NIPPON STEEL CORPORATION

Financial Report for

The Year Ended March 31, 2021

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Millions of Yen)

ASSETS		As of March 31, 2020	**As of March 31, 2021**
Current assets :			
Cash and cash equivalents	(Notes 7 and 31)	289,459	**359,465**
Trade and other receivables	(Notes 8, 31 and 32)	826,596	**805,306**
Inventories	(Note 9)	1,532,181	**1,349,355**
Other financial assets	(Note 31)	17,340	**27,772**
Other current assets		119,396	**130,786**
Total current assets		2,784,974	**2,672,686**
Non-current assets :			
Property, plant and equipment	(Notes 10, 11 and 28)	2,812,542	**2,954,938**
Right-of-use assets	(Note 13)	93,663	**88,559**
Goodwill	(Notes 12 and 28)	45,486	**46,341**
Intangible assets	(Notes 12 and 28)	96,677	**95,826**
Investments accounted for using the equity method	(Notes 14 and 28)	878,271	**817,328**
Other financial assets	(Note 31)	481,117	**628,226**
Defined benefit assets	(Note 18)	58,643	**110,396**
Deferred tax assets	(Note 15)	186,457	**153,123**
Other non-current assets		7,132	**6,519**
Total non-current assets		4,659,990	**4,901,260**
Total assets		7,444,965	**7,573,946**

The accompanying notes are integral parts of these statements.

(Millions of Yen)

LIABILITIES		As of March 31, 2020	**As of March 31, 2021**
Current liabilities :			
Trade and other payables	(Notes 16 and 31)	1,449,801	**1,382,761**
Bonds, borrowings and lease liabilities	(Notes 10, 13, 17 and 31)	376,900	**308,985**
Other financial liabilities	(Note 31)	2,189	**1,250**
Income taxes payable		27,323	**24,256**
Other current liabilities		38,978	**54,077**
Total current liabilities		1,895,192	**1,771,331**
Non-current liabilities :			
Bonds, borrowings and lease liabilities	(Notes 10, 13, 17 and 31)	2,111,841	**2,250,246**
Other financial liabilities	(Note 31)	4,621	**4,784**
Defined benefit liabilities	(Note 18)	236,758	**189,453**
Deferred tax liabilities	(Note 15)	27,765	**37,385**
Other non-current liabilities	(Note 31)	172,154	**189,358**
Total non-current liabilities		2,553,141	**2,671,228**
Total liabilities		4,448,333	**4,442,559**

EQUITY			
Common stock	(Note 19)	419,524	**419,524**
Capital surplus	(Note 19)	394,404	**393,168**
Retained earnings	(Note 19)	1,870,948	**1,910,333**
Treasury stock	(Note 19)	(58,505)	**(58,342)**
Other components of equity		15,245	**95,311**
Total equity attributable to owners of the parent		2,641,618	**2,759,996**
Non-controlling interests		355,013	**371,390**
Total equity		2,996,631	**3,131,387**
Total liabilities and equity		7,444,965	**7,573,946**

The accompanying notes are integral parts of these statements.

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

Consolidated Statements of Profit or Loss (Millions of Yen)

		Year ended March 31, 2020	**Year ended March 31, 2021**
Revenue	(Notes 21 and 32)	5,921,525	**4,829,272**
Cost of sales	(Note 18 and 23)	(5,312,367)	**(4,263,940)**
Gross profit		609,158	**565,332**
Selling, general and administrative expenses	(Notes 18, 22, 23 and 32)	(571,781)	**(469,133)**
Share of profit in investments accounted for using the equity method	(Note 14)	38,395	**55,220**
Other operating income	(Note 24)	104,844	**49,710**
Other operating expenses	(Note 24)	(465,035)	**(91,083)**
Business profit (loss)	(Note 25)	(284,417)	**110,046**
Losses on reorganization	(Note 26)	(121,702)	**(98,665)**
Operating profit (loss)		(406,119)	**11,381**
Finance income	(Note 27)	7,706	**5,367**
Finance costs	(Note 27)	(25,159)	**(25,404)**
Profit (loss) before income taxes		(423,572)	**(8,656)**
Income tax expense	(Note 15)	(2,548)	**(10,671)**
Profit (loss) for the year		(426,120)	**(19,327)**
Profit (loss) for the year attributable to :			
Owners of the parent		(431,513)	**(32,432)**
Non-controlling interests		5,393	**13,105**
Earnings (loss) per share			
Basic earnings (loss) per share (Yen)	(Note 30)	(468.74)	**(35.22)**

Consolidated Statements of Comprehensive Income (Millions of Yen)

		Year ended March 31, 2020	**Year ended March 31, 2021**
Profit (loss) for the year		(426,120)	**(19,327)**
Other comprehensive income	(Note 29)		
Items that cannot be reclassified to profit or loss			
Changes in fair value of financial assets measured at fair value through other comprehensive income		(83,305)	**125,471**
Remeasurements of defined benefit plans		(1,449)	**42,307**
Share of other comprehensive income of investments accounted for using the equity method	(Note 14)	(6,785)	**10,062**
Subtotal		(91,540)	**177,841**
Items that might be reclassified to profit or loss			
Changes in fair value of cash flow hedges		(1,821)	**5,029**
Foreign exchange differences on translation of foreign operations		(14,812)	**2,752**
Share of other comprehensive income of investments accounted for using the equity method	(Note 14)	(9,346)	**(23,062)**
Subtotal		(25,981)	**(15,280)**
Total other comprehensive income (loss), net of tax		(117,521)	**162,561**
Total comprehensive income (loss) for the year		(543,642)	**143,233**
Comprehensive income (loss) for the year attributable to:			
Owners of the parent		(543,881)	**119,451**
Non-controlling interests		238	**23,781**

The accompanying notes are integral parts of these statements.

Consolidated Statements of Changes in Equity

Year ended March 31, 2020 (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, 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 (loss)	(Note 29)					(85,278)	(2,429)
Total comprehensive income		—	—	(431,513)	—	(85,278)	(2,429)
Transactions with owners and others							
Cash dividends	(Note 20)			(46,101)			
Purchases of treasury stock	(Note 19)				(49)		
Disposals of treasury stock	(Note 19)		(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 (loss)	(Note 29)	(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 20)			—	(46,101)	(8,045)	(54,146)
Purchases of treasury stock	(Note 19)			—	(49)		(49)
Disposals of treasury stock	(Note 19)			—	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**

The accompanying notes are integral parts of these statements.

Year ended March 31, 2021 (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, 2020		419,524	394,404	1,870,948	(58,505)	111,924	—
Changes of the year							
Comprehensive income							
Profit (loss) for the year				(32,432)			
Other comprehensive income (loss)	(Note 29)					122,023	45,171
Total comprehensive income		—	—	(32,432)	—	122,023	45,171
Transactions with owners and others							
Cash dividends	(Note 20)						
Purchases of treasury stock	(Note 19)				(52)		
Disposals of treasury stock	(Note 19)		(1)		2		
Changes in ownership interests in subsidiaries			1,528				
Transfer from other components of equity to retained earnings				71,818		(26,647)	(45,171)
Changes in scope of consolidation			(2,763)		213		
Subtotal		—	(1,236)	71,818	163	(26,647)	(45,171)
Balance as of March 31, 2021		**419,524**	**393,168**	**1,910,333**	**(58,342)**	**207,300**	**—**

		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, 2020		(4,821)	(91,857)	15,245	2,641,618	355,013	2,996,631
Changes of the year							
Comprehensive income							
Profit (loss) for the year				—	(32,432)	13,105	(19,327)
Other comprehensive income (loss)	(Note 29)	8,218	(23,528)	151,884	151,884	10,676	162,561
Total comprehensive income		8,218	(23,528)	151,884	119,451	23,781	143,233
Transactions with owners and others							
Cash dividends	(Note 20)			—	—	(6,450)	(6,450)
Purchases of treasury stock	(Note 19)			—	(52)		(52)
Disposals of treasury stock	(Note 19)			—	1		1
Changes in ownership interests in subsidiaries				—	1,528	949	2,477
Transfer from other components of equity to retained earnings				(71,818)	—		—
Changes in scope of consolidation				—	(2,549)	(1,904)	(4,454)
Subtotal		—	—	(71,818)	(1,072)	(7,404)	(8,477)
Balance as of March 31, 2021		**3,397**	**(115,385)**	**95,311**	**2,759,996**	**371,390**	**3,131,387**

The accompanying notes are integral parts of these statements.

Consolidated Statements of Cash-Flows

(Millions of Yen)

		Year ended March 31, 2020	**Year ended March 31, 2021**
Cash flows from operating activities :			
Profit (loss) before income taxes		(423,572)	**(8,656)**
Depreciation and amortization		417,339	**290,863**
Impairment losses		333,968	**—**
Finance income		(7,706)	**(5,367)**
Finance costs		25,159	**25,404**
Share of profit in investments accounted for using the equity method		(38,395)	**(55,220)**
Losses on reorganization		121,702	**98,665**
(Increase) decrease in trade and other receivables		157,635	**(26,775)**
Decrease in inventories		13,864	**171,376**
(Decrease) in trade and other payables		(152,856)	**(66,325)**
Other, net		92,703	**(18,192)**
Subtotal		539,842	**405,772**
Interest received		7,887	**5,432**
Dividends received		61,024	**40,446**
Interest paid		(21,913)	**(21,733)**
Income taxes paid		(92,510)	**(26,731)**
Net cash flows provided by operating activities		494,330	**403,185**
Cash flows from investing activities :			
Purchases of property, plant and equipment and intangible assets		(460,555)	**(459,811)**
Proceeds from sales of property, plant and equipment and intangible assets		13,283	**21,754**
Purchases of investment securities		(1,793)	**(3,623)**
Proceeds from sales of investment securities		191,924	**37,336**
Purchases of investments in affiliates		(112,302)	**(8,047)**
Proceeds from sales of investments in affiliates		12,404	**20,521**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation		—	**1,482**
Loans to associates and others		(225,850)	**(9,868)**
Collection of loans from associates and others		238,418	**9,252**
Other, net		(1,155)	**1,968**
Net cash flows used in investing activities		(345,627)	**(389,035)**
Cash flows from financing activities :			
(Decrease) in short-term borrowings, net	(Note 17)	(89,452)	**(133,514)**
Proceeds from long-term borrowings	(Note 17)	46,020	**570,068**
Repayments of long-term borrowings	(Note 17)	(211,628)	**(425,609)**
Proceeds from issuance of bonds	(Note 17)	377,550	**80,000**
Redemption of bonds	(Note 17)	(60,000)	**(45,000)**
Purchases of treasury stock		(43)	**(30)**
Cash dividends paid	(Note 20)	(46,101)	**—**
Dividends paid to non-controlling interests		(8,045)	**(6,450)**
Purchases of shares of subsidiaries that do not result in change in scope of consolidation		—	**(3,631)**
Other, net		(22,881)	**16,863**
Net cash flows provided by (used in) financing activities		(14,582)	**52,694**
Effect of exchange rate changes on cash and cash equivalents		(7,838)	**3,161**
Net increase in cash and cash equivalents		126,283	**70,006**
Cash and cash equivalents at beginning of the year		163,176	**289,459**
Cash and cash equivalents at end of the year	(Note 7)	289,459	**359,465**

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, 2021 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. Further 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）
“Gains on sales of property, plant and equipment and intangible assets” ((6,105) million yen in the year ended March 31, 2020) in “Cash flows from operating activities” have become immaterial and therefore are included in and presented as “Other, net” in “Cash flows from operating activities” for the year ended March 31, 2021. In addition, “Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation” (1,910 million yen in the year ended March 31, 2020) 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, 2021. The consolidated statements of cash flows for the year ended March 31, 2020 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 June 23, 2021.

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: 389 companies
Names of principal subsidiaries are listed in "Principal Subsidiaries and Affiliates"
In the year ended March 31, 2021, the scope of consolidation expanded by 6 companies, including 4 newly established companies and 1 newly acquired company. 25 companies—11 merged companies and 8 divestments, etc.—were eliminated from the scope of consolidation in the year ended March 31, 2021.

Number of equity-method affiliates (associates, joint operations and joint ventures): 110 companies
Names of principal affiliates are listed in "Principal Subsidiaries and Affiliates"
During the year ended March 31, 2021, 2 companies were added to the scope of equity-method affiliates and 10 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.

(Changes in Accounting Policies)

The Group has initially applied Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) from the beginning of the year ended March 31, 2021.

The application of these standards has no material impacts on the respective items in the consolidated financial statements.

(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 mainly 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 straight-line method over the estimated useful lives of each component based on the depreciable amount, except for land and other non-depreciable assets. 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 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.

(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 flows are based on the medium- to long-term management plan and the latest business plan, which incorporate the steel demand forecast and manufacturing cost improvement as key assumptions. Projections of steel demand and manufacturing cost improvements are subject to a high degree of uncertainty, and management’s judgements regarding these factors are expected to have significant impacts on the future cash flows.

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

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.

The Group assesses the recoverability of deferred tax assets using all the future information available such as projections of the future taxable profit based on the medium- to long-term management plan and the latest business plan which incorporate the steel demand forecast and manufacturing cost improvement as key assumptions. Although the Group recognizes its deferred tax assets to the extent that it is probable that the related tax benefits will be realized, the recoverable amount may vary depending on the factors such as the changes in the projections of the future taxable profit in case of not achieving the goal of the medium- to long-term management plan and business plan due to unfavorable business environment or tax reforms including the changes in the statutory tax rate.

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 application 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 prospectively in the period in which the estimates are revised.

The effects from the COVID-19 pandemic to the estimates of the recoverable amount in impairment of non-financial assets and the recoverability of deferred tax assets of the Group are based on the assumptions that the COVID-19 pandemic is accelerating the structural changes in the steel market and the steelmaking business continues to face a difficult environment as addressed in the medium- to long-term management plan and the latest business plan. These underlying assumptions are under high uncertainties and any future changes in these assumptions may materially affect the estimated amounts and consolidated 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 14 "Interests in Subsidiaries, Associates and Others"
- Note 3 (4) "Financial instruments" and Note 31 "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 28 “Impairment of Assets”
- Note 3 (11) “Employee benefits” and Note 18 “Employee Benefits”
- Note 3 (13) “Revenue” and Note 21 “Revenue”
- Note 3 (14) “Income taxes” and Note 15 “Income Taxes”
- Note 34 “Loan Guarantees”

(Changes in Accounting Estimates)

Effective from the beginning of the year ended March 31, 2021, Nippon Steel changed the depreciation method for property, plant and equipment from the declining-balance to the straight-line method.

The Company's domestic steelworks have been operating for about 50 years, and their workforce is experiencing a transition to the next generation. In the midst of this trend, the Company is working to rebuild its "strength in manufacturing" and this includes the prevention of facility troubles. The Company also strives to rebuild a profit base that can be sustainable as a business. To achieve that, the Company takes up major structural reforms that can be described as the “second foundation stage” by promoting manufacturing infrastructure development including the refurbishing of core facilities. In addition, the Company is implementing thorough preventive and planned maintenance to prevent operational and facility troubles from taking place and has been striving to maximize the use of current production capacity to ensure stable production volume and reduced cost. The Company’s future plans for facilities stipulate large-scale investment projects such as refurbishment of coke ovens and relining of blast furnaces. The Company expects that large-scale investment for aging facilities may increase and represent a larger portion of the total capital investments. Accordingly, the Company considers that the straight-line method, which reflects the pattern of time based consumption of the future economic benefits associated with the asset over the useful life, is more in line with the current actual situation of Nippon Steel compared to the declining-balance method.

With this change, compared to the previous method, depreciation expenses decreased by 67,848 million yen and business profit, operating profit, and profit before income taxes increased by 57,779 million yen, respectively, during the year ended March 31, 2021.

5. New Accounting Standards and Interpretations Not Yet Applied

None of the new standards, interpretations, and amendments to standards and interpretations that have been issued by March 31, 2021 has material impacts on the consolidated financial statements.

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 products and services, 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 sale of steel products
Engineering and Construction	Manufacturing and sale 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 sale 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, profit or loss, assets and liabilities and other items

(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) <Business profit>	(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.

(Year ended March 31, 2021)

(Millions of Yen)

	Reportable segment				Subtotal	Adjustments (Note 1)	Consolidated
	Steelmaking and Steel Fabrication	Engineering and Construction	Chemicals and Materials	System Solutions			
Revenue							
Revenue from external customers	**4,190,348**	**276,241**	**174,056**	**188,626**	**4,829,272**	**—**	**4,829,272**
Inter-segment revenue or transfers	**38,101**	**48,226**	**4,622**	**63,849**	**154,799**	**(154,799)**	**—**
Total	**4,228,449**	**324,468**	**178,678**	**252,476**	**4,984,072**	**(154,799)**	**4,829,272**
Segment profit (loss) <Business profit>	**63,522**	**17,708**	**7,631**	**23,948**	**112,811**	**(2,764)**	**110,046**
Other items							
Depreciation and amortization	**275,792**	**3,627**	**7,266**	**8,789**	**295,475**	**(4,612)**	**290,863**
Share of profit in investments accounted for using the equity method	**49,095**	**632**	**(135)**	**(39)**	**49,553**	**5,667**	**55,220**
Segment assets	**6,873,924**	**320,658**	**195,198**	**280,062**	**7,669,842**	**(95,895)**	**7,573,946**
Other items							
Investments accounted for using the equity method	**681,436**	**6,021**	**23,743**	**299**	**711,500**	**105,828**	**817,328**
Capital expenditure	**466,117**	**2,664**	**10,001**	**4,212**	**482,995**	**(8,506)**	**474,489**
Segment liabilities (Interest-bearing debt)	**2,519,386**	**6,578**	**21,055**	**12,212**	**2,559,232**	**—**	**2,559,232**

Notes:

1. The adjustments of segment profit of (2,764) million yen include investment return of 9,635 million yen from the equity method associate Nippon Steel Kowa Real Estate Co., Ltd., and elimination of inter-segment revenue or transfers of (12,400) million yen.

(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, 2020)

(Millions of Yen)

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

(Year ended March 31, 2021)

(Millions of Yen)

Japan	Overseas Subtotal			Total
		Asia	Other	
3,195,980	**1,633,292**	**977,978**	**655,314**	**4,829,272**

(b) Non-current assets

(As of March 31, 2020)

(Millions of Yen)

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

(As of March 31, 2021)

(Millions of Yen)

Japan	Overseas	Total
2,793,079	**399,105**	**3,192,184**

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, 2020	Year ended March 31, 2021
NIPPON STEEL TRADING CORPORATION	Steelmaking and Steel Fabrication	1,161,138	**946,024**
Sumitomo Corporation	Steelmaking and Steel Fabrication	715,518	**510,956**

7. Cash and Cash Equivalents

The components of cash and cash equivalents are as follows:

(Millions of Yen)

	As of March 31, 2020	As of March 31, 2021
Cash	286,706	**357,537**
Cash equivalents	2,753	**1,928**
Total	289,459	**359,465**

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.

8. Trade and Other Receivables

The components of trade and other receivables are as follows:

(Millions of Yen)

	As of March 31, 2020	As of March 31, 2021
Notes and accounts receivable	687,944	**692,904**
Other	140,114	**114,124**
Allowance for doubtful receivables	(1,461)	**(1,722)**
Total	826,596	**805,306**

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

9. Inventories

The components of inventories are as follows:

(Millions of Yen)

	As of March 31, 2020	As of March 31, 2021
Merchandise and finished goods	822,941	**689,719**
Work in progress	78,065	**75,006**
Raw materials and supplies	631,175	**584,630**
Total	1,532,181	**1,349,355**

10. 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, 2020	As of March 31, 2021
Land	8,841	**9,197**
Buildings and structures	4,263	**4,121**
Machinery and vehicles	4,561	**4,149**
Other	5,286	**6,037**
Total	22,953	**23,505**

(Millions of Yen)

Secured debts	As of March 31, 2020	As of March 31, 2021
Short-term borrowings	1,265	**951**
Long-term borrowings (current portion is included)	1,175	**975**
Other	238	**578**
Total	2,680	**2,504**

In addition to the pledged assets listed above, shares of associates are pledged as collateral (419 million yen, and 419 million yen as of March 31, 2020 and 2021, respectively).

11. 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	Construction in progress	Total
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 and other	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**
Acquisitions and reclassified from construction in progress	**1,301**	**80,136**	**283,121**	**34,967**	**43,848**	**443,375**
Disposals and sales	**(10,228)**	**(7,978)**	**(19,595)**	**(2,831)**	**(404)**	**(41,038)**
Depreciation	—	**(51,530)**	**(169,437)**	**(24,982)**	—	**(245,950)**
Effects of changes in foreign exchange rates and other	**(4,652)**	**(2,430)**	**(868)**	**666**	**(6,705)**	**(13,990)**
As of March 31, 2021	**632,766**	**763,479**	**1,242,162**	**80,465**	**236,063**	**2,954,938**

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	Construction in progress	Total
As of April 1, 2019	710,235	2,730,502	8,733,560	407,619	196,767	12,778,686
As of March 31, 2020	711,547	2,790,749	8,861,279	418,490	208,387	12,990,453
As of March 31, 2021	**698,519**	**2,848,602**	**8,986,755**	**435,884**	**242,327**	**13,212,089**

(Millions of Yen)

Accumulated depreciation and accumulated impairment losses	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2019	48,733	1,875,228	7,330,272	318,276	4,473	9,576,983
As of March 31, 2020	65,200	2,045,467	7,712,335	345,845	9,062	10,177,910
As of March 31, 2021	**65,752**	**2,085,122**	**7,744,592**	**355,419**	**6,264**	**10,257,151**

12. 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, 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 and other	(995)	(2,138)	(4,263)	(759)	(8,156)
As of March 31, 2020	**45,486**	**45,236**	**31,061**	**20,379**	**142,164**
Acquisitions	—	**17,953**	—	**179**	**18,133**
Amortization	—	**(15,997)**	**(1,720)**	**(2,030)**	**(19,748)**
Effects of changes in foreign exchange rates and other	**854**	**(510)**	**816**	**458**	**1,618**
As of March 31, 2021	**46,341**	**46,681**	**30,157**	**18,986**	**142,167**

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, 2019	66,238	115,358	58,617	28,696	268,910
As of March 31, 2020	65,243	124,883	51,320	29,223	270,669
As of March 31, 2021	**66,097**	**116,548**	**52,876**	**28,409**	**263,931**

(Millions of Yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Software	Mining rights	Other	Total
As of April 1, 2019	13,435	68,729	21,478	7,562	111,205
As of March 31, 2020	19,756	79,647	20,258	8,843	128,505
As of March 31, 2021	**19,756**	**69,866**	**22,719**	**9,422**	**121,764**

13. 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	Year ended March 31, 2021
Depreciation of right-of-use assets		
Buildings and structures	12,822	**14,036**
Machinery and vehicles	7,401	**8,322**
Tools, furniture and fixtures	2,131	**2,804**
Total depreciation	22,355	**25,164**
Total amount of cash outflows incurred from leases	23,651	**26,424**
Increase in right-of-use assets	37,433	**20,397**
Details of right-of-use assets		
Buildings and structures	46,347	**42,693**
Machinery and vehicles	41,150	**40,480**
Tools, furniture and fixtures	6,165	**5,384**
Total balance of right-of-use assets	93,663	**88,559**

(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, 2020	As of March 31, 2021
Within 1 year	3,367	**3,756**
Over 1 but less than 2 years	4,057	**3,278**
Over 2 but less than 3 years	3,631	**3,301**
Over 3 but less than 4 years	3,519	**3,242**
Over 4 but less than 5 years	3,392	**3,183**
Over 5 years	36,171	**35,137**
Total	54,138	**51,899**

14. Interests in Subsidiaries, Associates and Others

(1) Principal subsidiaries

Principal subsidiaries of the Company as of March 31, 2021 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 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	* 46.9
	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 CEMENT CO., LTD.	Muroran City, Hokkaido	85.0
	NIPPON STEEL COATED STEEL PIPE Co.,Ltd.	Chuo-ku, Tokyo	100.0
	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 BLAST FURNACE SLAG CEMENT CO., LTD.	Kitakyushu City, Fukuoka	100.0
	NIPPON STEEL TUBOS DO BRASIL LTDA.	State of Sao Paulo, Brazil	100.0
	PT KRAKARAU NIPPON STEEL SYNERGY	Cilegon City, Indonesia	80.0
	NS-Siam United Steel Co., Ltd.	Rayong Province, Thailand	80.2
	NIPPON STEEL NORTH AMERICA, INC.	New York State, United States of America	100.0
	WHEELING-NIPPON STEEL, INC.	State of West Virginia, United States of America	100.0
	Standard Steel, LLC	Pennsylvania 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
	Siam Tinplate Co., Ltd.	Rayong Province, Thailand	82.7
	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, 2020	As of March 31, 2021
Carrying amount of investments in associates	613,809	**571,110**

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

(Millions of Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Net profit or loss	16,308	**30,268**
Other comprehensive income	(13,235)	**2,002**
Total	3,072	**32,270**

(3) Investments in joint ventures

Carrying amount of investments in joint ventures is as follows:

(Millions of Yen)

	As of March 31, 2020	As of March 31, 2021
Carrying amount of investments in joint ventures	264,462	**246,217**

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

(Millions of Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Net profit or loss	22,087	**24,952**
Other comprehensive income	(2,896)	**(15,002)**
Total	19,190	**9,950**

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, 2020 and 2021.

15. 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, 2020	As of March 31, 2021
Deferred tax assets		
Accrued bonus	24,934	**25,544**
Defined benefit liabilities	72,660	**53,915**
Impairment losses on assets	68,625	**90,191**
Property, plant and equipment	15,386	**10,961**
Unused tax losses	15,851	**29,380**
Elimination of unrealized gains on property, plant and equipment and others	32,950	**34,595**
Other	69,370	**68,816**
Total deferred tax assets	299,780	**313,405**
Deferred tax liabilities		
Equity securities	(48,988)	**(95,351)**
Defined benefit assets	(17,944)	**(33,781)**
Undistributed earnings	(31,338)	**(28,498)**
Special tax purpose reserves	(42,816)	**(40,036)**
Total deferred tax liabilities	(141,088)	**(197,667)**
Net deferred tax assets (liabilities)	158,691	**115,738**

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, 2020	Year ended March 31, 2021
Balance at beginning of the year	60,104	**158,691**
Recognized in profit or loss	50,076	**36,547**
Recognized in other comprehensive income	47,632	**(76,606)**
Effect of changes in scope of consolidation	878	**(2,894)**
Balance at end of the year	158,691	**115,738**

(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, 2020	As of March 31, 2021
Carryforward of unused tax losses	103,554	**174,765**
Deductible temporary differences	170,274	**146,082**
Total	273,829	**320,848**

(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, 2020	As of March 31, 2021
Within 1 year	1,957	**5,347**
Over 1 year but less than 2 years	24,558	**3,379**
Over 2 years but less than 3 years	2,471	**2,919**
Over 3 years but less than 4 years	2,824	**6,127**
Over 4 years	71,741	**156,990**
Total	103,554	**174,765**

(2) Income tax expense

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

(Millions of Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Current taxes	52,625	**47,219**
Deferred taxes	(50,076)	**(36,547)**
Total	2,548	**10,671**

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

	Year ended March 31, 2020	Year ended March 31, 2021
Statutory tax rate	30.6%	**30.6%**
(Adjustments)		
Effects of expense not deductible for tax purposes	(0.5)	**(13.9)**
Effects of income not taxable for tax purposes	0.3	**10.9**
Effects of differences in statutory tax rates applied to companies in Japan and foreign companies	0.3	**15.0**
Effects of changes in unrecognized deferred tax assets	(28.4)	**(205.4)**
Other	(2.9)	**39.6**
Average effective tax rate	(0.6)	**(123.3)**

16. Trade and Other Payables

The components of trade and other payables are as follows:

(Millions of Yen)

	As of March 31, 2020	As of March 31, 2021
Notes and trade accounts payable	689,500	**609,144**
Other payables	546,825	**537,908**
Other	213,475	**235,708**
Total	1,449,801	**1,382,761**

17. 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, 2020	Average interest rate (%)	As of March 31, 2021	Average interest rate (%)	Maturity date
Short-term borrowings	116,560	1.6	**99,499**	**0.8**	—
Current portion of long-term borrowings repayable within one year	74,082	1.5	**164,809**	**0.8**	—
Current portion of bonds repayable within one year	45,000	1.2	**15,000**	**1.1**	—
Current portion of lease liabilities repayable within one year	22,257	0.8	**22,676**	**0.8**	—
Commercial papers	119,000	0.0	**7,000**	**(0.0)**	—
Long-term borrowings	1,484,999	0.7	**1,563,442**	**0.8**	July 22, 2080
Bonds	552,703	0.8	**618,010**	**0.7**	September 12, 2079
Lease liabilities	74,138	0.8	**68,793**	**0.8**	March 31, 2076
Total	2,488,741		**2,559,232**		

“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, 2020	As of March 31, 2021	Maturity date
Bonds issued by NSC				
The 59th Issue of Unsecured Corporate Bonds	September 2, 2008	10,000	**10,000**	June 20, 2028
The 65th Issue of Unsecured Corporate Bonds	August 31, 2010	15,000	—	June 19, 2020
The 67th Issue of Unsecured Corporate Bonds	May 24, 2011	30,000	—	March 19, 2021
The 68th Issue of Unsecured Corporate Bonds	October 20, 2011	15,000	**15,000**	September 17, 2021
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	**30,000**	June 20, 2024
The 2nd Issue of Unsecured Corporate Bonds	June 14, 2019	30,000	**30,000**	June 19, 2026
The 3rd Issue of Unsecured Corporate Bonds	June 14, 2019	20,000	**20,000**	June 20, 2029
The 1st Issue of Unsecured Subordinated Corporate Bonds (Note 1)	September 12, 2019	70,000	**70,000**	September 12, 2079
The 2nd Issue of Unsecured Subordinated Corporate Bonds (Note 2)	September 12, 2019	30,000	**30,000**	September 12, 2079
The 3rd Issue of Unsecured Subordinated Corporate Bonds (Note 3)	September 12, 2019	200,000	**200,000**	September 12, 2079
The 4th Issue of Unsecured Corporate Bonds	June 17, 2020	—	**40,000**	June 20, 2023
The 5th Issue of Unsecured Corporate Bonds	June 17, 2020	—	**30,000**	June 20, 2025
The 6th Issue of Unsecured Corporate Bonds	June 17, 2020	—	**10,000**	June 20, 2030
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		600,000	**635,000**	

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, 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**
Cash flows from financing activities	**(21,514)**	**(112,000)**	**170,882**	**35,000**	**(26,424)**	**45,943**
Effects of changes in scope of consolidation	**5,488**	—	**(1,200)**	—	**969**	**5,257**
Effects of changes in foreign exchange rates and other	**(1,033)**	—	**(512)**	**307**	**20,528**	**19,289**
As of March 31, 2021	**99,499**	**7,000**	**1,728,252**	**633,010**	**91,470**	**2,559,232**

18. 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.

In addition, during the year ended March 31, 2021, the Company and some of its consolidated subsidiaries have revised the lump-sum retirement payment plans and the defined benefit plans partly due to a rise in the retirement age. As a result, the retirement benefit obligation decreased by 57,989 million yen.

(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, 2020	Year ended March 31, 2021
Balance at beginning of the year	630,754	**624,308**
Current service cost	34,879	**33,636**
Interest cost	2,569	**3,059**
Actuarial gains and losses	(2,888)	**(3,831)**
Past service cost	426	**(57,989)**
Benefits paid	(40,721)	**(34,691)**
Other	(712)	**(36)**
Balance at end of the year	624,308	**564,455**

The weighted average duration of the defined benefit obligations for the years ended March 31, 2020 and 2021 is 12.1 years and 15.2 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, 2020	Year ended March 31, 2021
Balance at beginning of the year	526,246	**446,193**
Interest income	2,898	**3,169**
Return on plan assets, excluding interest income	(5,127)	**55,851**
Employer contributions	15,073	**13,617**
Benefits paid	(23,715)	**(21,110)**
Contribution of securities to retirement benefit trust	—	**34,266**
Benefits paid from trust assets	(56,265)	**(39,987)**
Other	(12,918)	**(6,601)**
Balance at end of the year	446,193	**485,398**

Note: The Group expects to contribute 12,227 million yen to the defined benefit plans for the year ending March 31, 2022.

(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, 2020		As of March 31, 2021	
	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	80,936	—	**85,745**	—
Equity investments	126,888	—	**159,277**	—
Cash and cash equivalents	33,194	—	**47,608**	—
General accounts at life insurance company	—	133,794	—	**136,190**
Other	—	71,379	—	**56,576**
Total	241,019	205,173	**292,631**	**192,766**

(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, 2020	As of March 31, 2021
Discount rate	Mainly 0.5%	Mainly **0.6%**

(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, 2020	As of March 31, 2021
Effects of incremental increase in discount rate by 0.5%	33,097 million yen decrease	**35,809** 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 7,628 million yen and 7,668 million yen for the years ended March 31, 2020 and 2021, respectively.

(8) Employee benefits expenses

The Group incurred employee benefits expenses of 902,418 million yen and 751,169 million yen for the years ended March 31, 2020 and 2021, 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.

19. 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, 2019	2,000,000	950,321
Changes	—	—
As of March 31, 2020	2,000,000	950,321
Changes	—	—
As of March 31, 2021	**2,000,000**	**950,321**

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

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, 2019	29,797
Changes	(159)
As of March 31, 2020	29,638
Changes	**(73)**
As of March 31, 2021	**29,564**

20. Dividends

The dividends paid by the Company are as follows:

(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

There were no dividends that belong to the year ended March 31, 2020 but become effective in the year ended March 31, 2021.

(Year ended March 31, 2021)

(1) Dividends paid

There were no dividends paid during the year ended March 31, 2021.

(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 23, 2021	Ordinary shares	Retained earnings	**9,219**	**10**	March 31, 2021	June 24, 2021

21. 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, 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.

(Year ended March 31, 2021)

(Millions of Yen)

	Steelmaking and Steel Fabrication	Engineering and Construction	Chemicals and Materials	System Solutions	Consolidated
Japan	**2,690,293**	**220,797**	**100,102**	**184,787**	**3,195,980**
Asia	**863,857**	**39,714**	**70,750**	**3,655**	**977,978**
Middle East	**95,349**	**4**	**358**	—	**95,712**
Europe	**156,479**	**15,273**	**1,214**	**78**	**173,045**
North America	**186,779**	**118**	**1,541**	**87**	**188,527**
Central and South America	**139,108**	**326**	**79**	**17**	**139,531**
Africa	**47,125**	**7**	**0**	—	**47,133**
Pacific	**11,354**	—	**8**	—	**11,362**
Total	**4,190,348**	**276,241**	**174,056**	**188,626**	**4,829,272**

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, 2019	As of March 31, 2020	As of March 31, 2021
Receivables	774,803	620,322	**644,777**
Contract assets	67,769	67,621	**48,126**
Contract liabilities	28,488	32,628	**47,923**

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, 2019 and 2020 and recognized as revenue for the years ended March 31, 2020 and 2021 amounted to 26,593 million yen and 24,681 million yen, respectively. The amount recognized as revenue for the years ended March 31, 2020 and 2021 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, 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

(Millions of Yen)

	As of March 31, 2021	Engineering and Construction	System Solutions
Within 1 year	**212,957**	**148,259**	**64,698**
Over 1 year	**217,261**	**188,831**	**28,430**
Total	**430,218**	**337,090**	**93,128**

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.

22. Selling, General and Administration Expenses

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

(Millions of Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Transportation and storage	155,866	**129,424**
Salaries and bonuses	144,889	**131,652**
Retirement benefit costs	9,491	**(12,134)**
Research and development costs	63,147	**52,673**
Depreciation and amortization	19,287	**17,089**
Other	179,101	**150,430**
Total	571,781	**469,133**

9,400 million yen included in and presented as "Other" for the year ended March 31, 2020 in the previous year's financial report are reclassified to "Depreciation and amortization" for the year ended March 31, 2020 in this year's financial report.

23. 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, 2020	Year ended March 31, 2021
Research and development costs	77,691	**65,336**

24. 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, 2020	Year ended March 31, 2021
Dividends received	22,889	**9,704**
Other	81,954	**40,006**
Total	104,844	**49,710**

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, 2020	Year ended March 31, 2021
Foreign exchanges losses (net)	894	**3,040**
Losses on disposal of fixed assets	31,344	**33,560**
Other	432,795	**54,482**
Total	465,035	**91,083**

(Changes in presentation method)

“Impairment losses”, “Losses on changes in scope of consolidation” and “Compensation expense” (333,968 million yen, 12,893 million yen and 17,570 million yen, respectively, for the year ended March 31, 2020) have become immaterial and therefore are included in and presented as “Other” for the year ended March 31, 2021. Note for the year ended March 31, 2020 are reclassified to reflect the change in presentation method.

25. 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.

26. Losses on reorganization

(Year ended March 31, 2020)
Details of losses on reorganization recorded owing to business reorganization, business withdrawal, and other reasons 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 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.

(Year ended March 31, 2021)
Details of losses on reorganization recorded owing to business reorganization, business withdrawal, and other reasons are described below.

Losses on business withdrawal 18,751 million yen
In the Steelmaking and Steel Fabrication segment, losses on business reorganization and withdrawal from business were mainly incurred due to the losses on the sale of the shares of Vallourec Soluções Tubulares do Brasil S.A. which engages in manufacturing and sales of seamless pipes in Brazil.

Losses on inactive facilities 79,914 million yen
In the Steelmaking and Steel Fabrication segment, losses on inactive facilities and others were incurred mainly due to termination and demolition losses based on the decision to close the upstream facility of Kyushu Works Yawata Area (Kokura) of the Company and shut down the manufacturing facility of Kinuura Works of NIPPON STEEL Stainless Steel Corporation, a subsidiary of the Company.

27. 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, 2020	Year ended March 31, 2021
Interest income	7,703	**5,361**
Other	3	**5**
Total	7,706	**5,367**

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

(2) Finance costs

(Millions of Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Interest expense	21,809	**22,298**
Other	3,349	**3,106**
Total	25,159	**25,404**

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

28. Impairment of Assets

(1) Impairment losses

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

(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 and expected future 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 recoverable amount 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 recorded impairment losses of 78,700 million yen.

The recoverable amount of these operating assets is calculated based on the value in use, and the value in use is calculated based on the discounted cash flow method, and evaluated to have value in use of 282,400 million yen as of the date when impairment losses are recognized, December 31, 2019. The discounted cash flows are 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 of the Steelmaking and Steel Fabrication segment 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, 2020	As of March 31, 2021
Steelmaking and Steel Fabrication	40,461	**41,315**
Engineering and Construction	—	—
Chemicals and Materials	—	—
System Solutions	5,025	**5,025**
Total	45,486	**46,341**

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 6.0% (8.0% for the year ended March 31, 2020).

29. Other Comprehensive Income

The components of other comprehensive income are as follows:

(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.

(Year ended March 31, 2021)

(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	**182,896**	—	**182,896**	**(57,424)**	**125,471**
Remeasurements of defined benefit assets	**59,682**	—	**59,682**	**(17,375)**	**42,307**
Share of other comprehensive income of investments accounted for using the equity method	**10,062**	—	**10,062**	—	**10,062**
Subtotal	**252,641**	—	**252,641**	**(74,800)**	**177,841**
Items that might be reclassified to profit or loss					
Changes in fair value of cash flow hedges	**7,552**	**(104)**	**7,447**	**(2,418)**	**5,029**
Foreign exchange differences on translation of foreign operations	**(956)**	**3,097**	**2,140**	**611**	**2,752**
Share of other comprehensive income of investments accounted for using the equity method	**(33,892)**	**10,830**	**(23,062)**	—	**(23,062)**
Subtotal	**(27,296)**	**13,822**	**(13,473)**	**(1,806)**	**(15,280)**
Total	**225,344**	**13,822**	**239,167**	**(76,606)**	**162,561**

"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.

30. 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, 2020	Year ended March 31, 2021
Profit (loss) for the year attributable to owners of the parent	(431,513)	**(32,432)**
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	(431,513)	**(32,432)**

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

(Shares)

	Year ended March 31, 2020	Year ended March 31, 2021
Weighted average number of ordinary shares outstanding	920,570,952	**920,745,340**

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

31. 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, 2020	As of March 31, 2021
ROE (%)	(14.7)	**(1.2)**
D/E Ratio (times)	0.94 *0.74	**0.93** ***0.70**

*After adjusting for equity credit attributes of subordinated loans and subordinated bonds.

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, 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.

(As of March 31, 2021)

Financial assets

(Millions of Yen)

	Carrying amount			
	Amortized cost	Fair value		Total
		FVPL	FVOCI	
Current assets				
Cash and cash equivalents	**359,465**	**—**	**—**	**359,465**
Trade and other receivables	**757,180**	**—**	**—**	**757,180**
Other financial assets	**19,433**	**64**	**8,273**	**27,772**
Derivatives	**—**	**64**	**8,273**	**8,338**
Debt instruments	**19,433**	**—**	**—**	**19,433**
Non-current assets				
Other financial assets	**48,910**	**2**	**579,313**	**628,226**
Equity instruments	**—**	**—**	**574,490**	**574,490**
Derivatives	**—**	**2**	**4,823**	**4,825**
Debt instruments	**48,910**	**—**	**—**	**48,910**

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 48,126 million yen.

Financial liabilities

(Millions of Yen)

	Carrying amount			
	Amortized cost	Fair value		Total
		FVPL	FVOCI	
Current liabilities				
Trade and other payables	**1,382,761**	**—**	**—**	**1,382,761**
Bonds and borrowings	**286,308**	**—**	**—**	**286,308**
Other financial liabilities				
Derivatives	**—**	**76**	**1,174**	**1,250**
Non-current liabilities				
Bonds and borrowings	**2,181,453**	**—**	**—**	**2,181,453**
Other financial liabilities				
Derivatives	**—**	**153**	**4,631**	**4,784**
Other non-current liabilities	**163,974**	**—**	**—**	**163,974**

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 25,384 million yen.

(e) Financial instruments measured at fair value

(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 as cash flow hedges.

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 as cash flow hedges.

(As of March 31, 2021)
Financial assets measured at fair value

(Millions of Yen)

FVPL	Level 1	Level 2	Level 3	Total
Other financial assets				
Derivatives	—	**67**	—	**67**
FVOCI				
Other financial assets				
Equity instruments	**495,289**	—	**79,200**	**574,490**
Derivatives	—	**13,096**	—	**13,096**

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

Financial liabilities measured at fair value

(Millions of Yen)

FVPL	Level 1	Level 2	Level 3	Total
Other financial liabilities				
Derivatives	—	**229**	—	**229**
FVOCI				
Other financial liabilities				
Derivatives	—	**5,805**	—	**5,805**

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

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

(Millions of Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of the year	79,702	**79,349**
Net changes in fair value	351	**949**
Acquisitions	654	**67**
Sale / settlements	(1,444)	**(970)**
Other	86	**(195)**
Balance at end of the year	79,349	**79,200**

(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, 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

(As of March 31, 2021)

(Millions of Yen)

POSCO	**92,552**
Acerinox, S.A.	**61,765**
Recruit Holdings	**57,844**
Suzuki Motor Corporation	**38,991**
Daido Steel Co., Ltd.	**15,903**

(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 such as sale occurring as a result of review of business relationships.

(Millions of Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Fair value at the time of derecognition	189,407	**73,333**
Cumulative gains or losses on disposal (net of tax)	59,987	**24,973**

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

(Millions of Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Investment derecognized in the reporting period	4,545	**1,305**
Investment held at the end of reporting period	18,343	**8,398**
Total	22,889	**9,704**

(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, 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

(As of March 31, 2021)

(Millions of Yen)

	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets (Current) Other financial assets Debt instruments	**19,433**	**13,492**	**1,002**	**4,941**
Financial assets (Non-current) Other financial assets Debt instruments	**48,910**	—	**4,991**	**43,910**
Financial liabilities (Current) Bonds and borrowings	**286,308**	**15,070**	—	**271,308**
Financial liabilities (Non-current) Bonds and borrowings	**2,181,453**	**625,025**	—	**1,576,582**

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 based on 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 based on 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 for 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 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, 2020 and 2021 are as follows.

(Millions of USD)

	As of March 31, 2020	As of March 31, 2021
Net exposure (liability)	(48)	**316**

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, 2020 and 2021 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, 2020	Year ended March 31, 2021
Impacts on profit before income taxes	52	**(350)**

(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 profit before 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, 2020	Year ended March 31, 2021
Impacts on profit before income taxes	(4,155)	**(1,199)**

(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, 2020	As of March 31, 2021
Current	822,292	**799,339**
Within 90 days	3,862	**5,419**
Over 90 days and within 1 year	1,655	**1,606**
Over 1 year	247	**663**
Total	828,058	**807,028**

(iii) Changes in allowance for doubtful accounts

The changes in allowance for doubtful accounts are as follows:

(Millions of Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of the year	7,142	**5,326**
Increase during the year	694	**7,099**
Decrease during the year	(2,487)	**(1,419)**
Other	(22)	**(297)**
Balance at end of the year	5,326	**10,709**

(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 34 “Loan Guarantees”.

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

As of March 31, 2021

(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	**1,382,761**	**1,382,761**	**1,382,761**	—	—
Borrowings	**1,827,751**	**1,829,964**	**264,308**	**652,031**	**913,623**
Bonds	**633,010**	**635,000**	**15,000**	**190,000**	**430,000**
Lease liabilities	**91,470**	**91,470**	**22,676**	**43,240**	**25,552**
Commercial paper	**7,000**	**7,000**	**7,000**	—	—
Derivatives	**6,035**	**4,005**	**2,412**	**1,630**	**(37)**
Total	**3,948,028**	**3,950,200**	**1,694,159**	**886,903**	**1,369,138**

(5) Derivatives

(a) Impacts on the consolidated statement of financial position

(i) Derivative assets and liabilities designated as hedging instruments

As of March 31, 2020

(Millions of Yen)

Types of hedges	Derivative assets and liabilities	Notional amount Total	Notional amount Settlement in excess of one year	Carrying amount (Fair value) Assets	Carrying amount (Fair value) 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

As of March 31, 2021

(Millions of Yen)

Types of hedges	Derivative assets and liabilities	Notional amount Total	Notional amount Settlement in excess of one year	Carrying amount (Fair value) Assets	Carrying amount (Fair value) Liabilities
Cash flow hedge	Foreign exchange forward contract	**162,670**	**6,651**	**7,286**	**179**
	Interest rate swap	**639,470**	**600,031**	**92**	**5,126**
	Currency swap	**35,410**	**34,337**	**4,810**	—
	Commodity swap	**38,881**	**1,153**	**908**	**500**
Total		**876,433**	**642,174**	**13,096**	**5,805**

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, 2020 Assets	As of March 31, 2020 Liabilities	As of March 31, 2021 Assets	As of March 31, 2021 Liabilities
Foreign exchange forward contract	583	150	**49**	**15**
Interest swap	—	—	—	**213**
Currency swap	—	13	**17**	—
Total	583	163	**67**	**229**

(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, 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)	(4,118)	Finance income/Finance costs
Other	1,519	(556)	(1,188)	(225)	—
Total	(3,159)	(4,389)	1,982	(5,566)	

Year ended March 31, 2021

(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	**(1,222)**	**8,052**	**(322)**	**6,507**	Other operating income/Other operating expenses
Interest rate risk	**(4,118)**	**(907)**	**(7)**	**(5,033)**	Finance income/Finance costs
Other	**(225)**	**408**	**225**	**408**	—
Total	**(5,566)**	**7,552**	**(104)**	**1,881**	

32. Related Parties

(1) Related party transactions
Details of significant transactions with related parties are as follows:

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.

Year ended March 31, 2021

(Millions of Yen)

Category	Name	Description of transaction	Amount	Account	Outstanding balance
Associate	NIPPON STEEL TRADING CORPORATION	Sells steel products (Note 1)	**881,197**	Trade and other receivables	**47,855**
Joint venture	AMNS Luxembourg Holding S.A.	Loan guarantee (Note 2)	**227,885**	—	—

Notes:
1. The terms and conditions applied to related party transactions are determined based on terms equivalent to those that prevail in arm's length transactions.
2. 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, 2020	Year ended March 31, 2021
Salary	910	**734**

33. Commitments

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

(Millions of Yen)

	As of March 31, 2020	As of March 31, 2021
Contractual commitments related to acquisition of property, plant and equipment and intangible assets	426,987	**389,821**

34. 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.

(Millions of Yen)

	As of March 31, 2020	As of March 31, 2021
Guarantees for the bank loans of joint ventures and associates	292,555	**282,058**

35. Subsequent Events

There are no significant subsequent events.

(Financial Information)

Principal Subsidiaries and Affiliates (As of March 31, 2021)

Company	Paid-in Capital (Millions of yen)	% of voting rights interest	Business Content
Steelmaking and Steel Fabrication (412 companies) Principal Consolidated Subsidiaries			
Sanyo Special Steel Co., Ltd.	53,800	53.2 (0.1)	Makes and markets special steel products
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	46.9 (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 CEMENT CO., LTD.	1,500	85.0	Makes and markets cement
NIPPON STEEL COATED STEEL PIPE Co., Ltd.	1,400	100.0	Makes and markets steel pipes
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 BLAST FURNACE SLAG CEMENT CO., LTD.	100	100.0	Makes and markets cement and steelmaking slag and calcined lime products
NIPPON STEEL TUBOS DO BRASIL LTDA.	BRL1,221 million	100.0 (0.0)	Markets seamless steel pipe
PT KRAKATAU NIPPON STEEL SYNERGY	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
NIPPON STEEL NORTH AMERICA, INC.	US$85 million	100.0	Invests companies in North American region focusing on U.S. and gathers information
WHEELING－NIPPON STEEL, INC.	US$71 million	100.0 (100.0)	Makes and markets galvanized sheets
Standard Steel, LLC	US$47 million	100.0 (100.0)	Makes and markets railway wheels and axles
PT. PELAT TIMAH NUSANTARA TBK.	US$26 million	35.0	Makes and markets tinplate
NIPPON STEEL (THAILAND) CO., LTD.	THB827 million	100.0	Gathers information in Asian region focusing on Thailand
Siam Tinplate Co., Ltd.	THB800 million	82.7	Makes and markets tinplate sheets
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 (412 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	20.9 (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.	11,057	20.8 (0.1)	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
Nippon Coke & Engineering Company Limited	7,000	22.6	Markets coal; makes and markets coke
Sanko Metal Industrial Co., Ltd.	1,980	33.2 (0.8)	Makes, processes, installs and sells metal roofs and building materials
Sanyu Co., Ltd.	1,513	34.5 (0.8)	Makes and markets cold-finished bars and cold-heading wire
NST Nihon Teppan Co., Ltd.	1,300	34.0	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
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.	INR14,320million	49.0	Makes and markets automotive cold-rolled steel sheets
Companhia Nipo-Brasileira De Pelotizacao	BRL690 million	33.0 (0.0)	Holding and leasing of manufacturing facilities of pellets
UNIGAL Ltda.	BRL584 million	30.0 (0.8)	Makes galvanized sheets
Al Ghurair Iron & Steel LLC.	AED165 million	20.0	Makes and markets galvanized sheets

Engineering and Construction (38 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 (27 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: 389 companies
2. Total equity-method affiliates (consisting of associates, joint ventures accounted for by the equity method and joint operations): 110 companies
3. Voting rights ratio in parentheses stands for indirect voting rights ratio (%) and is included in voting rights ratio as the Group.

KPMG

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, 2021, and the consolidated statements of profit or loss, statements of comprehensive income, 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, 2021, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Company's judgment as to whether an impairment loss should be recognized on non-financial assets used in the Steelmaking and Steel Fabrication segment

The key audit matter	How the matter was addressed in our audit
In the consolidated statement of financial position of the Company at the end of the current fiscal year, property, plant and equipment of ¥2,954,938 million and intangible assets of ¥95,826 million	The primary procedures we performed to assess the appropriateness of the Company's judgment with respect to whether an impairment loss should be recognized on non-financial assets used in the

<table>
<tr>
<td>
were recognized, most of which were used in the Steelmaking and Steel Fabrication segment.
As described in Notes 3. Significant accounting policies, (10) Impairment of non-financial assets to the consolidated financial statements, the Group assesses whether there is any indication of impairment on each asset or cash-generating unit (“CGU”) to which the asset belongs at the end of each reporting period. Impairment indications include significantly worse actual net cash flows or the operating profit or loss flowing from the asset than those budgeted, an operating losses or net cash outflows for the asset, the asset becoming idle and the plans to discontinue or restructure the operation to which the asset belongs. When there is any impairment indication, the recoverable amount of the CGU is estimated. If the recoverable amount of CGU 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 balance of property, plant and equipment and intangible assets used in the Steelmaking and Steel Fabrication segment is material. In addition, determination as to whether there is any impairment indication involves management judgment, because such determination is made based on information available from internal and external sources at the timing when they are practically available in normal business activities. Furthermore, when there is an indication of impairment of any non-financial assets and an impairment loss is recognized as a result, the amount of the impairment loss might be material, considering the amount of the balance of the non-financial assets.
We, therefore, determined that our assessment of the appropriateness of the Company’s judgment as to whether an impairment loss should be recognized on non-financial assets used in Steelmaking and Steel Fabrication segment was one of key audit matters in our audit of the consolidated financial statements for the current fiscal year.
</td>
<td>
Steelmaking and Steel Fabrication segment included the following:
(1) Internal control testing
We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to determining whether an impairment loss on property, plant and equipment and intangible assets should be recognized.
(2) Assessment of the appropriateness of the judgment concerning the identification of an impairment indication
To assess the appropriateness of Company’s judgment concerning the identification of an impairment indication, among others, we;

assessed the consistency between the policies on identification of CGUs adopted by management and the units for management accounting purposes used for reporting to management;
assessed the accuracy of index used for identifying impairment indication, which were calculated based on operating profits or losses related to the CGUs, by performing the trend analysis and assessing consistency between such index and related materials; and
evaluated the appropriateness of the judgment concerning the identification of an impairment indication by inspecting related minutes of meetings and explanatory materials and by inquiring of management and personnel in related departments regarding the existence of assets that became idle and plans for restructuring.

</td>
</tr>
</table>

Appropriateness of the Company's judgment on the recoverability of deferred tax assets

The key audit matter

In the consolidated statement of financial position of the Company at the end of the current fiscal year, deferred tax assets of ¥153,123 million were recognized. As described in Note 15. Income taxes to the consolidated financial statements, the gross amount of deferred tax assets before being offset by deferred tax liabilities amounted to ¥313,405 million.

As described in Note 3. Significant accounting policies to the consolidated financial statements, (14) Income taxes, deferred tax assets are recognized for all the deductible temporary differences, unused tax losses and unused tax credits ("Deductible Temporary Differences") to the extent that it is probable that taxable profit will be available against which they 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 estimated future taxable income to be generated, which was used to determine the recoverability of the deferred tax assets, was based on the medium- to long-term management plan and latest business plan prepared by management. Accordingly, there was a high degree of estimation uncertainty because these plans involved significant management judgment on key assumptions, such as the projected demand for steel products and production cost reduction.

We, therefore, determined that our assessment of the appropriateness of the Company's judgment on the recoverability of deferred tax assets was one of key audit matters in our audit of the consolidated financial statements for the current fiscal year.

How the matter was addressed in our audit

The primary procedures we performed to assess whether the Company's judgment on the recoverability of deferred tax assets was appropriate included the following:

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the process of projecting future taxable income, including the development of the medium- to long-term management plan.

(2) Assessment of the reasonableness of the estimated future taxable income

We inquired of management regarding the basis for key assumptions used for estimating the amount of future taxable income, in order to assess the reasonableness of those assumptions, which were important for management's judgment on the recoverability of deferred tax assets. In addition, among others, we:

- evaluated the probability of realizing the estimated future taxable income in the taxable income projections by comparing them with the medium- to long-term management plan and latest business plan on which the taxable income projections were developed, for consistency, and by inspecting the materials that analyze the achievement of past taxable income projections and the causes of any difference from the actual taxable income;
- assessed the reasonableness of the key assumptions included in the projected demand for steel products and production cost reduction, which were used to develop the future earnings projections under the medium- to long-term management plan by inquiring of personnel in the relevant business units regarding how the assumptions were developed, and by inspecting the related minutes of meetings and explanatory materials;
- evaluated the probability of realizing projected production cost reductions by

	inquiring of management regarding the details of the main measures of the projected production cost reductions and by inspecting materials that analyze the achievement of the actual production cost reductions in the past and the causes of any differences from the projections; • evaluated the appropriateness of the scheduling of Deductible Temporary Differences and tax-return adjustments included in the calculation of future taxable income by comparing them with the taxable income calculation for the current fiscal year; and • requested the component auditors of the 11 major consolidated subsidiaries to perform specific audit procedures, and evaluated the reports from the component auditors as to whether sufficient and appropriate audit evidence was obtained in order to assess the reasonableness of the estimated future taxable income and scheduling of Deductible Temporary Differences at these subsidiaries.

Responsibilities of Management and the Audit & Supervisory Committee 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.

The Audit & Supervisory Committee is responsible for overseeing the directors' performance of their duties with regard to 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 the Audit & Supervisory Committee 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 the Audit & Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit & Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

June 23, 2021

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.