

Highlights of Blast Furnace Steelmakers' Financial Results for Fiscal Year Ended March 2026

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 2026 (FY2025) and earnings forecasts for FY2026 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

Domestic crude steel production volume in FY2025 came to 80.33 million tons, down 3.2% from the previous fiscal year, marking the fourth consecutive year of decline since FY2022 (Chart 1). Demand for automobiles was unchanged, but that for civil engineering and construction decreased due to factors such as labor shortages and soaring construction costs, and that for other manufacturing industries also remained weak. In addition, Japan's export volume declined, affected by the sustained high levels of China's steel exports and trade measures in various countries. Domestic steel prices fell in retail transactions, where demand was weak. As prices of main raw materials trended upward, the metal spread is likely to have deteriorated significantly over the past year.

Domestic crude steel production volume in FY2026 is expected to remain almost flat, but it may be on a downward trend. It is structurally difficult to expect a recovery in demand for civil engineering and construction. The prolonged deterioration in the Middle East situation is also a risk. In addition to direct effects such as the suspension of seamless pipe exports to the Middle East, global supply chain disruptions and a slowdown in economic activity are likely to occur, and their impact on the steel industry is anticipated. In China, crude steel production has recently turned downward. However, given that domestic demand is also shrinking, steel exports from the country are expected to remain at a high level.

Amid a severe business environment, overseas expansion is becoming more active. In June 2025, NIPPON STEEL made United States Steel Corporation ("U.S. Steel") a wholly owned subsidiary. In March 2026, JFE completed turning a company that operates an integrated steelworks in India into a joint venture with JSW Steel Limited ("JSW Steel"). Meanwhile, in Japan, restructuring of group companies is progressing. In February 2026, KOBELCO transferred its shares in Nippon Koshuha Steel Co., Ltd., which is engaged in the special steel business, to Daido Steel Co., Ltd., and in May, decided to make Shinko Wire Company a wholly owned subsidiary. In April, NIPPON STEEL made the refractory manufacturer KROSAKI HARIMA CORPORATION a wholly owned subsidiary, and in May decided on an absorption-type merger with Sanyo Special Steel Co., Ltd.

2. Financial Results

The combined operating profit of the Companies in FY2025 (gross profit less SG&A for NIPPON STEEL and JFE) was 675.5 billion yen (down 19.4% year on year) (Chart 2). All Companies saw lower profit, and the common factors were a decline in domestic sales volume and worsening spreads. For NIPPON STEEL and JFE, the deterioration in spreads was a major factor behind the decline in profit, and this could not be offset by cost reduction and other measures. KOBELCO performed well in machinery, but profitability in steel and power deteriorated. The total amount of net income attributable to shareholders of the parent (for NIPPON STEEL and JFE, net income attributable to owners of the parent) decreased to 181 billion yen (down 67.8% year on year). All Companies saw lower profit, with NIPPON STEEL experiencing the largest decline. This was primarily due to a loss recorded on the transfer of its stake in its U.S. joint venture with ArcelorMittal, S.A., following the full acquisition of U.S. Steel.

On the financial side, the combined interest-bearing debt of the Companies at the end of FY2025 (after reflecting the equity content of hybrid products) amounted to 6.9 trillion yen (up 57.3% year on year) (Chart 3). The increase was driven by NIPPON STEEL's funding for the acquisition of U.S. Steel and JFE's investment in its joint venture in India with JSW Steel. KOBELCO's interest-bearing debt decreased, partly due to the sale of cross-shareholdings. Total equity of the Companies (after reflecting the equity content of hybrid products; for NIPPON STEEL and JFE, equity attributable to owners of the parent)

increased to 10.3 trillion yen (up 6.0% year on year). NIPPON STEEL's use of hybrid products contributed to this. DER based on the combined equity and interest-bearing debt of the Companies (after reflecting the equity content of hybrid products) was 0.7x, worsening from 0.4x a year earlier.

3. Highlights for Rating

The Companies' combined net profit, based on each Company's earnings forecasts for FY2026, is expected to be 470 billion yen (2.6 times year on year). All Companies plan to increase earnings. NIPPON STEEL will factor in the negative impact of a worsening business environment, but the effect of the loss on the sale of its stake in its U.S. joint venture booked in the previous period will disappear, and progress in improving U.S. Steel's financial balance is anticipated. JFE expects to see benefits from improvements in inventory valuation and cost reductions. KOBELCO projects positive impacts from steel inventory valuation differences, as well as recognition of special gain such as gains on the sale of tangible fixed assets.

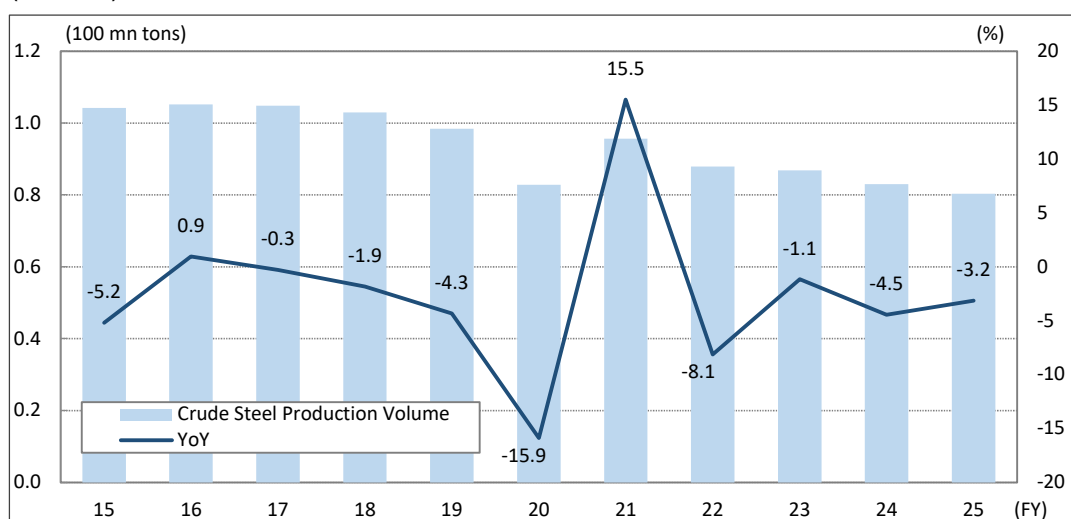
The impact of the situation in the Middle East on business performance is the point of focus for the time being. JCR will check the extent of the impact on sales and costs. KOBELCO has incorporated 10 billion yen in declining-profit factors into its earnings forecast, assuming that the current situation will continue until the end of the first half. NIPPON STEEL and JFE have not incorporated the impact of the situation in the Middle East into their earnings forecasts. However, NIPPON STEEL says that as a direct impact that is becoming apparent, a negative impact of around 50 billion yen is expected in the first quarter. If crude oil prices remain around USD100 per barrel, JFE says this would have a monthly negative impact of about 10 billion yen on profit due to impact on procurement and logistics costs.

JCR is also paying attention to progress in raising sales prices in the retail transaction segment. In light of the aforementioned deterioration in the metal spread and the rise in other costs, profitability for each Company in retail transactions is likely to have worsened. For that reason, in 2026, each Company announced price increases for steel products. While prices in tied transactions are likely to reflect changes in costs other than the price of the main raw materials, in retail transactions, if the Companies cannot raise prices to the level they had anticipated, this will become a factor that reduces profit. If costs rise further due to the situation in the Middle East, it will also become necessary to pass that on to prices. On the other hand, for FY2026, all Companies plan to increase crude steel production. Given the weak domestic demand and the current difficulty of increasing exports, JCR also notes that actual results could fall below the plan and that volumes may become a factor in lower profit.

On the back of improvements in profit and cash flow generation capacity, each Company's financial position has improved, but in FY2025, the financial structure of NIPPON STEEL and JFE turned weaker. Both Companies are expected to continue making growth investments overseas and elsewhere in FY2026, but such investments seem to be managed in line with each Company's management plan. Meanwhile, KOBELCO's financial structure is on an improving trend. From the next medium-term management plan starting in FY2027, KOBELCO may increase growth investments and investments in response to carbon neutrality.

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)

(Chart 2) Financial Results of Three Blast Furnace Steelmakers

(JPY 100 mn, %)

		Revenue	YoY Change	Gross Profit - SG&A	YoY Change	Business Profit	YoY Change	Business Profit / Revenue	Profit Attributable to Owners of Parent	YoY Change
NIPPON STEEL (5401)	FY2024	86,955	-1.9	5,558	-15.3	6,832	-21.4	7.9	3,502	-36.2
	FY2025	100,632	15.7	4,508	-18.9	5,141	-24.8	5.1	171	-95.1
	FY2026F	110,000	9.3	-	-	5,300	3.1	4.8	2,200	12.8x
JFE (5411)	FY2024	48,596	-6.1	1,237	-50.0	1,353	-54.6	2.8	918	-53.5
	FY2025	45,392	-6.6	948	-23.3	1,353	0.0	3.0	701	-23.6
	FY2026F	48,000	5.7	-	-	2,150	58.8	4.8	1,500	2.1x

		Net Sales	YoY Change	Operating Profit	YoY Change	Ordinary Profit	YoY Change	Ordinary Profit / Net Sales	Profit Attributable to Shareholders of Parent	YoY Change
KOBELCO (5406)	FY2024	25,550	0.5	1,587	-15.0	1,571	-2.3	6.2	1,201	9.7
	FY2025	24,360	-4.6	1,298	-18.2	1,213	-22.8	5.0	937	-22.0
	FY2026F	25,600	5.1	1,500	15.5	1,200	-1.1	4.7	1,000	6.7

		Revenue	YoY Change	Gross Profit - SG&A	YoY Change	Net Income	YoY Change
Total	FY2024	161,102	-2.9	8,382	-23.1	5,622	-34.3
	FY2025	170,390	5.8	6,755	-19.4	1,810	-67.8
	FY2026F	183,600	7.8	-	-	4,700	2.6x

*1: Figures for NIPPON STEEL and JFE are based on IFRS, while those for KOBELCO are based on Japanese GAAP

*2: For the total, revenue uses net sales for KOBELCO only

*3: For the total, net income is the sum of profit attributable to shareholders of the parent under Japanese GAAP and profit attributable to owners of the parent under IFRS

(Source: Prepared by JCR based on the Companies' financial statements)

(Chart 3) Financial Trend of Three Blast Furnace Steelmakers

(JPY 100 mn, times)

		Equity Attributable to Owners of Parent *1	Interest-bearing Debt	D/E Ratio	EBITDA *2	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investment Cash Flow
NIPPON STEEL (5401)	FY2023	51,527	23,366	0.5	10,193	2.3	10,101	-7,106
	FY2024	58,483	20,424	0.3	9,410	2.2	9,785	-4,624
	FY2025	62,454	44,592	0.7	10,247	4.4	7,169	-28,371
JFE (5411)	FY2023	27,178	15,765	0.6	5,216	3.0	4,789	-3,252
	FY2024	27,833	15,127	0.5	3,813	4.0	3,789	-2,831
	FY2025	28,732	17,056	0.6	3,691	4.6	3,790	-4,527

		Equity	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investment Cash Flow
KOBELCO (5406)	FY2023	10,565	8,234	0.8	3,131	2.6	2,052	-537
	FY2024	11,617	8,345	0.7	2,889	2.9	1,482	-1,138
	FY2025	12,613	7,430	0.6	2,621	2.8	2,016	-736

		Equity Attributable to Owners of Parent *3	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investment Cash Flow
Total	FY2023	89,271	47,365	0.5	18,807	2.5	16,944	-10,896
	FY2024	97,934	43,927	0.4	16,379	2.7	15,058	-8,594
	FY2025	103,800	69,079	0.7	16,560	4.2	12,977	-33,636

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

*2: EBITDA for NIPPON STEEL and JFE is calculated as gross profit minus SG&A plus depreciation expenses

*3: For the total, equity attributable to owners of the parent is the sum of equity under Japanese GAAP and equity attributable to owners of the parent under IFRS

(Source: Prepared by JCR based on the Companies' financial statements)

<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: Positive

Other Reports relating to Issuer and Issuer Reports are available exclusively to RatingEye members.

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