue and profit or loss of the Sanyo after the acquisition date

Information about revenue and profit or loss generated subsequent to the acquisition date through March 31, 2019 is not disclosed as it is immaterial to the consolidated financial statements.

(f) Revenue and profit or loss of the Group if the business combination had been completed at the beginning of the year

(Unaudited)	(Millions of Yen)
Revenue	6,363,765
Profit before income taxes	259,145

8. Cash and Cash Equivalents

The components of cash and cash equivalents are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Cash	159,636	**286,706**
Cash equivalents	3,540	**2,753**
Total	163,176	**289,459**

The balance of cash and cash equivalents in the consolidated statements of financial position agrees with the balance of cash and cash equivalents in the consolidated statements of cash flows.

9. Trade and Other Receivables

The components of trade and other receivables are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Notes and accounts receivable	842,573	**687,944**
Other	128,166	**140,114**
Allowance for doubtful receivables	(2,407)	**(1,461)**
Total	968,333	**826,596**

Contract assets are included in “Notes and accounts receivables”.

10. Inventories

The components of inventories are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Merchandise and finished goods	831,597	**822,941**
Work in progress	87,814	**78,065**
Raw materials and supplies	647,704	**631,175**
Total	1,567,116	**1,532,181**

11. Assets Pledged as Collateral

As per general contractual provisions for long-term and short-term borrowings, banks may require collateral and guarantees for present and future obligations, and retain the rights to offset the liabilities with bank deposits when repayment is overdue or when default occurs.

Assets pledged as collateral and secured debts are as follows:

(Millions of Yen)

Assets pledged as collateral	As of March 31, 2019	As of March 31, 2020
Land	11,432	**8,841**
Buildings and structures	4,853	**4,263**
Machinery and vehicles	5,471	**4,561**
Other	13,475	**5,286**
Total	35,233	**22,953**

(Millions of Yen)

Secured debts	As of March 31, 2019	As of March 31, 2020
Short-term borrowings	3,635	**1,265**
Long-term borrowings (current portion is included)	6,242	**1,175**
Other	467	**238**
Total	10,345	**2,680**

In addition to the pledged assets listed above, shares of associates are pledged as collateral (1,301 million yen, and 419 million yen as of March 31, 2019 and 2020, respectively).

12. Property, Plant and Equipment

Details of changes in the carrying amounts and acquisition costs, accumulated depreciation and accumulated impairment losses of property, plant and equipment are as follows:

(Millions of Yen)

Carrying amount	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Leased assets	Construction in progress	Total
As of April 1, 2018	652,364	819,277	1,286,908	53,226	46,823	265,258	3,123,857
Acquisitions and reclassified from construction in progress	5,967	78,086	363,975	85,546	7,812	(72,830)	468,557
Acquisitions through business combinations	9,653	20,579	56,261	1,082	—	6,755	94,331
Disposals and sales	(5,258)	(3,660)	(6,037)	(4,570)	(131)	(129)	(19,788)
Depreciation	—	(58,817)	(272,371)	(46,659)	(9,498)	—	(387,347)
Effects of changes in foreign exchange rates	(1,224)	(190)	(25,447)	719	(38)	(6,758)	(32,941)
As of March 31, 2019	661,502	855,274	1,403,287	89,343	44,967	192,294	3,246,669
Change in accounting policies	—	—	—	—	(44,967)	—	(44,967)
As of April 1, 2019	661,502	855,274	1,403,287	89,343	—	192,294	3,201,702
Acquisitions and reclassified from construction in progress	2,355	82,456	294,295	39,726	—	21,527	440,361
Disposals and sales	(3,602)	(9,022)	(22,053)	(4,188)	—	(87)	(38,954)
Depreciation	—	(58,853)	(275,649)	(38,361)	—	—	(372,864)
Impairment losses	(15,711)	(123,331)	(238,622)	(10,875)	—	(4,675)	(393,215)
Effects of changes in foreign exchange rates	1,803	(1,241)	(12,314)	(2,999)	—	(9,734)	(24,486)
As of March 31, 2020	**646,346**	**745,282**	**1,148,943**	**72,645**	—	**199,324**	**2,812,542**

Depreciation of property, plant and equipment is mainly included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of profit or loss.

(Millions of Yen)

Acquisition costs	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Leased assets	Construction in progress	Total
As of April 1, 2018	701,984	2,607,700	8,215,605	327,419	276,851	313,262	12,442,823
As of March 31, 2019	710,235	2,730,502	8,733,560	407,619	280,382	196,767	13,059,068
As of March 31, 2020	**711,547**	**2,790,749**	**8,861,279**	**418,490**	—	**208,387**	**12,990,453**

(Millions of Yen)

Accumulated depreciation and accumulated impairment losses	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Leased assets	Construction in progress	Total
As of April 1, 2018	49,620	1,788,422	6,928,697	274,193	230,027	48,003	9,318,966
As of March 31, 2019	48,733	1,875,228	7,330,272	318,276	235,414	4,473	9,812,398
As of March 31, 2020	**65,200**	**2,045,467**	**7,712,335**	**345,845**	—	**9,062**	**10,177,910**

The carrying amounts by type of leased assets which were included in property, plant and equipment as of March 31, 2019 are as follows:

(Millions of Yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
As of April 1, 2018	10,748	32,005	4,069	46,823
As of March 31, 2019	10,024	31,701	3,241	44,967
Change in accounting policies	(10,024)	(31,701)	(3,241)	(44,967)
As of April 1, 2019	—	—	—	—

13. Goodwill and Intangible Assets

Details of changes in the carrying amounts and acquisition costs, accumulated amortization and accumulated impairment losses of goodwill and intangible assets are as follows:

(Millions of Yen)

Carrying amount	Goodwill	Software	Mining rights	Other	Total
As of April 1, 2018	42,263	46,214	44,221	6,695	139,395
Acquisitions	—	19,470	—	807	20,278
Acquisitions through business combinations	22,634	1,891	—	16,333	40,859
Amortization	—	(17,868)	(2,198)	(1,202)	(21,268)
Impairment losses	(10,963)	—	—	—	(10,963)
Effects of changes in foreign exchange rates	(1,131)	(3,079)	(4,884)	(272)	(9,367)
As of March 31, 2019	52,803	46,629	37,139	22,362	158,934
Change in accounting policies	—	—	—	(1,229)	(1,229)
As of April 1, 2019	52,803	46,629	37,139	21,133	157,705
Acquisitions	—	20,842	—	2,516	23,359
Amortization	—	(17,912)	(1,814)	(2,392)	(22,119)
Impairment losses	(6,320)	(2,184)	—	(117)	(8,622)
Effects of changes in foreign exchange rates	(995)	(2,138)	(4,263)	(759)	(8,156)
As of March 31, 2020	**45,486**	**45,236**	**31,061**	**20,379**	**142,164**

Amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statements of profit or loss.

(Millions of Yen)

Acquisition costs	Goodwill	Software	Mining rights	Other	Total
As of April 1, 2018	44,736	97,253	66,107	17,203	225,301
As of March 31, 2019	66,238	115,358	58,617	30,875	271,090
As of March 31, 2020	**65,243**	**124,883**	**51,320**	**29,223**	**270,669**

(Millions of Yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Software	Mining rights	Other	Total
As of April 1, 2018	2,472	51,039	21,885	10,507	85,905
As of March 31, 2019	13,435	68,729	21,478	8,512	112,155
As of March 31, 2020	**19,756**	**79,647**	**20,258**	**8,843**	**128,505**

14. Leases

The Group leases assets such as buildings and machinery as a lessee and land and buildings as a lessor.

(1) Right-of-use assets

As a lessee

Expenses, cash flows, the increase and the carrying amount related to leases as a lessee are as follows:

(Millions of Yen)

	Year ended March 31, 2020
Depreciation of right-of-use assets	
Buildings and structures	**12,822**
Machinery and vehicles	**7,401**
Tools, furniture and fixtures	**2,131**
Total depreciation	**22,355**
Total amount of cash outflows incurred from leases	**23,651**
Increase in right-of-use assets	**37,433**
Details of right-of-use assets	
Buildings and structures	**46,347**
Machinery and vehicles	**41,150**
Tools, furniture and fixtures	**6,165**
Total balance of right-of-use assets	**93,663**

(2) Operating leases

As a lessor

The future lease payments before discounts expected to be received under non-cancellable operating lease contracts are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Within 1 year	2,314	**3,367**
Over 1 but less than 2 years	2,342	**4,057**
Over 2 but less than 3 years	2,243	**3,631**
Over 3 but less than 4 years	1,882	**3,519**
Over 4 but less than 5 years	1,857	**3,392**
Over 5 years	21,712	**36,171**
Total	32,353	**54,138**

15. Interests in Subsidiaries, Associates and Others

(1) Principal subsidiaries

Principal subsidiaries of the Company as of March 31, 2020 are as follows:

Operating segment	Name	Address	% of voting rights interests
Steelmaking and Steel Fabrication	Sanyo Special Steel Co., Ltd.	Himeji City, Hyogo	53.2%
	NIPPON STEEL NISSHIN CO., LTD.	Chiyoda-ku, Tokyo	100.0%
	NIPPON STEEL COATED SHEET CORPORATION	Chuo-ku, Tokyo	100.0%
	Osaka Steel Co., Ltd.	Osaka City, Osaka	66.3%
	NIPPON STEEL METAL PRODUCTS CO., LTD	Chiyoda-ku, Tokyo	100.0%
	NIPPON STEEL PIPE CO., LTD.	Chiyoda-ku, Tokyo	100.0%
	Krosaki Harima Corporation	Kitakyushu City, Fukuoka	*47.0%
	NIPPON STEEL TEXENG. CO., LTD.	Chiyoda-ku, Tokyo	100.0%
	NIPPON STEEL Stainless Steel Corporation	Chiyoda-ku, Tokyo	100.0%
	NIPPON STEEL LOGISTICS CO., LTD.	Chuo-ku, Tokyo	100.0%
	NIPPON STEEL SG WIRE CO.,LTD	Chiyoda-ku, Tokyo	100.0%
	Geostr Corporation	Bunkyo-ku, Tokyo	*42.3%
	NIPPON STEEL WELDING & ENGINEERING Co., Ltd.	Koto-ku, Tokyo	100.0%
	NIPPON STEEL DRUM CO., LTD.	Koto-ku, Tokyo	100.0%
	NIPPON STEEL BLAST FURNACE SLAG CEMENT CO., LTD.	Kitakyushu City, Fukuoka	100.0%
	NIPPON STEEL CEMENT CO., LTD.	Muroran City, Hokkaido	85.0%
	NIPPON STEEL FINANCE Co., Ltd	Chiyoda-ku, Tokyo	100.0%
	NIPPON STEEL STAINLESS STEEL PIPE CO., LTD.	Chiyoda-ku, Tokyo	100.0%
	NIPPON STEEL WIRE CO., LTD.	Seki City, Gifu	51.0%
	NIPPON STEEL Eco-Tech Corporation	Chuo-ku, Tokyo	85.1%
	NIPPON STEEL BOLTEN CORPORATION	Osaka City, Osaka	85.0%
	NIPPON STEEL STRUCTURAL SHAPES CORPORATION	Wakayama City, Wakayama	100.0%
	NIPPON STEEL TUBOS DO BRASIL LTDA.	State of Rio de Janeiro, Brazil	100.0%
	PT KRAKARAU NIPPON STEEL SUMIKIN	Cilegon City, Indonesia	80.0%
	NS-Siam United Steel Co., Ltd.	Rayong Province, Thailand	80.2%
	Standard Steel, LLC	Pennsylvania State, United States of America	100.0%
	NIPPON STEEL NORTH AMERICA, INC.	New York State, United States of America	100.0%
	PT PELAT TIMAH NUSANTARA TBK.	Jakarta City, Indonesia	*35.0%
	NIPPON STEEL (THAILAND) CO., LTD.	Bangkok Metropolis, Thailand	100.0%
	NIPPON STEEL AUSTRALIA PTY. LIMITED	New South Wales State, Australia	100.0%
	NIPPON STEEL Steel Processing (Thailand) Co., Ltd.	Rayong Province, Thailand	66.5%
	Ovako AB	Stockholm City, Sweden	100.0%
Engineering and Construction	NIPPON STEEL ENGINEERING CO., LTD.	Shinagawa-ku, Tokyo	100.0%
Chemicals & Materials	NIPPON STEEL Chemical & Material CO., LTD.	Chuo-ku, Tokyo	100.0%
System Solutions	NS Solutions Corporation	Chuo-ku, Tokyo	63.4%

*Although the Group holds less than 50% of the voting rights of Krosaki Harima Corporation, Geostr Corporation, and PT PELAT TIMAH NUSANTARA TBK., it includes the entities in consolidated subsidiaries because it substantially controls the entities.

(2) Investments in associates

Carrying amount of investments in associates is as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Carrying amount of investments in associates	636,216	**613,809**

Share of net profit or loss and other comprehensive income of associates are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Net profit or loss	49,436	**16,308**
Other comprehensive income	(18,610)	**(13,235)**
Total	30,826	**3,072**

(3) Investments in joint ventures

Carrying amount of investments in joint ventures is as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Carrying amount of investments in joint ventures	156,930	**264,462**

Share of net profit or loss and other comprehensive income of joint ventures are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Net profit or loss	36,975	**22,087**
Other comprehensive income	(6,030)	**(2,896)**
Total	30,944	**19,190**

There are no investments in associates or joint ventures accounted for under the equity method that are individually significant to the Group for the years ended March 31, 2019 and 2020.

16. Income Taxes

(1) Deferred tax assets and deferred tax liabilities

(a) The components of deferred tax assets and deferred tax liabilities are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Deferred tax assets		
Accrued bonus	28,189	**24,934**
Defined benefit liabilities	66,924	**72,660**
Impairment losses on assets	17,888	**68,625**
Property, plant and equipment	21,552	**15,386**
Unused tax losses	39,280	**15,851**
Elimination of unrealized gains on property, plant and equipment and others	31,553	**32,950**
Other	63,845	**69,370**
Total deferred tax assets	269,234	**299,780**
Deferred tax liabilities		
Equity securities	(108,609)	**(48,988)**
Defined benefit assets	(25,167)	**(17,944)**
Undistributed earnings	(31,570)	**(31,338)**
Special tax purpose reserves	(43,782)	**(42,816)**
Total deferred tax liabilities	(209,130)	**(141,088)**
Net deferred tax assets (liabilities)	60,104	**158,691**

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax assets are reviewed at the end of each reporting period and recognized only to the extent that it is probable that the tax benefits can be realized. The recoverability of deferred tax assets are evaluated based on planned reversal of deferred tax liabilities, estimated future taxable profit and tax planning.

(b) The changes in net deferred tax assets and liabilities are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of the year	(60,407)	**60,104**
Recognized in profit or loss	88,018	**50,076**
Recognized in other comprehensive income	37,761	**47,632**
Effect of changes in scope of consolidation	(5,268)	**878**
Balance at end of the year	60,104	**158,691**

(c) Deductible temporary differences and unused tax losses for which no deferred tax assets are recognized are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Carryforward of unused tax losses	51,390	**103,554**
Deductible temporary differences	111,242	**170,274**
Total	162,633	**273,829**

(d) The components by expiry date of unused tax losses for which no deferred tax assets are recognized are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Within 1 year	3,009	**1,957**
Over 1 year but less than 2 years	5,209	**24,558**
Over 2 years but less than 3 years	10,640	**2,471**
Over 3 years but less than 4 years	1,247	**2,824**
Over 4 years	31,283	**71,741**
Total	51,390	**103,554**

(2) Income tax expense

(a) Details of income tax expense are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Current taxes	79,209	**52,625**
Deferred taxes	(88,018)	**(50,076)**
Total	(8,809)	**2,548**

(b) Differences between the statutory income tax rate and the Group's average effective tax rate consist of the following:

	Year ended March 31, 2019	Year ended March 31, 2020
Statutory tax rate	30.6%	**30.6%**
(Adjustments)		
Effects of expense not deductible for tax purposes	0.9	**(0.5)**
Effects of income not taxable for tax purposes	(0.6)	**0.3**
Effects of differences in statutory tax rates applied to companies in Japan and foreign companies	(1.8)	**0.3**
Effects of changes in unrecognized deferred tax assets	(24.0)	**(28.4)**
Other	(8.7)	**(2.9)**
Average effective tax rate	(3.5)	**(0.6)**

(Changes in presentation method)

"Share of profit in investments accounted for using the equity method" ((7.3%) for the year ended March 31, 2019) has become immaterial and therefore is included in and presented as "Other" for the year ended March 31, 2020. Notes for the year ended March 31, 2019 are reclassified to reflect the change in presentation method.

17. Trade and Other Payables

The components of trade and other payables are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Notes and trade accounts payable	821,009	**689,500**
Other payables	524,167	**546,825**
Other	266,226	**213,475**
Total	1,611,403	**1,449,801**

18. Bonds, Borrowings and Lease Liabilities

(1) Bonds, borrowings and lease liabilities

Details of bonds, borrowings and lease liabilities are as follows:

(Millions of Yen)

	As of March 31, 2019	Average interest rate (%)	As of March 31, 2020	Average interest rate (%)	Maturity date
Short-term borrowings	215,393	1.2	**116,560**	**1.7**	—
Current portion of long-term borrowings repayable within one year	111,177	1.0	**74,082**	**1.5**	—
Current portion of bonds repayable within one year	60,000	1.4	**45,000**	**1.2**	—
Current portion of lease liabilities repayable within one year	8,783	0.8	**22,257**	**0.8**	—
Commercial papers	120,000	(0.0)	**119,000**	**0.0**	—
Long-term borrowings	1,595,905	0.8	**1,484,999**	**0.7**	July 19, 2075
Bonds	220,000	0.7	**552,703**	**0.8**	September 12, 2079
Lease liabilities	37,970	0.8	**74,138**	**0.8**	March 31, 2076
Total	2,369,231		**2,488,741**		

“Average interest rate” represents the weighted average interest rate to the aggregate balance at the end of the reporting period.

(2) Details of bonds

(Millions of Yen)

Type	Issue date	As of March 31, 2019	As of March 31, 2020	Maturity date
Bonds issued by NSC				
The 59th Issue of Unsecured Corporate Bonds	September 2, 2008	10,000	**10,000**	June 20, 2028
The 63rd Issue of Unsecured Corporate Bonds	June 9, 2009	20,000	—	June 20, 2019
The 64th Issue of Unsecured Corporate Bonds	April 20, 2010	20,000	—	March 19, 2020
The 65th Issue of Unsecured Corporate Bonds	August 31, 2010	15,000	**15,000**	June 19, 2020
The 67th Issue of Unsecured Corporate Bonds	May 24, 2011	30,000	**30,000**	March 19, 2021
The 68th Issue of Unsecured Corporate Bonds	October 20, 2011	15,000	**15,000**	September 17, 2021
The 70th Issue of Unsecured Corporate Bonds	April 20, 2012	10,000	—	April 19, 2019
The 69th No.2 Issue of Unsecured Corporate Bonds	July 20, 2012	10,000	—	June 20, 2019
The 70th No.2 Issue of Unsecured Corporate Bonds	July 20, 2012	20,000	**20,000**	June 20, 2022
The 1st Issue of Unsecured Corporate Bonds	September 26, 2016	10,000	**10,000**	September 18, 2026
The 2nd Issue of Unsecured Corporate Bonds	September 26, 2016	10,000	**10,000**	September 19, 2031
The 3rd Issue of Unsecured Corporate Bonds	May 25, 2017	10,000	**10,000**	May 20, 2024
The 4th Issue of Unsecured Corporate Bonds	May 25, 2017	10,000	**10,000**	May 20, 2027
The 5th Issue of Unsecured Corporate Bonds	December 8, 2017	10,000	**10,000**	December 20, 2024
The 6th Issue of Unsecured Corporate Bonds	December 8, 2017	10,000	**10,000**	December 20, 2027
The 7th Issue of Unsecured Corporate Bonds	June 12, 2018	20,000	**20,000**	June 20, 2023
The 8th Issue of Unsecured Corporate Bonds	June 12, 2018	20,000	**20,000**	June 20, 2025
The 9th Issue of Unsecured Corporate Bonds	June 12, 2018	20,000	**20,000**	June 20, 2028
The 1st Issue of Unsecured Corporate Bonds	June 14, 2019	—	**30,000**	June 20, 2024
The 2nd Issue of Unsecured Corporate Bonds	June 14, 2019	—	**30,000**	June 19, 2026
The 3rd Issue of Unsecured Corporate Bonds	June 14, 2019	—	**20,000**	June 20, 2029
The 1st Issue of Unsecured Subordinated Corporate Bonds (Note 1)	September 12, 2019	—	**70,000**	September 12, 2079
The 2nd Issue of Unsecured Subordinated Corporate Bonds (Note 2)	September 12, 2019	—	**30,000**	September 12, 2079
The 3rd Issue of Unsecured Subordinated Corporate Bonds (Note 3)	September 12, 2019	—	**200,000**	September 12, 2079
Bonds issued by Sanyo Special Steel Co., Ltd.				
The 2nd Issue of Unsecured Corporate Bonds	December 7, 2017	10,000	**10,000**	December 6, 2024
Total		280,000	**600,000**	

Notes:

1. Early redemption may be made at the Company's discretion on each interest payment date from September 12, 2024 or upon the occurrence and continuation of a tax event or an equity credit change event on or after the issue date.
2. Early redemption may be made at the Company's discretion on each interest payment date from September 12, 2026 or upon the occurrence and continuation of a tax event or an equity credit change event on or after the issue date.
3. Early redemption may be made at the Company's discretion on each interest payment date from September 12, 2029 or upon the occurrence and continuation of a tax event or an equity credit change event on or after the issue date.

(3) Reconciliation of changes in liabilities in cash flows from financing activities

The table below presents a reconciliation of main changes in liabilities arising from financing activities.

(Millions of Yen)

	Short-term borrowings	Commercial papers	Long-term borrowings	Bonds	Lease liabilities	Total
As of April 1, 2018	137,323	89,000	1,585,966	295,696	49,768	2,157,755
Cash flows from financing activities	44,401	23,000	102,850	(25,700)	(9,792)	134,760
Effects of changes in scope of consolidation	35,073	8,000	20,872	10,000	(65)	73,880
Effects of changes in foreign exchange rates and other	(1,405)	—	(2,606)	3	6,843	2,834
As of March 31, 2019	215,393	120,000	1,707,083	280,000	46,754	2,369,231
Change in accounting policies	—	—	—	—	33,573	33,573
As of April 1, 2019	215,393	120,000	1,707,083	280,000	80,328	2,402,805
Cash flows from financing activities	(88,452)	(1,000)	(141,956)	317,550	(23,651)	62,489
Effects of changes in scope of consolidation	(8,420)	—	—	—	(40)	(8,461)
Effects of changes in foreign exchange rates and other	(1,960)	—	(6,044)	153	39,759	31,908
As of March 31, 2020	**116,560**	**119,000**	**1,559,082**	**597,703**	**96,395**	**2,488,741**

19. Employee Benefits

(1) Overview of retirement benefit plans

The retirement benefit plans that the Group offers to its employees include lump-sum retirement payment plans, defined benefit plans, and defined contribution plans.

Under the lump-sum retirement payment plans, the Group makes lump-sum payments to eligible employees upon their retirement. The amount of benefits under these plans is determined mainly based on the employee's base salary and years of service at retirement.

The Group also has defined benefit plans that are corporate pension plans in compliance with the Defined-Benefit Corporate Pension Act of Japan and provides benefit payments to eligible employees over a certain period of time after retirement. The amount of benefits under these plans is determined mainly based on the employee's base salary and years of service at retirement.

The management of plan assets for defined benefit plans aims to maximize the value of the plan assets within an acceptable level of risk in order to ensure stable future pension benefit payments to the plan participants and qualified beneficiaries. Specifically, the plan establishes a medium and long-term investment portfolio taking into consideration of the characteristics of the plan assets and pension obligations. This investment portfolio is reviewed periodically and adjusted for changes in the market environment and funding position since initial assumptions has been set out.

Under the defined contribution plans, the responsibility of the Company and its subsidiaries is limited to contributions based on the amount determined in the retirement benefits policies of each participating company.

(2) Reconciliation of the present value of the defined benefit obligations

The changes in the present value of the defined benefit obligations for the Group are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of the year	619,280	**630,754**
Current service cost	34,137	**34,879**
Interest cost	2,610	**2,569**
Actuarial gains and losses	6,183	**(2,888)**
Past service cost	(54)	**426**
Benefits paid	(48,542)	**(40,721)**
Other	17,137	**(712)**
Balance at end of the year	630,754	**624,308**

The weighted average duration of the defined benefit obligations for the years ended March 31, 2019 and 2020 is 11.9 years and 12.1 years, respectively.

(3) Reconciliation of the fair value of the plan assets

The changes in the fair value of the plan assets for the Group are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of the year	554,671	**526,246**
Interest income	2,986	**2,898**
Return on plan assets, excluding interest income	(457)	**(5,127)**
Employer contributions	13,903	**15,073**
Benefits paid	(29,682)	**(23,715)**
Benefits paid from trust assets	(1,773)	**(56,265)**
Other	(13,401)	**(12,918)**
Balance at end of the year	526,246	**446,193**

(Changes in presentation method)

"Benefits paid from trust assets" ((1,773) million yen, which was included in "Other" for the year ended March 31, 2019) have become material and therefore are presented independently for the year ended March 31, 2020. Notes for the year ended March 31, 2019 are reclassified to reflect the change in presentation method.

Note: The Group expects to contribute 14,178 million yen to the defined benefit plans for the year ending March 31, 2021.

(4) The components of the fair value of plan assets by asset category

The components of the fair value of plan assets by asset category are as follows:

(Millions of Yen)

	As of March 31, 2019		As of March 31, 2020	
	With quoted market price in an active market	With no quoted market price in an active market	With quoted market price in an active market	With no quoted market price in an active market
Bonds	80,469	—	**80,936**	—
Equity investments	208,456	—	**126,888**	—
Cash and cash equivalents	43,857	—	**33,194**	—
General accounts at life insurance company	—	126,547	—	**133,794**
Other	—	66,915	—	**71,379**
Total	332,783	193,463	**241,019**	**205,173**

(5) Significant actuarial assumptions

The significant actuarial assumptions used to determine the present value of defined benefit obligations for the Company are as follows:

	As of March 31, 2019	As of March 31, 2020
Discount rate	Mainly 0.3%	**Mainly 0.5%**

(6) Sensitivity analysis

The effects on defined benefit obligations of increase in the discount rates are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Effects of incremental increase in discount rate by 0.5%	33,151 million yen decrease	**33,097 million yen decrease**

The sensitivity analysis assumes that other assumptions remain unchanged.

(7) Defined contribution plans

The amounts recognized as expenses for defined contribution plans are 6,557 million yen and 7,628 million yen for the years ended March 31, 2019 and 2020, respectively.

(8) Employee benefits expenses

The Group incurred employee benefits expenses of 869,640 million yen and 902,418 million yen for the years ended March 31, 2019 and 2020, respectively. These expenses are included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of profit or loss. Salary, bonus, statutory health and welfare benefits and retirement benefits expenses are included in employee benefits expenses

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20. Equity and Other Equity Items

(1) Common stock and reserves

The total number of shares authorized to be issued and shares outstanding are as follows:

	Number of shares authorized to be issued (Thousands)	Number of shares outstanding (Thousands)
As of April 1, 2018	2,000,000	950,321
Changes	—	—
As of March 31, 2019	2,000,000	950,321
Changes	—	—
As of March 31, 2020	**2,000,000**	**950,321**

All the shares authorized to be issued and shares outstanding are without par value.

Capital surplus

Capital surplus comprises of amounts generated through capital transactions that are not recorded in common stock, and its primary component is capital reserves.

The Companies Act of Japan stipulates that one-half or more of the proceeds from issuance of shares should be incorporated in common stock, and that the remainder shall be incorporated in capital reserve included in capital surplus. The act stipulates that the capital reserve may be incorporated in common stock upon resolution at the general meeting of shareholders.

Retained earnings

Retained earnings consist of legal reserves and accumulated earnings. The Companies Act of Japan provides that one-tenth of cash dividends be appropriated as capital reserve or legal reserve at the date of distribution until the total amount of these reserves equals one-fourth of common stock. Legal reserve may be utilized to cover capital losses upon resolution at the general meeting of shareholders.

(2) Treasury stock

The total number of treasury stock held by the Group is as follows:

	Number of shares (Thousands)
As of April 1, 2018	67,710
Changes	(37,912)
As of March 31, 2019	29,797
Changes	(159)
As of March 31, 2020	**29,638**

21. Dividends

The dividends paid by the Company are as follows:
(Year ended March 31, 2019)

(1) Dividends paid

Date of resolution	Class of share	Total amount of dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
Shareholders' meeting held on June 26, 2018	Ordinary shares	35,355	40	March 31, 2018	June 27, 2018
Board of directors meeting held on November 2, 2018	Ordinary shares	35,355	40	September 30, 2018	December 3, 2018

(2) Dividends that belong to the current consolidated reporting year but become effective in the subsequent consolidated reporting year

Date of resolution	Class of share	Source of dividends	Total amount of dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
Shareholders' meeting held on June 25, 2019	Ordinary shares	Retained earnings	36,880	40	March 31, 2019	June 26, 2019

(Year ended March 31, 2020)

(1) Dividends paid

Date of resolution	Class of share	Total amount of dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
Shareholders' meeting held on June 25, 2019	Ordinary shares	**36,880**	**40**	March 31, 2019	June 26, 2019
Board of directors meeting held on November 1, 2019	Ordinary shares	**9,220**	**10**	September 30, 2019	December 2, 2019

(2) Dividends that belong to the current consolidated reporting year but become effective in the subsequent consolidated reporting year

Not Applicable.

22. Revenue

(1) Disaggregation of revenue

Disaggregation of revenue from contracts with customers and its relationship with segment revenue are as follows.

(Year ended March 31, 2019)

(Millions of Yen)

	Steelmaking and Steel Fabrication	Engineering and Construction	Chemicals and Materials	System Solutions	Consolidated
Japan	3,431,461	264,674	155,184	201,868	4,053,188
Asia	1,194,440	34,746	78,872	2,831	1,310,890
Middle East	113,180	2	319	—	113,502
Europe	142,335	20,645	4,426	66	167,473
North America	279,575	997	4,055	151	284,779
Central and South America	188,473	279	156	34	188,944
Africa	46,202	—	0	—	46,202
Pacific	12,963	—	0	—	12,964
Total	5,408,633	321,346	243,014	204,952	6,177,947

Revenue is classified based on the geographic location of customers and presented at the amount less adjustment of inter-segment transactions.

(Year ended March 31, 2020)

(Millions of Yen)

	Steelmaking and Steel Fabrication	Engineering and Construction	Chemicals and Materials	System Solutions	Consolidated
Japan	**3,268,054**	**249,650**	**134,248**	**203,484**	**3,855,438**
Asia	**1,100,468**	**26,802**	**66,488**	**3,957**	**1,197,715**
Middle East	**154,087**	**85**	**356**	**0**	**154,529**
Europe	**201,460**	**18,973**	**4,660**	**66**	**225,160**
North America	**231,393**	**861**	**4,541**	**167**	**236,963**
Central and South America	**179,099**	**26**	**38**	**34**	**179,199**
Africa	**55,487**	**44**	**—**	**—**	**55,532**
Pacific	**16,982**	**—**	**3**	**—**	**16,985**
Total	**5,207,033**	**296,443**	**210,338**	**207,709**	**5,921,525**

Revenue is classified based on the geographic location of customers and presented at the amount less adjustment of inter-segment transactions.

(2) Contract balances

(Millions of Yen)

	As of April 1, 2018	As of March 31, 2019	As of March 31, 2020
Receivables	685,761	774,803	**620,322**
Contract assets	45,044	67,769	**67,621**
Contract liabilities	22,936	28,488	**32,628**

Receivables and contract assets are included in "Trade and Other Receivables" in the consolidated statement of financial position. Contract liabilities are included in "Other current liabilities" in the consolidated statement of financial position.The amount included in the contract liabilities as of April 1, 2018 and 2019 and recognized as revenue for the year ended March 31, 2019 and 2020 amounted to 20,099 million yen and 26,593 million yen, respectively. The amount recognized as revenue for the year ended March 31, 2019 and 2020 from performance obligations satisfied in previous periods is immaterial.

(3) Transaction price allocated to the remaining performance obligation

(Millions of Yen)

	As of March 31, 2019	Engineering and Construction	System Solutions
Within 1 year	259,610	184,782	74,828
Over 1 year	202,262	170,569	31,693
Total	461,872	355,351	106,521

(Millions of Yen)

	As of March 31, 2020	Engineering and Construction	System Solutions
Within 1 year	**250,617**	**190,366**	**60,251**
Over 1 year	**210,886**	**184,834**	**26,052**
Total	**461,504**	**375,200**	**86,303**

The amount above includes transaction price allocated to the remaining performance obligation which is a part of contracts with original expected duration of one year or less and is presented at the amount after adjustments of inter-segment transactions.

The Group applied the practical expedient and does not disclose the information with respect to Steelmaking and Steel Fabrication segment and Chemicals and Materials segment as original expected duration of performance obligation is mostly one year or less.

(4) Assets recognized from the costs to obtain or fulfill a contract with a customer

The Group's incremental costs of obtaining a contract and costs to fulfill a contract with customer required to be recognized as assets are immaterial.

23. Selling, General and Administration Expenses

The components of selling, general and administrative expenses are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Transportation and storage	161,091	**155,866**
Salaries and bonuses	141,390	**144,889**
Retirement benefit costs	8,713	**9,491**
Research and development costs	58,621	**63,147**
Depreciation and amortization	8,693	**9,887**
Other	189,901	**188,501**
Total	568,409	**571,781**

24. Research and Development Costs

The total amounts of research and development costs included in "Cost of sales" and "Selling, general and administrative expenses" are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Research and development costs	72,043	**77,691**

25. Other Operating Income and Other Operating Expenses

The components of “Other operating income” and “Other operating expenses” are as follows:

(1) Other operating income

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Dividends received	20,156	**22,889**
Foreign exchanges gains (net)	6,152	**—**
Other	76,296	**81,954**
Total	102,606	**104,844**

Dividend income is generated mainly from financial assets measured at fair value through other comprehensive income.

(2) Other operating expenses

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Foreign exchanges losses (net)	—	**894**
Impairment losses	—	**333,968**
Losses on disposal of fixed assets	27,665	**31,344**
Losses on changes in scope of consolidation	—	**12,893**
Compensation expense	—	**17,570**
Other	42,455	**68,363**
Total	70,120	**465,035**

26. Business profit

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.

27. Losses on natural disaster

(Year ended March 31, 2019)

Losses are incurred by “heavy rain in July 2018”, “Typhoon 21(Jebi), 2018”, and “Typhoon 24 (Trami), 2018”. The nature of the losses represents costs on restoration, disposal of machinery and other related costs.

28. Losses on reorganization

(Year ended March 31, 2019)
Details of losses on reorganization recorded owing to business reorganization, losses on business withdrawal, and others are described below.

Impairment losses 16,882 million yen
In the Steelmaking and Steel Fabrication segment, impairment losses recognized are related to goodwill of a subsidiary which is in a business of manufacturing and distribution of railway wheels and axles in the U.S. and the investment accounted for using the equity method held by a subsidiary which operates mining business in Australia.

In the Engineering and Construction segment, goodwill related impairment losses were incurred by a subsidiary which operates environmental plant business in Europe.

Losses on business withdrawal 17,443 million yen
Losses on withdrawal from businesses mainly consist of losses related to the pending withdrawal from large casting and forgings business operated by Japan Casting & Forging Corporation, an affiliate in the Steelmaking and Steel Fabrication segment, due to unfavorable business environment.

Losses on inactive facilities 15,154 million yen
Losses incurred to withdraw inactive facilities and other losses mainly consist of the termination and demolition losses of No.5 blast furnace of Wakayama Works.

(Year ended March 31, 2020)
Details of losses on reorganization recorded owing to business reorganization, losses on business withdrawal, and others are described below.

Impairment losses 78,700 million yen
In the Steelmaking and Steel Fabrication segment, the Company recognized impairment losses associated with operating assets of NIPPON STEEL NISSHIN CO., LTD. ("Nippon Steel Nisshin"), a subsidiary of the Company.

Losses on business withdrawal 20,203 million yen
In the Steelmaking and Steel Fabrication segment, losses on withdrawal from business were mainly incurred as a result of the withdrawal of a subsidiary in China from manufacturing and marketing cold rolled special steel business.

In the Engineering and Construction segment, losses on withdrawal from business were mainly incurred as a result of the reorganization of the environmental plant engineering business conducted by an overseas subsidiary.

Losses on inactive facilities 22,799 million yen
In the Steelmaking and Steel Fabrication segment, losses on inactive facilities and others were incurred mainly due to termination and demolition losses expense based on the decision to close the hot-rolling mill and manufacturing facility dedicated for precision products of Kinuura Works of NIPPON STEEL Stainless Steel Corporation, a subsidiary of the Company, and the UO mill of Kashima Works of the Company.

29. Finance Income and Finance Costs

The components of "Finance income" and "Finance costs" are as follows:

(1) Finance income

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Interest income	6,028	**7,703**
Other	76	**3**
Total	6,104	**7,706**

Interest income is generated mainly from financial assets measured at amortized cost.

(2) Finance costs

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Interest expense	19,133	**21,809**
Other	3,311	**3,349**
Total	22,445	**25,159**

Interest expense is generated mainly from financial liabilities measured at amortized cost.

30. Impairment of Assets

(1) Impairment losses

For the year ended March 31, 2019 and 2020, the Company recorded impairment losses regarding property, plant and equipment, goodwill, intangible assets, and investments accounted for using the equity method as follows. The impairment losses are included in "Other operation expenses" and "Losses on reorganization" of consolidated statements of profit or loss.

(Year ended March 31, 2019)

(Millions of Yen)

Steelmaking and Steel Fabrication	Engineering and Construction	Chemicals and Materials	System Solutions	Adjustments	Total
11,909	4,972	—	—	—	16,882

In the Steelmaking and Steel Fabrication segment, impairment losses were recognized mainly due to strategic realignments of its businesses in order to address unfavorable business environment. This includes the impairment losses of 5,990 million yen related to goodwill of a subsidiary which is in a business of manufacturing and distribution of railway wheels and axles in the U.S. These impairment losses were recognized due to the decision to reorganize the operation of certain business in the U.S. in the Steelmaking and Steel Fabrication segment. The recoverable amount of related assets was calculated based on the fair value less costs of disposal which was determined using the market approach and was categorized within Level 3 of the fair value hierarchy. Impairment losses of 5,919 million yen related to the investment accounted for using the equity method held by a subsidiary which operates mining business in Australia were recognized as a result of re-review of its investment plan. The recoverable amount related to this investment is calculated based on value in use using the discounted cash flow method with the pre-tax discounted rate of 8.0%.

In the Engineering and Construction segment, impairment losses were recognized mainly due to unfavorable business environment. These consist of impairment losses on goodwill incurred by a subsidiary which operates environmental plant business in Europe. The recoverable amount of related assets was calculated based on value in use by using the discounted cash flow method with the pre-tax discounted rate of 8.0%.

(Year ended March 31, 2020)

(Millions of Yen)

Steelmaking and Steel Fabrication	Engineering and Construction	Chemicals and Materials	System Solutions	Adjustments	Total
412,668	**3,352**	—	—	—	**416,021**

In the Steelmaking and Steel Fabrication segment, the Company recorded impairment losses of 412,668 million yen. These mainly consist of impairment losses of 396,600 million yen on operating assets in Kashima Works, Nagoya Works, Hirohata Works of the Company, and Nippon Steel Nisshin. These consist of impairment losses on buildings and structures 121,356 million yen, machinery and vehicles 234,251 million yen, and others 40,992 million yen.

The Kashima Works, Nagoya Works, and Hirohata Works were continuously in deficit, having been adversely affected by current high prices for raw materials and low prices for steel products, increases in costs of other raw materials, consumables, and logistics, weak domestic demand for indirect exports and other factors. After conducting a calculation of future cash flows based on the current business environment, the recoverable amount has been estimated to be less than the book value of operating assets held in these steel works. The Company has therefore reduced the book value of the operating assets held by these steel works to the present value of future cash flows and recorded the reduction as impairment losses of 317,900 million yen.

Nippon Steel Nisshin which is one of the subsidiaries of the Company, is also continuously in deficit, having been affected by disasters caused by torrential rains in the previous fiscal year, and a fire at the No.1 steelmaking plant of Nippon Steel Nisshin's Kure Works in the current fiscal year, as well as by deteriorating economic conditions. As part of building an optimal production structure as the Nippon Steel Group, the Company has decided to close all the facilities of the Kure Works. After considering a significant decline in the recoverable amount pertaining to the operating assets planned to be closed in the works and conducting a recoverability test, the Company has decided to record impairment losses of 78,700 million yen.

The recoverable amount of these operating assets is calculated based on discounted cash flow method, evaluated to have value in use of 282,400 million yen as of the date when impairment losses are recognized, December 31, 2019. The value in use is calculated by using a pre-tax discount rate of 8.0%.

Impairment losses of 317,900 million yen on operating assets in Kashima Works, Nagoya Works, and Hirohata Works are included in "Other operating expenses", while impairment losses of 78,700 million yen on operating assets of Nippon Steel Nisshin is included in "Losses on reorganization".

The details of impairment losses on operating assets by cash-generating unit are listed as follows;

(Millions of yen)

	Kashima Works	Nagoya Works	Hirohata Works	The Company	Nippon Steel Nisshin (Subsidiary)	Consolidated Basis
Impairment losses	**150,400**	**122,800**	**44,700**	**317,900**	**78,700**	**396,600**

In the Engineering and Construction segment, impairment losses were recognized mainly due to unfavorable business environment. This includes impairment losses of goodwill and others of an overseas subsidiary which were incurred by the reorganization of environmental plant engineering business conducted by the subsidiary. The recoverable amount of related assets was calculated based on value in use by using the discounted cash flow method with the pre-tax discounted rate of 8.0%. These impairment losses are included in “Losses on business withdrawal” of “Losses on reorganization”.

(2) Impairment test of goodwill

The breakdown of the carrying amount of goodwill by segment is as follows:

(Millions of Yen)

Operating segment	As of March 31, 2019	As of March 31, 2020
Steelmaking and Steel Fabrication	44,477	**40,461**
Engineering and Construction	3,300	—
Chemicals and Materials	—	—
System Solutions	5,025	**5,025**
Total	52,803	**45,486**

The recoverable amount of the cash-generating units to which the goodwill is allocated is calculated based on value in use or the fair value less costs of disposal. In measuring value in use, past experience and external evidence are reflected and the estimated future cash flows are discounted to the present value. The future cash flows are estimated based on a business plan approved by management, which covers a maximum period of five years, and a growth rate for subsequent years.

The discount rate is calculated based on the weighted average cost of capital of each cash-generating unit which is the pre-tax discounted rate of mainly 8.0%.

31. Other Comprehensive Income

The components of other comprehensive income are as follows:

(Year ended March 31, 2019)

(Millions of Yen)

	Incurred during the year	Reclassification	Before tax effect	Tax effect	After tax effect
Items that cannot be reclassified to profit or loss					
Changes in fair value of financial assets measured at fair value through other comprehensive income	(138,361)	—	(138,361)	33,804	(104,557)
Remeasurements of defined benefit assets	(6,641)	—	(6,641)	3,109	(3,531)
Share of other comprehensive income of investments accounted for using the equity method	(2,953)	—	(2,953)	—	(2,953)
Subtotal	(147,956)	—	(147,956)	36,913	(111,042)
Items that might be reclassified to profit or loss					
Changes in fair value of cash flow hedges	6,155	(4,234)	1,921	(398)	1,522
Foreign exchange differences on translation of foreign operations	(42,391)	(111)	(42,502)	1,246	(41,256)
Share of other comprehensive income of investments accounted for using the equity method	(21,750)	62	(21,687)	—	(21,687)
Subtotal	(57,985)	(4,283)	(62,269)	847	(61,421)
Total	(205,942)	(4,283)	(210,225)	37,761	(172,464)

"Incurred during the year" and "Reclassification" in "Shares of other comprehensive income of investments accounted for using the equity method" are stated with the amount after tax effect.

(Year ended March 31, 2020)

(Millions of Yen)

	Incurred during the year	Reclassification	Before tax effect	Tax effect	After tax effect
Items that cannot be reclassified to profit or loss					
Changes in fair value of financial assets measured at fair value through other comprehensive income	**(129,269)**	—	**(129,269)**	**45,963**	**(83,305)**
Remeasurements of defined benefit assets	**(2,238)**	—	**(2,238)**	**788**	**(1,449)**
Share of other comprehensive income of investments accounted for using the equity method	**(6,785)**	—	**(6,785)**	—	**(6,785)**
Subtotal	**(138,293)**	—	**(138,293)**	**46,752**	**(91,540)**
Items that might be reclassified to profit or loss					
Changes in fair value of cash flow hedges	**(4,389)**	**1,982**	**(2,406)**	**585**	**(1,821)**
Foreign exchange differences on translation of foreign operations	**(15,176)**	**69**	**(15,107)**	**294**	**(14,812)**
Share of other comprehensive income of investments accounted for using the equity method	**(9,376)**	**30**	**(9,346)**	—	**(9,346)**
Subtotal	**(28,943)**	**2,082**	**(26,861)**	**880**	**(25,981)**
Total	**(167,236)**	**2,082**	**(165,154)**	**47,632**	**(117,521)**

"Incurred during the year" and "Reclassification" in "Shares of other comprehensive income of investments accounted for using the equity method" are stated with the amount after tax effect.

32. Earnings per Share

Profit (loss) for the year attributable to common shares of the parent is as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Profit (loss) for the year attributable to owners of the parent	251,169	**(431,513)**
Profit (loss) for the year not attributable to ordinary equity holders of the parent	—	—
Profit (loss) for the year used to calculate basic earnings per share	251,169	**(431,513)**

The weighted average number of ordinary shares outstanding is as follows:

(Shares)

	Year ended March 31, 2019	Year ended March 31, 2020
Weighted average number of ordinary shares outstanding	891,387,729	**920,570,952**

Diluted earnings per share are not presented as there are no potential dilutive shares.

33. Financial Instruments

(1) Capital management

Under the presumption that a certain level of financial stability is maintained, the Group has capital management policies which emphasize operational efficiency of invested capital, maximize corporate value by utilizing funds in investments (including investments in capital expenditure, research and development and M&A) which are expected to generate revenue which exceeds the cost of capital to enable sustainable growth and, at the same time, meet the demands of shareholders by providing returns to shareholders based on profits. The necessary funds to achieve this are primarily provided through cash flows from operating activities which are generated from maintaining and enhancing the Group's earnings power, and the Group raises funds through borrowings from banks and the issuance of corporate bonds, as necessary.

The Group identifies Return on Equity ("ROE") and Debt Equity Ratio ("D/E ratio") as key management indicators to achieve medium and long-term profit growth and stability of the financial base. ROE is calculated by dividing profit for the year attributable to owners of the parent by the equity attributable to owners of the parent. D/E ratio is calculated by dividing interest-bearing debts by the equity attributable to owners of the parent.

	As of March 31, 2019	As of March 31, 2020
ROE (%)	7.9	**(14.7)**
D/E Ratio (times)	0.73	**0.94**

There are no significant capital regulations which are applied to the Company.

(2) Classification of financial instruments

(a) Valuation techniques used to measure the fair value for the financial instruments with a carrying amount measured at fair value

(i) Equity instruments

The fair value of marketable equity instruments is measured using quoted market prices at the end of the reporting period.

The fair value of non-marketable equity instruments is estimated using appropriate valuation techniques, such as the market approach.

(ii) Derivatives

The fair value of derivatives is measured with reference to prices provided by the counterparty and forward exchange rates.

(b) Classification by levels in the fair value hierarchy

The fair value hierarchy of financial instruments is classified from Level 1 to Level 3 as follows:

Level 1: Fair value measured with quoted prices in active markets for identical assets or liabilities,

Level 2: Fair value measured using inputs that are directly or indirectly observable for assets or liabilities other than those in Level 1,

Level 3: Fair value measured using inputs that are not based on observable market data for assets or liabilities.

(c) Method to measure the changes in fair value
FVPL: Method of measuring changes in fair value through profit or loss
FVOCI: Method of measuring changes in fair value through other comprehensive income

(d) Carrying amounts of financial instruments by classification
(As of March 31, 2019)
Financial assets

(Millions of Yen)

	Carrying amount			
	Amortized cost	Fair value		Total
		FVPL	FVOCI	
Current assets				
Cash and cash equivalents	163,176	—	—	163,176
Trade and other receivables	900,563	—	—	900,563
Other financial assets	12,844	590	3,480	16,915
Derivatives	—	590	3,480	4,071
Debt instruments	12,844	—	—	12,844
Non-current assets				
Other financial assets	84,211	—	728,456	812,668
Equity instruments	—	—	718,470	718,470
Derivatives	—	—	9,985	9,985
Debt instruments	84,211	—	—	84,211

Derivatives included in FVOCI represent the effective portion of hedging instruments designated in cash flow hedge.
The carrying amount of “Trade and other receivables” in the table above does not include the contract assets recognized in accordance with IFRS 15 ”Revenue” which amounts to 67,769 million yen.

Financial liabilities

(Millions of Yen)

	Carrying amount			
	Amortized cost	Fair value		Total
		FVPL	FVOCI	
Current liabilities				
Trade and other payables	1,611,403	—	—	1,611,403
Bonds and borrowings	506,571	—	—	506,571
Other financial liabilities Derivatives	—	258	758	1,017
Non-current liabilities				
Bonds and borrowings	1,815,905	—	—	1,815,905
Other financial liabilities Derivatives	—	—	6,501	6,501
Other non-current liabilities	142,149	—	—	142,149

Derivatives included in FVOCI represent the effective portion of hedging instruments designated in cash flow hedge.
The carrying amount of “Other non-current liabilities” in the table above does not include the liabilities recognized in accordance with IAS 19 “Employee Benefits” which amounts to 24,085 million yen.

(As of March 31, 2020)

Financial assets

(Millions of Yen)

	Carrying amount			
	Amortized cost	Fair value		Total
		FVPL	FVOCI	
Current assets				
Cash and cash equivalents	**289,459**	—	—	**289,459**
Trade and other receivables	**758,975**	—	—	**758,975**
Other financial assets	**14,922**	**583**	**1,834**	**17,340**
Derivatives	—	**583**	**1,834**	**2,417**
Debt instruments	**14,922**	—	—	**14,922**
Non-current assets				
Other financial assets	**64,047**	—	**417,069**	**481,117**
Equity instruments	—	—	**413,161**	**413,161**
Derivatives	—	—	**3,907**	**3,907**
Debt instruments	**64,047**	—	—	**64,047**

Derivatives included in FVOCI represent the effective portion of hedging instruments designated in cash flow hedge.
The carrying amount of "Trade and other receivables" in the table above does not include the contract assets recognized in accordance with IFRS 15 "Revenue" which amounts to 67,621 million yen.

Financial liabilities

(Millions of Yen)

	Carrying amount			
	Amortized cost	Fair value		Total
		FVPL	FVOCI	
Current liabilities				
Trade and other payables	**1,449,801**	—	—	**1,449,801**
Bonds and borrowings	**354,642**	—	—	**354,642**
Other financial liabilities				
Derivatives	—	**163**	**2,026**	**2,189**
Non-current liabilities				
Bonds and borrowings	**2,037,703**	—	—	**2,037,703**
Other financial liabilities				
Derivatives	—	—	**4,621**	**4,621**
Other non-current liabilities	**147,764**	—	—	**147,764**

Derivatives included in FVOCI represent the effective portion of hedging instruments designated in cash flow hedge.
The carrying amount of "Other non-current liabilities" in the table above does not include the liabilities recognized in accordance with IAS 19 "Employee Benefits" which amounts to 24,390 million yen.

(e) Financial instruments measured at fair value

(As of March 31, 2019)
Financial assets measured at fair value

(Millions of Yen)

FVPL	Level 1	Level 2	Level 3	Total
Other financial assets				
Derivatives	—	590	—	590
FVOCI				
Other financial assets				
Equity instruments	638,768	—	79,702	718,470
Derivatives	—	13,466	—	13,466

Derivatives included in FVOCI represent the effective portion of hedging instruments designated in cash flow hedge.

Financial liabilities measured at fair value

(Millions of Yen)

FVPL	Level 1	Level 2	Level 3	Total
Other financial liabilities				
Derivatives	—	258	—	258
FVOCI				
Other financial liabilities				
Derivatives	—	7,260	—	7,260

Derivatives included in FVOCI represent the effective portion of hedging instruments designated in cash flow hedge.

(As of March 31, 2020)
Financial assets measured at fair value

(Millions of Yen)

FVPL	Level 1	Level 2	Level 3	Total
Other financial assets				
Derivatives	**—**	**583**	**—**	**583**
FVOCI				
Other financial assets				
Equity instruments	**333,812**	**—**	**79,349**	**413,161**
Derivatives	**—**	**5,741**	**—**	**5,741**

Derivatives included in FVOCI represent the effective portion of hedging instruments designated in cash flow hedge.

Financial liabilities measured at fair value

(Millions of Yen)

FVPL	Level 1	Level 2	Level 3	Total
Other financial liabilities				
Derivatives	**—**	**163**	**—**	**163**
FVOCI				
Other financial liabilities				
Derivatives	**—**	**6,647**	**—**	**6,647**

Derivatives included in FVOCI represent the effective portion of hedging instruments designated in cash flow hedge.

The changes of equity instruments measured at Level 3 are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of the year	78,819	**79,702**
Net changes in fair value	1,122	**351**
Acquisitions	116	**654**
Sale / settlements	(641)	**(1,444)**
Other	286	**86**
Balance at end of the year	79,702	**79,349**

(f) Equity instruments measured at fair value through other comprehensive income (“FVOCI”)

(i) Fair value of significant equity instruments measured at FVOCI by name

(As of March 31, 2019)

(Millions of Yen)

Toyota Motor Corporation	80,312
POSCO	70,952
Suzuki Motor Corporation	38,006
Recruit Holdings	37,110
Central Japan Railway Company	30,633

(As of March 31, 2020)

(Millions of Yen)

POSCO	**41,143**
Recruit Holdings	**31,147**
Central Japan Railway Company	**20,636**
Suzuki Motor Corporation	**20,054**
AIR WATER INC.	**15,008**

(ii) Fair value at the time of derecognition for assets that were derecognized and cumulative gains or losses on disposal

The Group derecognizes certain financial assets that are measured at fair value through other comprehensive income as a result of disposals through sale occurring as a result of review of business relationships.

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Fair value at the time of derecognition	83,726	**189,407**
Cumulative gains or losses on disposal (net of tax)	14,679	**59,987**

(iii) Dividends recognized for the equity investments measured at FVOCI during the reporting period

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Investment derecognized in the reporting period	2,168	**4,545**
Investment held at the end of reporting period	17,988	**18,343**
Total	20,156	**22,889**

(3) Fair value of financial instruments
Financial instruments measured at amortized cost

The fair value of financial assets and financial liabilities measured at amortized cost is as follows:

(As of March 31, 2019)

(Millions of Yen)

	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets (Current) Other financial assets Debt instruments	12,844	9,498	0	3,345
Financial assets (Non-current) Other financial assets Debt instruments	84,211	11	7,512	76,699
Financial liabilities (Current) Bonds and borrowings	506,571	60,386	—	446,571
Financial liabilities (Non-current) Bonds and borrowings	1,815,905	224,669	—	1,618,043

(As of March 31, 2020)

(Millions of Yen)

	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets (Current) Other financial assets Debt instruments	**14,922**	**11,374**	**118**	**3,429**
Financial assets (Non-current) Other financial assets Debt instruments	**64,047**	**11**	**6,029**	**58,035**
Financial liabilities (Current) Bonds and borrowings	**354,642**	**45,357**	—	**309,642**
Financial liabilities (Non-current) Bonds and borrowings	**2,037,703**	**550,314**	—	**1,504,562**

The tables do not include financial assets and liabilities measured at amortized cost whose fair values approximate their carrying amounts.

Valuation techniques used to measure the fair value of financial instruments measured at amortized cost
- The fair value of a marketable financial asset is measured with reference to its market price.
- The fair value of a non-marketable financial asset is measured with reference to the price quoted by financial institutions.
- The fair value of a bond is measured with reference to its market price.
- The fair value of a borrowing is measured at the present value of the total amounts of principal and interest discounted by the Group's incremental borrowing rate with a similar term.

(4) Risk management

The Group is exposed to various financial risks (market risk, credit risk and liquidity risk) arising from its business activities and implements risk management processes to minimize these financial risks.

(a) Market risk management

(i) Foreign currency risk

Trade receivables denominated in foreign currencies arising from exports of products are exposed to foreign currency risk.

Trade payables, notes payable and other payables are, in principle, come due within one year. Certain trade payables are denominated in foreign currencies arising from imports of raw materials and exposed to foreign currency risk.

The Group enters into forward exchange contracts and currency swaps to hedge foreign exchange risk arising from sales and capital transactions and investing and financing activities of the Group.

Derivative transactions are executed in accordance with the internal derivative transaction policy. According to the internal l derivative transaction policy, the policy for entering into a derivative transaction of financial instruments is discussed and approved by the Financial Management Committee and reported as necessary at the Board of Directors' meeting. Subsequently the Financial Controller approves the implementation of derivatives within the approved authority limits and reports that transaction amounts as well as gains or losses arising from derivative transactions to the Financial Management Committee on a regular basis.

The Group's principal foreign currency risk exposures for the years ended March 31, 2019 and 2020 are as follows.

(Millions of USD)

	As of March 31, 2019	As of March 31, 2020
Net exposure (liability)	78	**(48)**

Impacts on profit before income taxes in the consolidated statements of profit or loss if Japanese yen were to appreciate by 1% against the U.S. Dollar at the end of the reporting period are as follows. In this analysis, the impacts on the assets and liabilities denominated in foreign currencies as of March 31, 2019 and 2020 are estimated by assuming that variables, such as outstanding balances and interest rates, are constant.(negative figures indicate negative impacts on profit)

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Impacts on profit before income taxes	(86)	**52**

(ii) Interest rate risk

Certain bonds and long-term borrowings are floating-rates debts. The interest expenses vary depending on interest rates. The Group enters into interest rate swap contracts to mitigate the risk of interest rate fluctuations.

Impacts on income taxes in the consolidated statements of profit or loss if interest rates were to increase by 1% at the end of the reporting period are as follows. In this analysis, all other variables are assumed to be constant. (negative figures indicate negative impacts on profit)

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Impacts on profit before income taxes	(6,043)	**(4,155)**

(iii) Market price fluctuation risk

Marketable equity instruments mainly represent the shares of trade counterparties for which are purchased to strengthen business alliances and are exposed to market price fluctuation risk. The Group monitors the market price on a regular basis and regularly evaluates the necessity to retain the respective investments.

(b) Credit risk management

In accordance with the internal credit management policy, the Group shares customer credit records with related departments, and provides for credit protection measures as necessary. Trade receivables, including notes and accounts receivable, are exposed to the credit risk of customers. The Group limits transactions to customers who are also the principal suppliers of the Group such that the trade receivables due from the customers may be offset with the trade payables and borrowings, or to customers with high credit ratings where and the Group concludes that there are limited credit risks.

(i) Credit risk exposure

The total amount of the contractual amounts of financial guarantees and loan commitments and the carrying amount of financial assets (net of impairment) represents its maximum exposure to credit risk without taking into account of any collateral held.

For the credit risk exposure, the Group recognizes the allowance for doubtful accounts by measuring the lifetime expected credit losses.

Allowance for doubtful accounts with respect to trade receivables is assessed by multiplying the carrying amount of trade receivables by the rate of historical credit losses on an individual basis.

(ii) Financial assets subject to allowance for doubtful accounts

The aging of trade and other receivables is as follows:

(Millions of Yen)

Days past due	As of March 31, 2019	As of March 31, 2020
Current	964,845	**822,292**
Within 90 days	4,991	**3,862**
Over 90 days and within 1 year	729	**1,655**
Over 1 year	173	**247**
Total	970,740	**828,058**

(iii) Changes in allowance for doubtful accounts

The changes in allowance for doubtful accounts are as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of the year	5,878	**7,142**
Increase during the year	1,776	**694**
Decrease during the year	(696)	**(2,487)**
Other	183	**(22)**
Balance at end of the year	7,142	**5,326**

(c) Liquidity risk management

The Group manages its liquidity risk on financing activities (the risk that debts cannot be paid by the due dates) by preparing and regularly updating a cash flow forecast based on the reports obtained from respective departments. Furthermore, the Group has a line of credit to cover for unforeseen circumstances.

The figures below show the remaining amount of the Group's financial liabilities by contractual maturity at the end of the reporting period, but do not contain financial guarantees where the Group is obligated to make payments on the obligations arising from financial guarantee contracts. The maximum amounts of guarantees that are extended by the Group are described in Note 36"Loan Guarantees".

As of March 31, 2019

(Millions of Yen)

	Carrying amount	Total contractual cash flow	Within 1 year	Over 1 year but within 5 years	Over 5 years
Trade and other payables	1,611,403	1,611,403	1,611,403	—	—
Borrowings	1,922,476	1,922,476	326,571	657,235	938,670
Bonds	280,000	280,000	60,000	100,000	120,000
Lease liabilities	46,754	46,754	8,783	21,034	16,936
Commercial paper	120,000	120,000	120,000	—	—
Derivatives	7,519	7,019	2,656	4,363	—
Total	3,988,154	3,987,654	2,129,414	782,633	1,075,606

As of March 31, 2020

(Millions of Yen)

	Carrying amount	Total contractual cash flow	Within 1 year	Over 1 year but within 5 years	Over 5 years
Trade and other payables	**1,449,801**	**1,449,801**	**1,449,801**	—	—
Borrowings	**1,675,642**	**1,675,642**	**190,642**	**678,865**	**806,134**
Bonds	**597,703**	**600,000**	**45,000**	**115,000**	**440,000**
Lease liabilities	**96,395**	**96,395**	**22,257**	**49,010**	**25,128**
Commercial paper	**119,000**	**119,000**	**119,000**	—	—
Derivatives	**6,810**	**6,527**	**3,714**	**2,813**	—
Total	**3,945,353**	**3,947,366**	**1,830,415**	**845,688**	**1,271,262**

(5) Derivatives
(a) Impacts on the consolidated statement of financial position

(i) Derivative assets and liabilities designated as hedging instruments

As of March 31, 2019

(Millions of Yen)

Types of hedges	Derivative assets and liabilities	Notional amount		Carrying amount (Fair value)	
		Total	Settlement in excess of one year	Assets	Liabilities
Cash flow hedge	Foreign exchange forward contract	217,369	6,762	1,752	750
	Interest rate swap	264,704	252,848	730	6,509
	Currency swap	67,353	66,280	9,462	—
	Commodity swap	2,529	1,058	1,519	—
Total		551,957	326,949	13,466	7,260

As of March 31, 2020

(Millions of Yen)

Types of hedges	Derivative assets and liabilities	Notional amount		Carrying amount (Fair value)	
		Total	Settlement in excess of one year	Assets	Liabilities
Cash flow hedge	Foreign exchange forward contract	**206,575**	**9,218**	**1,448**	**1,602**
	Interest rate swap	**252,226**	**175,724**	**60**	**4,630**
	Currency swap	**36,482**	**35,410**	**4,045**	—
	Commodity swap	**6,895**	**278**	**188**	**413**
Total		**502,181**	**220,631**	**5,741**	**6,647**

The carrying amounts (fair value) of derivative assets are included in "Other financial assets". The carrying amounts (fair value) of derivative liabilities are included in "Other financial liabilities". The changes in the fair value of the hedged item that are used as the basis for recognition of the ineffective portion are not disclosed as the amount is immaterial.

(ii) Derivative assets and liabilities not designated as hedges

(Millions of Yen)

	As of March 31, 2019		As of March 31, 2020	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forward contract	492	248	**583**	**150**
Interest swap	—	—	—	—
Currency swap	97	10	—	**13**
Total	590	258	**583**	**163**

(b) Changes in fair value of cash flow hedges

The changes in fair value of hedging instruments designated as cash flow hedges of the Group recognized in other comprehensive income in the consolidated statements of comprehensive income or loss are as follows.

Year ended March 31, 2019

(Millions of Yen)

Risk classification	Beginning of the year	Changes in fair value of cash flow hedge recognized in the other comprehensive income	Amount transferred to profit or loss from other components of equity as a reclassification adjustment	End of the year	The account in which the reclassification adjustment to profit or loss is recognized
Foreign currency risk	426	4,407	(4,186)	646	Other operating income/Other operating expenses
Interest rate risk	(5,559)	228	5	(5,326)	Finance income/Finance costs
Other	52	1,519	(52)	1,519	—
Total	(5,080)	6,155	(4,234)	(3,159)	

Year ended March 31, 2020

(Millions of Yen)

Risk classification	Beginning of the year	Changes in fair value of cash flow hedge recognized in the other comprehensive income	Amount transferred to profit or loss from other components of equity as a reclassification adjustment	End of the year	The account in which the reclassification adjustment to profit or loss is recognized
Foreign currency risk	**646**	**(5,295)**	**3,426**	**(1,222)**	Other operating income/Other operating expenses
Interest rate risk	**(5,326)**	**1,462**	**(254)**	**(4,188)**	Finance income/Finance costs
Other	**1,519**	**(556)**	**(1,188)**	**(225)**	—
Total	**(3,159)**	**(4,389)**	**1,982**	**(5,566)**	

34. Related Parties

(1) Related party transactions

Details of significant transactions with related parties are as follows:

Year ended March 31, 2019

(Millions of Yen)

Category	Name	Description of transaction	Amount	Account	Outstanding balance
Associate	Nippon Steel & Sumikin Bussan Corporation	Sells steel products (Note)	1,170,241	Trade and other receivables	46,251

Note:
The terms and conditions applied to related party transactions are determined based on terms equivalent to those that prevail in arm’s length transactions.

Year ended March 31, 2020

(Millions of Yen)

Category	Name	Description of transaction	Amount	Account	Outstanding balance
Associate	NIPPON STEEL TRADING CORPORATION (Note 1)	Sells steel products (Note 2)	**1,081,498**	Trade and other receivables	**46,358**
Joint venture	AMNS Luxembourg Holding S.A.	Loan guarantee (Note 3)	**224,015**	—	—

Notes:
1. NIPPON STEEL TRADING CORPORATION changed its name from Nippon Steel & Sumikin Bussan Corporation on April 1, 2019.
2. The terms and conditions applied to related party transactions are determined based on terms equivalent to those that prevail in arm’s length transactions.
3. The Company provided a guarantee for 40% of the loan which AMNS Luxembourg Holding S.A. procured from banks.

(2) Key management personnel compensation

Compensation paid to the directors of the Group is as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Salary	935	**910**

35. Commitments

Significant commitments related to the acquisition of assets are as follows:

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Contractual commitments related to acquisition of property, plant and equipment and intangible assets	393,230	**426,987**

36. Loan Guarantees

The Group provides guarantees for the bank loans of its joint ventures and associates which would require the Group to repay the loan in the event of a default.
The following figures also include similar conduct like reserved guarantees.

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Guarantees for the bank loans of joint ventures and associates	62,506	**292,555**

37. Subsequent Events

Not Applicable.

(Financial Information)

Principal Subsidiaries and Affiliates (As of March 31, 2020)

Company	Paid-in Capital (Millions of yen)	% of voting rights interest	Business Content
Steelmaking and Steel Fabrication (439 companies) Principal Consolidated Subsidiaries			
Sanyo Special Steel Co., Ltd.	53,800	53.2 (0.1)	Makes and markets special steel products
NIPPON STEEL NISSHIN CO., LTD.	30,000	100.0	Makes and markets ordinary steel and specialty steel
NIPPON STEEL COATED SHEET CORPORATION	12,588	100.0	Makes and markets galvanized sheets, prepainted galvanized sheets, coated sheets, and construction materials
Osaka Steel Co., Ltd.	8,769	66.3 (0.3)	Makes and markets shapes, bars, and billets
NIPPON STEEL METAL PRODUCTS CO., LTD	5,912	100.0	Makes and markets structural materials for buildings and civil engineering work, prepainted galvanized sheets, steelmaking fluxes, and CC powders
NIPPON STEEL PIPE CO., LTD.	5,831	100.0	Makes, coats and markets steel pipes and tubes
Krosaki Harima Corporation	5,537	47.0 (0.0)	Makes, markets and constructs refractories
NIPPON STEEL TEXENG. CO., LTD.	5,468	100.0	Conducts engineering, maintenance, and operations relating to machinery, electrical instrumentation, systems, and construction for steel-production and other facilities
NIPPON STEEL Stainless Steel Corporation	5,000	100.0	Makes and markets stainless steel
NIPPON STEEL LOGISTICS CO., LTD.	4,000	100.0	Undertakes ocean and land transportation and warehousing
NIPPON STEEL SG WIRE CO., LTD	3,634	100.0	Makes and markets bars and wire rods
Geostr Corporation	3,352	42.3 (1.6)	Makes and markets concrete and metal products for civil engineering and building construction work
NIPPON STEEL WELDING & ENGINEERING Co., Ltd.	2,100	100.0	Makes and markets welding materials and apparatuses
NIPPON STEEL DRUM CO., LTD.	1,654	100.0	Makes and markets drums
NIPPON STEEL BLAST FURNACE SLAG CEMENT CO., LTD.	1,500	100.0	Makes and markets cement and steelmaking slag and calcined lime products
NIPPON STEEL CEMENT CO., LTD.	1,500	85.0	Makes and markets cement
NIPPON STEEL FINANCE Co., Ltd	1,000	100.0	Engages in the Group's financing operations
NIPPON STEEL STAINLESS STEEL PIPE CO., LTD.	916	100.0	Makes and markets stainless-steel pipes
NIPPON STEEL WIRE CO., LTD.	697	51.0	Makes and markets secondary products using bars and wire rods
NIPPON STEEL Eco-Tech Corporation	500	85.1 (10.1)	Designs, builds, operates, maintains, and manages water-treatment and other systems; designs civil-engineering projects; and performs environmental and chemical analysis
NIPPON STEEL BOLTEN CORPORATION	498	85.0	Makes and markets high-tension bolts, etc.
NIPPON STEEL STRUCTURAL SHAPES CORPORATION	400	100.0	Makes and markets H-beams
NIPPON STEEL TUBOS DO BRASIL LTDA.	BRL1,221 million	100.0 (0.0)	Markets seamless steel pipe
PT KRAKATAU NIPPON STEEL SUMIKIN	US$141 million	80.0	Makes and markets cold-rolled sheets and galvanized sheets
NS-Siam United Steel Co., Ltd.	THB13,007 million	80.2	Makes and markets cold-rolled sheets and galvanized sheets
Standard Steel, LLC	US$47 million	100.0 (100.0)	Makes and markets railway wheels and axles
NIPPON STEEL NORTH AMERICA, INC.	US$40 million	100.0	Invests companies in North American region focusing on U.S. and gathers information
PT. PELAT TIMAH NUSANTARA TBK.	US$26 million	35.0	Makes and markets tinplate
NIPPON STEEL (THAILAND) CO., LTD.	THB718 million	100.0	Gathers information in Asian region focusing on Thailand
NIPPON STEEL AUSTRALIA PTY. LIMITED	AU$21 million	100.0	Participates in mine development in Australia and gathers information
NIPPON STEEL Steel Processing (Thailand) Co., Ltd.	THB571 million	66.5 (7.6)	Makes and markets cold-heading wire and cold-finished bars
Ovako AB	Euro60 thousand	100.0 (100.0)	Makes and markets special steel and secondarily processed products

Company	Paid-in Capital (Millions of yen)	% of voting rights interest	Business Content
Steelmaking and Steel Fabrication (439 companies) Principal Affiliates Accounted for by the Equity Method			
Godo Steel, Ltd.	34,896	17.8 (0.2)	Makes and markets shapes, rails, bars, billets and wires
Topy Industries, Ltd.	20,983	20.8 (0.2)	Makes and markets shapes, bars, and industrial machine parts
Kyoei Steel Ltd.	18,515	26.7	Makes and markets shapes, steel bars, and billets; processes and markets steel
NIPPON STEEL TRADING CORPORATION	16,389	35.3 (0.5)	Markets, imports and exports steel, industrial machinery and infrastructures, textiles, foods, and other products
Nippon Denko Co., Ltd.	11,026	20.9 (0.3)	Makes and markets ferroalloy/functional materials, environmental business and electric supply business
Nichia Steel Works, Ltd.	10,720	24.2	Makes and markets bolts and wire products
NS United Kaiun Kaisha, Ltd.	10,300	33.4	Undertakes ocean transportation
Unipres Corporation	10,168	17.4	Manufactures and sell automotive parts
Osaka Titanium Technologies Co., Ltd.	8,739	23.9	Makes and markets metal titanium and high-functioning materials developed from titanium for new applications
Nippon Coke & Engineering Company Limited	7,000	22.6	Markets coal; makes and markets coke
Sanko Metal Industrial Co., Ltd.	1,980	33.2 (17.0)	Makes, processes, installs and sells metal roofs and building materials
Sanyu Co., Ltd.	1,513	34.5 (1.1)	Makes and markets cold-finished bars and cold-heading wire
NST Nihon Teppan Co., Ltd.	1,300	34.0 (20.0)	Markets, processes, and imports and exports steel products, metal processing machines, and electrical/electronic devices
Usinas Siderúrgicas de Minas Gerais S.A.-USIMINAS	BRL13,200 million	31.4	Makes and markets steel products
VALLOUREC SOLUÇÕES TUBULARES DO BRASIL S.A.	BRL8,688 million	15.0 (12.6)	Makes seamless steel pipe
BAOSTEEL – NIPPON STEEL AUTOMOTIVE STEEL SHEETS CO., LTD.	RMB3,000 million	50.0	Makes and markets automotive steel sheets
WISCO-NIPPON STEEL Tinplate Co., Ltd.	RMB2,310 million	50.0	Makes and markets tinplate and tinplate sheets
AMNS Luxembourg Holding S.A.	US$230 million	40.0	A holding company of ArcelorMittal Nippon Steel India Limited
Jamshedpur Continuous Annealing & Processing Co. Pvt. Ltd.	INR13,520million	49.0	Makes and markets automotive cold-rolled steel sheets
UNIGAL Ltda.	BRL584 million	30.0 (0.8)	Makes galvanized sheets
Companhia Nipo-Brasileira De Pelotizacao	BRL432 million	33.0 (1.6)	Holding and leasing of manufacturing facilities of pellets
Al Ghurair Iron & Steel LLC.	AED165 million	20.0	Makes and markets galvanized sheets
Guangzhou Pacific Tinplate Co., Ltd.	US$36 million	27.3	Makes and markets tinplate

Engineering and Construction (39 companies) Principal Consolidated Subsidiaries			
NIPPON STEEL ENGINEERING CO., LTD.	15,000	100.0	Makes and markets industrial machinery, equipment and steel structures, construction projects under contract, waste processing and recycling, and supplying electricity, gas, and heat

Chemicals and Materials (26 companies) Principal Consolidated Subsidiaries			
NIPPON STEEL Chemical & Material CO., LTD.	5,000	100.0	Makes and markets coal-based chemical products, petrochemicals, electronic materials, materials and components for semiconductors and electronic parts, carbon fiber and composite products, and products that utilize technologies for metal processing

System Solutions (21 companies) Principal Consolidated Subsidiaries			
NS Solutions Corporation	12,952	63.4	Provides computer systems engineering and consulting services; IT-enabled outsourcing and other services

Other (1 company)

Notes:
1. Total consolidated subsidiaries: 408 companies
2. Total equity-method affiliates (consisting of associates, joint ventures accounted for by the equity method and joint operations): 118 companies
3. Voting rights ratio in parentheses stands for indirect voting rights ratio (%) and is included in voting rights ratio as the Group.

Independent auditor's report

To the Shareholders and the Board of Directors of Nippon Steel Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Nippon Steel Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as at March 31, 2020, and the consolidated statements of profit or loss, statements of comprehensive income or loss, statements of changes in equity and statements of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory members and the board of Audit & Supervisory members for the Consolidated Financial Statements

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

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

Audit & Supervisory members and the board of Audit & Supervisory members are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

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

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

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Koichi Kohori

Designated Engagement Partner

Certified Public Accountant

Hirotaka Tanaka

Designated Engagement Partner

Certified Public Accountant

Takashi Hasumi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

July 2, 2020

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.