

## Highlights of Blast Furnace Steelmakers' Financial Results for Fiscal Year Ended March 2024

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2024 (FY2023) and earnings forecasts for FY2024 of Japan's three blast furnace steelmakers (collectively, the "Companies"): NIPPON STEEL CORPORATION ("NIPPON STEEL"), JFE Holdings, Inc. ("JFE") and Kobe Steel, Ltd. ("KOBELCO").

### 1. Industry Trend

For FY2023, Japan's crude steel production volume fell 1.1% from FY2022's 87.84 million tons to 86.83 million tons (Chart 1). Recovery trend in demand for products for automobiles continued because the number of finished cars produced increased. On the other hand, demand for products for other manufacturing industries and civil engineering and construction was sluggish. Furthermore, overseas steel product market conditions remained low. Therefore, the environment was not suitable for export. For FY2024, it is highly likely that the production volume will be flat from that for FY2023. This is because products for automobiles are being affected by the impact of the issue for certification irregularities presently and also demand for products for other manufacturing industries and civil engineering and construction are in the situation where demand recovery cannot be anticipated. Overseas steel market conditions still remain low and this suggests that export volume will unlikely increase significantly.

Domestic steel product prices for both transactions with confirmed customers and store sales have still been higher than that of few years ago. In addition to penetration of the measures to improve transaction margins for transactions with confirmed customers, on which efforts are being made recently, the Companies are also making progress in price pass-on measures to absorb the portion of increase for various costs such as auxiliary materials, logistics and labors. On the other hand, overseas, supply-demand condition has been continuing to ease in China, and this resulted an increase in export volume from this country giving adverse effects on overseas steel market conditions. Hovering steel market conditions low against the raw material price level, JCR assumes the Companies are facing severe profitability in the export area.

For FY2023, new business developments were observed overseas. In December 2023, NIPPON STEEL announced that it would acquire U. S. Steel, the third largest company in the U.S. in terms of production volume of crude steel for the total amount of approximately 2 trillion yen with the expectation to complete the deal in the second half of 2024. In February 2024, it acquired a stake of approximately 200 billion yen in the coking coal business in Canada. JFE established a joint venture company in India to manufacture grain-oriented electrical steel with JSW Steel, a major blast furnace company in India, in February 2024. Full production activities are scheduled to begin in FY2027.

### 2. Financial Results

Operating income of the Companies combined for FY2023 (gross profit less SG&A expenses for NIPPON STEEL and JFE) increased 7.2% over the year to 1,090.5 billion yen (Chart 2). While NIPPON STEEL saw the income decline, JFE and KOBELCO achieved the income growth; in any event, all three companies maintained a higher income level than the level of few years ago. NIPPON STEEL decreased income due to deterioration in inventory valuation differences and others, but it achieved the highest ever income excluding the inventory valuation differences, etc. due to margins increased and cost improved. JFE ensured a profit growth contributed by the spread improved and fixed cost reductions. Due to the impact of deterioration in inventory valuation, KOBELCO'S steel sector was forced to decrease in income; however, it managed to achieve substantial income growth as a whole due to starting operation of Kobe Power Plant No. 4 unit in the electric power business and effects of non-recurring positive factors. The total of profit attributable to owners of the parent (net income attributable to owners of the parent for KOBELCO) dropped 7.8% over the year to 856.3 billion yen. The factors causing the decrease were an

operating income decrease and an increase in losses related to termination of facility operation in NIPPON STEEL.

On the financial front, the balance of interest-bearing debt of the Companies combined as at the end of FY2023 (after reflecting the equity content of hybrid products) was 4.7 trillion yen, shrinking 1.2% from a year before (Chart 3). While JFE and KOBELCO have been continuing to decrease interest-bearing debt, NIPPON STEEL saw a slight increase due to making NIPPON STEEL TRADING as its consolidated subsidiary. Equity attributable to owners of the parent of the Companies combined (after reflecting the equity content of hybrid products; equity capital for KOBELCO) grew 13.8% over the year to 8.9 trillion yen. Underpinned by solid performance, the Companies made progress in accumulation in capital from profit. D/E ratio of the Companies combined (after reflecting the equity content of hybrid products) based on equity attributable to owners of the parent and interest-bearing debt improved to 0.5x from 0.6x at the previous year-end.

### 3. Highlights for Rating

Net income of the Companies combined based on the FY2024 forecasts is 640 billion yen, down 25.3% from the previous year. NIPPON STEEL expects lower income, while JFE and KOBELCO anticipate income growth. Factoring in adjustments of margin, which temporarily expanded in the previous fiscal year, increases in investment in human resources and depreciation expenses, losses related termination of facility operation and others, NIPPON STEEL's income is expected to decrease substantially. On the other hand, JFE expects profit growth due to recording of gains on sale of land though valuation differences in inventory, etc. will work negatively. KOBELCO also expects profit growth because of a decrease in tax expenses and other factors.

JCR is keeping an eye on the downside risk of domestic demand for steel products. The non-consolidated crude steel production volume of the Companies combined for FY2024 is projected at around 64.40 million tons, flat from FY2023's 64.41 million tons. JCR assumes that the plan is based on the Companies' expectation that the domestic consumption volume of steel products will remain low in the first half due to the issue of certification irregularities for automobiles, manpower shortage in the construction field and a rise in construction cost, and will recover toward the second half. Where the consumption of steel products does not recover as expected, this may cause adverse impacts on the performance.

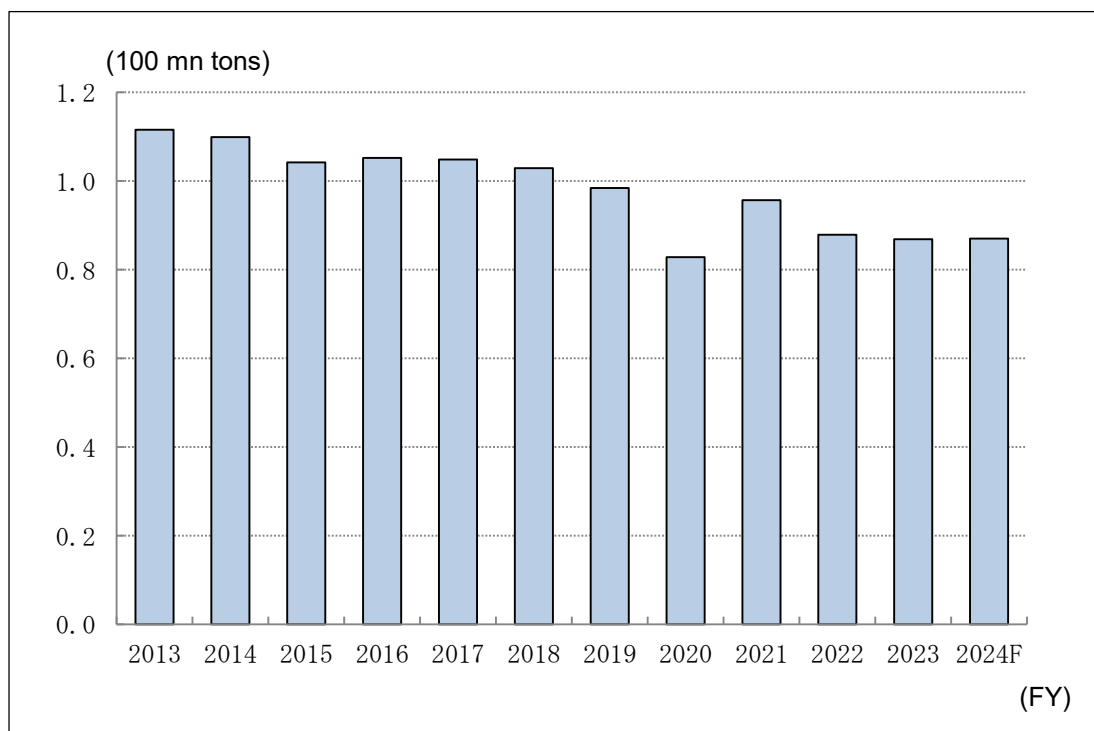
JCR is closely watching trends in overseas market conditions and the profitability of export transactions linked to market conditions. Since 2022, market conditions of steel products in Asia have been in the downtrend and metal spreads have also remained at a low level. In China, a high production continues in the midst of sluggish domestic demand and export of steel products is still in uptrend. Therefore, attention should also be paid to the impact on the international market conditions.

For transactions with confirmed customers, product prices are being steadily revised, and thus the Companies are most likely to be able to maintain certain levels of metal spreads into the future. Due in part that the Companies seem to be successfully lowering their break-even points, they can probably secure solid profits if they can maintain shipment volumes on par with their plans.

The Companies' financial conditions have been improving since FY2021 on the back of improved profit and cash flow generation capacities. Looking at the Companies' earnings forecasts disclosed, accumulation of capital from profits will highly likely progress for FY2024 as well. That said, the Companies' capital expenditure for growth, upgrading of aging facilities, holding down of CO2 emissions, etc. is in the uptrend. Furthermore, NIPPON STEEL's financial structure may substantially change because of the burden of funds required for acquisition of U.S. Steel. JCR will pay attention to the balance between operating cash flow and investments of the Companies.

Masayoshi Mizukawa, Yosuke Sato

(Chart 1) Domestic Crude Steel Production Volume



(Source: Prepared by JCR based on data of The Japan Iron and Steel Federation and the Ministry of Economy, Trade and Industry)

(Chart 2) Financial Results of Three Blast Furnace Steelmakers

(JPY 100 mn, %)

		Revenue	YOY Change	Gross Profit - SG&A Exp.	YOY Change	Business Profit	YOY Change	Business Profit / Revenue	Profit Attributable to Owners of the Parent	YOY Change
NIPPON STEEL (5401)	FY2022	79,755	17.1	7,141	5.5	9,164	-2.3	11.5	6,940	8.9
	FY2023	88,680	11.2	6,563	-8.1	7,786	-15.0	8.8	5,493	-20.8
	FY2024F	88,000	-0.8			6,500	-16.5	7.4	3,000	-45.4
JFE (5411)	FY2022	52,687	20.7	2,169	-30.0	2,358	-43.4	4.5	1,626	-43.5
	FY2023	51,746	-1.8	2,475	14.1	2,982	26.5	5.8	1,974	21.4
	FY2024F	53,900	4.2			3,000	0.6	5.6	2,200	11.4

		Net Sales	YOY Change	Operating Income	YOY Change	Ordinary Income	YOY Change	Ordinary Income / Net Sales	Net Income Attributable to Owners of the Parent	YOY Change
KOBELCO (5406)	FY2022	24,725	18.7	863	-1.4	1,068	14.6	4.3	725	20.8
	FY2023	25,431	2.9	1,866	116.1	1,609	50.6	6.3	1,095	51.0
	FY2024F	26,600	4.6	1,650	-11.6	1,500	-6.8	5.6	1,200	9.5

		Revenue	YOY Change	Gross Profit - SG&A Exp.	YOY Change	Net Income	YOY Change
Total	FY2022	157,168	18.6	10,174	-5.3	9,292	-5.7
	FY2023	165,858	5.5	10,905	7.2	8,563	-7.8
	FY2024F	168,500	1.6	-	-	6,400	-25.3

\*1: Figures for NIPPON STEEL and JFE are based on IFRS, and those for KOBELCO on J-GAAP.

\*2: Revenue under Total is Net Sales for KOBELCO.

\*3: Net Income under Total is the sum of Net Income Attributable to Owners of the Parent based on J-GAAP and Profit Attributable to Owners of the Parent based on IFRS.

(Source: Prepared by JCR based on the financial materials of above companies)

(Chart 3) Financial Trend of Three Blast Furnace Steelmakers

(JPY 100 mn, times)

		Equity Attributable to Owners of the Parent	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
NIPPON STEEL (5401)	FY2021	38,417	22,783	0.6	10,074	2.3	6,156	-3,788
	FY2022	45,561	23,243	0.5	10,543	2.2	6,612	-3,665
	FY2023	51,527	23,366	0.5	10,409	2.2	10,101	-7,106
JFE (5411)	FY2021	21,895	16,482	0.8	5,623	2.9	2,987	-2,880
	FY2022	23,740	16,092	0.7	4,865	3.3	3,957	-2,743
	FY2023	27,178	15,765	0.6	5,266	3.0	4,789	-3,252

		Equity Capital	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
KOBELCO (5406)	FY2021	8,153	9,084	1.1	1,927	4.7	1,688	-1,615
	FY2022	9,139	8,618	0.9	1,988	4.3	1,196	-972
	FY2023	10,565	8,234	0.8	3,131	2.6	2,052	-537

		Equity Attributable to Owners of the Parent	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
Total	FY2021	68,466	48,350	0.7	17,625	2.7	10,831	-8,284
	FY2022	78,441	47,953	0.6	17,397	2.8	11,767	-7,381
	FY2023	89,271	47,365	0.5	18,807	2.5	16,944	-10,896

\*1: Figures after reflecting the equity content of hybrid products for NIPPON STEEL and JFE

\*2: EBITDA is gross profit - SG&A expenses + depreciation expenses for NIPPON STEEL and JFE.

\*3: Equity Attributable to Owners of the Parent under Total is the sum of Equity Capital based on J-GAAP and Equity Attributable to Owners of the Parent based on IFRS.

(Source: Prepared by JCR based on financial materials of above companies)

<Reference>

Issuer: NIPPON STEEL CORPORATION

Long-term Issuer Rating: AA Outlook: Stable

Issuer: JFE Holdings, Inc.

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: JFE Steel Corporation

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Kobe Steel, Ltd.

Long-term Issuer Rating: A Outlook: Stable

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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