

## Highlights of Blast Furnace Steelmakers' Financial Results for Fiscal Year Ended March 2025

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 2025 (FY2024) and earnings forecasts for FY2025 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 FY2024 was 82.95 million tons, down 4.5% from 86.83 million tons in FY2023 (Chart 1). Demand for auto products turned downward due to a decline in the number of finished vehicles produced, and demand for civil engineering and construction products also continued to decline with factors such as labor shortages and surging construction costs. Demand for other manufacturing industries was weak as well. In addition, overseas steel market prices remained at a low level, and the environment remained difficult for exports in terms of profitability. Regarding domestic steel prices, no significant changes have been observed in tied transactions, but downward pressure on retail transactions appears to be increasing, affected by weak demand.

Domestic crude steel production volume in FY2025 is also likely to continue to be on a downward trend. There are concerns that the U.S. tariff policy will lead to a fall in demand for steel in the manufacturing industries. Also, regarding civil engineering and construction products, it is structurally difficult to expect recovery in demand soon. In addition, exports from China are on the rise, which is having a negative impact on the overseas steel market prices and is serving as a factor for increasing steel imports into Japan. At the same time, an increasing number of countries and regions are taking trade measures such as anti-dumping, making it difficult to export from Japan.

Amid such a difficult business environment, there are moves in the domestic production structure. In line with the plan announced in 2021, NIPPON STEEL suspended production at the One series of upstream steelmaking facilities, including the No. 3 blast furnace at East Japan Works (Kashima Area) in March 2025. In addition, JFE announced that it will bank (stop and suspend in a state ready for restart) the No. 3 blast furnace at West Japan Works (Kurashiki Area) around mid-May and will completely shut down the No. 4 blast furnace at West Japan Works (Fukuyama Area) in FY2027.

### 2. Financial Results

The combined operating profit of the Companies for FY2024 (gross profit less SG&A expenses for NIPPON STEEL and JFE) was 838.2 billion yen (down 23.1% year on year) (Chart 2). All the Companies saw a decline in profit due to common factors such as reduced production volume and the negative impact of inventory valuation differences, etc. Moreover, NIPPON STEEL was affected by the disappearance of one-off profits from its core company's overseas business in the previous period. JFE was more adversely affected by the decline in sales volume and the negative impact of inventory valuation differences, etc. than other two, resulting in the largest decline rate in profit. KOBELCO was significantly affected by the contraction in profit, which expanded in the previous period, such as a lag in the period for fuel cost adjustments in the electric power business. The combined profit attributable to the parent (profit attributable to owners of the parent for NIPPON STEEL and JFE) decreased to 562.2 billion yen (down 34.3% year on year). NIPPON STEEL and JFE experienced a profit fall due to a decline in business profit, while KOBELCO saw a profit increase thanks to a one-time decrease in tax expenses.

On the financial front, the combined balance of interest-bearing debt of the Companies at the end of FY2024 (after reflecting the equity content of hybrid products) was 4.4 trillion yen (down 7.3% from a year earlier) (Chart 3). NIPPON STEEL's interest-bearing debt has been significantly reduced through asset reduction measures such as the sale of cross-shareholdings and the conversion of convertible bonds into shares. The Companies' combined equity capital (after reflecting the equity content of hybrid products; equity attributable to owners of the parent for NIPPON STEEL and JFE) increased to 9.8 trillion yen (up

9.7% from a year earlier). In addition to the Companies making progress in accumulating capital from profits, NIPPON STEEL's conversion of convertible bonds into shares and the use of hybrid products also contributed to the financials. The DER (after reflecting the equity nature of hybrid products) based on the combined equity capital and interest-bearing debt of the Companies, was 0.4x, an improvement from 0.5x a year earlier.

### 3. Highlights for Rating

The combined net profit of the Companies based on the performance forecasts of each of the Companies for FY2025 is forecast to be 375 billion yen (down 33.3% year on year), and all the Companies are planned to see lower profit. NIPPON STEEL's year-on-year decrease rate will be particularly large, reflecting factors such as narrower margins on tied transactions due to falling raw material prices, lower profit in the raw materials business, the negative impact of the U.S. tariff policy, and worsening inventory valuation differences, etc. The factors leading to lower profit for JFE are a deterioration in export profitability, the impact of differences in the timing of reflecting fluctuations in raw material prices on sales prices, and the disappearance of profit from land sales in the previous period. The factors for KOBELCO are the disappearance of the impact of increased profit in the previous period including a delay in the timing of fuel cost adjustments in the electric power business, and the disappearance of compensation related to an engine certification issue in the construction machinery business.

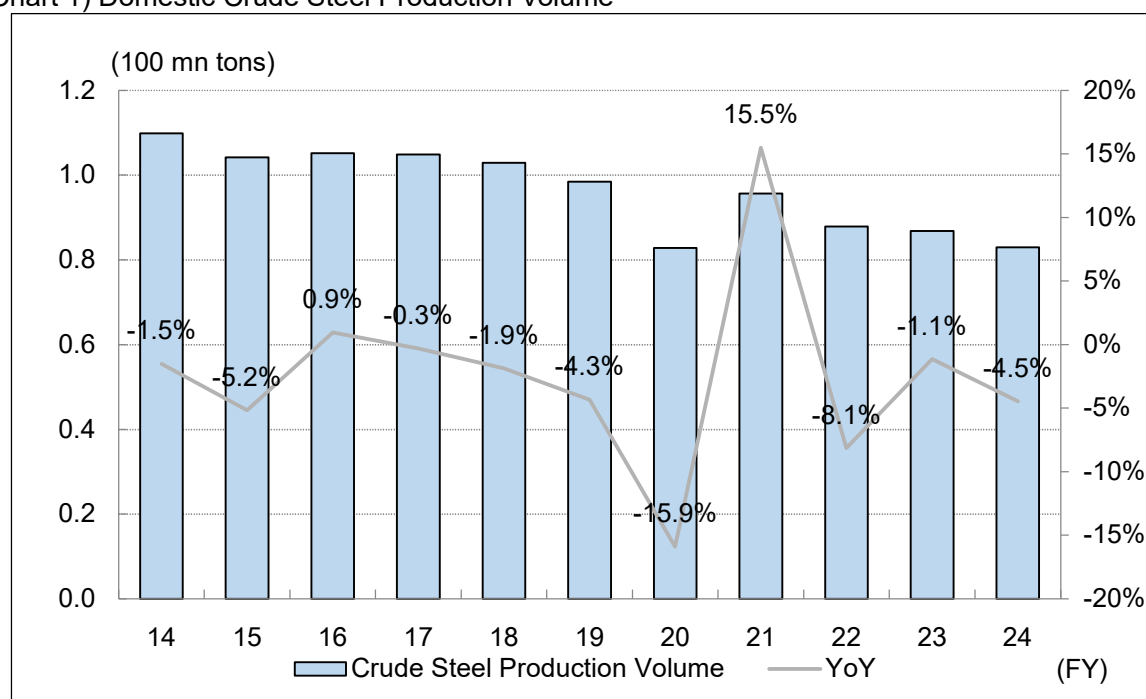
A major focus will be the impact of U.S. tariff measures. JCR will be closely monitoring trends such as reduced exports by Japanese and overseas manufacturing customers, such as those in the automobile industry, and other countries switching export destinations from the U.S. to Asia and Japan. Furthermore, there are differences among the Companies in how they incorporate the impact of tariff measures into their earnings forecasts. NIPPON STEEL assumes that it does not expect any exports to the U.S. from its Japanese customers in the second half of FY2025 and said that this will result in a decrease in operating profit of nearly 100 billion yen. JFE expects its crude steel production to fall by 950,000 tons year on year, taking into account the impact of the tariffs, such as declines in exports to the U.S. and in domestic auto production. On the other hand, KOBELCO says it is difficult to predict the impact of the tariffs on its business performance and has not factored them into its earnings forecast.

As domestic demand for steel continues to decline, efforts to grow overseas are becoming important further. Regarding NIPPON STEEL, the outcome of the negotiations to acquire United States Steel Corporation ("U.S. Steel") will have a significant impact on its earnings for a single fiscal year, including an impact on its joint venture with ArcelorMittal, S.A. in the U.S. For JFE, attention will be on the trends of its equity method affiliate, JSW Steel Limited in India, and on the development of its magnetic steel sheets in collaboration with the company. KOBELCO is focusing on the launch of an automotive aluminum panel business through a joint venture with Baowu Aluminum Technology Co., Ltd. in China, as well as developments in its aluminum extrusions business in the U.S., which has been in a difficult financial situation.

Since FY2021, the financial position of each of the Companies has improved on the back of increased profit and cash flow generation capacity. Based on the earnings forecasts published by the Companies, it is highly likely that capital accumulation from profit will continue in FY2025. However, they will make capital investments and undertake investment/loan projects aimed at growth, updating aging equipment, and reducing CO<sub>2</sub> emissions. In addition, NIPPON STEEL's financial structure may change significantly due to the strain of the acquisition of U.S. Steel. JCR will pay attention to the balance between each of the Company's operating cash flow and investment.

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(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 Exp.	YoY Change	Business Profit	YoY Change	Business Profit / Revenue	Profit Attributable to Owners of the Parent	YoY Change
NIPPON STEEL (5401)	FY2023	88,680	11.2	6,563	-8.1	8,696	-11.9	9.8	5,493	-20.8
	FY2024	86,955	-1.9	5,558	-15.3	6,832	-21.4	7.9	3,502	-36.2
	FY2025F	-	-	-	-	4,000	-41.5	-	2,000	-42.9
JFE (5411)	FY2023	51,746	-1.8	2,475	14.1	2,982	26.5	5.8	1,974	21.4
	FY2024	48,596	-6.1	1,237	-50.0	1,353	-54.6	2.8	918	-53.5
	FY2025F	47,500	-2.3	-	-	1,400	3.4	2.9	750	-18.4

		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)	FY2023	25,431	2.9	1,866	116.1	1,609	50.6	6.3	1,095	51.0
	FY2024	25,550	0.5	1,587	-15.0	1,571	-2.3	6.2	1,201	9.7
	FY2025F	25,500	-0.2	1,400	-11.8	1,200	-23.7	4.7	1,000	-16.8

		Revenue	YoY Change	Gross Profit - SG&A Exp.	YoY Change	Net Income	YoY Change
Total	FY2023	165,858	5.5	10,905	7.2	8,563	-7.8
	FY2024	161,102	-2.9	8,382	-23.1	5,622	-34.3
	FY2025F	-	-	-	-	3,750	-33.3

\*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)	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
	FY2024	58,483	20,454	0.3	9,619	2.1	9,785	-4,624
JFE (5411)	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
	FY2024	27,833	15,127	0.5	3,870	3.9	3,789	-2,831

		Equity Capital	Interest- bearing Debt	D/E Ratio	EBITDA	Interest- bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
KOBELCO (5406)	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
	FY2024	11,617	8,345	0.7	2,889	2.9	1,482	-1,138

		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	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
	FY2024	97,934	43,927	0.4	16,379	2.7	15,058	-8,594

\*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

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