

Point of View

01: VISION

Creating a solid management foundation for becoming carbon neutral

Point of View

02: CHALLENGE

Locking onto growth by investing management resources in GX, DX, and human capital

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The JFE Group is building a solid foundation for the advent of a carbon-neutral era, and aims to fulfill its mission of being essential to society's sustainable development and creating safe, comfortable lives for people everywhere.

DETERMINATION

Thoughts on My Appointment as President

01

I was appointed President of JFE Holdings, Inc. in April 2024. As the President of JFE Steel Corporation, I was in charge of the steel business, and looking ahead, I intend to create new corporate value by steering toward growth in the steel, engineering, and trading businesses.

Under the four-year Seventh Medium-term Business Plan that commenced in fiscal 2021, the JFE Group has boldly taken the necessary steps to leap to a new stage and establish a robust business foundation for sustained growth. As a result, our business foundation has evolved into one able to steadily increase earnings even in challenging business environments.

It has become my responsibility to conceive a long-term vision for the JFE Group and come up with targets and a path for achieving growth. In order for each operating company to leverage their advantages, overcome tough business conditions with the Group's comprehensive capabilities, and win at global competition, we have renewed our commitment to providing a rewarding work environment for our employees who have endeavored tirelessly on the front lines to finish structural reforms, and to be an exciting company for our many stakeholders who have supported us for so long.

MOTTO

“Think, Speak, and Act on Your Own,” and Set Ambitious Goals

02

There are two phrases that I believe are crucial for work. One is “Think, speak, and act on your own.” Since joining Kawasaki Steel in 1982, I have been involved in developing production technology on the production site of steelworks for most of my career. This phrase, which a superior told me when I was a young engineer, has become my creed.

The other phrase is from Mr. Konosuke Matsushita, the founder of Matsushita Electric Industrial (now Panasonic): “If you want to get to the second floor, figure out a way to get there. This determination will inspire you to think of solutions as ladders and stairs. If you only think about whether or not you will get there, no ladder will come to mind.” These wise words

emphasize the importance of setting ambitious goals (wanting to get to the second floor) and having a strong will to accomplish them (the determination to get to the second floor). I think of these words when facing challenges.

During my tenure as the general manager in charge of production, business conditions were brisk and our primary aim was to produce as much steel as possible, even one extra ton of steel. At one point, the head of the steelworks gave us a production target that was higher than anyone had heard of before. I thought deeply about why achieving this lofty target was necessary, gathered all the production site leaders, and shared my thoughts. Each of them then considered

what needed to be done and took action, leading us to achieve a monthly production record within a few months that was regarded as a miracle. Furthermore, this process brought to light a number of issues on the production floor, which, when addressed, led to organizational growth, subsequent equipment upgrades, and the construction of new facilities, supporting JFE Steel's earnings as an anchor factory to this day.

In 2019, shortly after becoming President of JFE Steel, I faced significant challenges. During my first two years, JFE Steel posted losses while going through our biggest crisis since JFE was established. During this period, we targeted a domestic crude steel production

capacity of 30 million tons and continued investing to expand capacity and maintain functionality. However, due to the rise of Chinese steel manufacturers, competition intensified in overseas markets for commodity steel, and we were unable to increase profits. I thought long and hard about how we could create a company that consistently generates earnings and continues growing, even in a challenging external business environment. I decided that JFE Steel must shift focus from quantity to quality during the Seventh Medium-term Business Plan (fiscal 2021–2024) and set us on a course of action with fierce determination to achieve even more ambitious targets.

RESULTS

Completion of Structural Reforms in the Steel Business

03

Under the Seventh Medium-term Business Plan, to address intensifying competition in overseas markets and a potential decline in domestic demand, we carried out a review of our domestic production structure. This entailed the consolidation of production lines, including the discontinuation of can steel production facilities in the Chiba district and upstream processes in the Keihin district. While honoring the fundamental principle of keeping people employed, we had no other choice but to proceed with employee reassignments, a tough decision for the management team.

At the same time, we focused our efforts on selling high-value-added products within our limited production capacity, and this resulted in increases in both the sales ratio of high-value-added products and earnings per ton. As part of this initiative, we accelerated the development of new products, such as ultra-high strength automotive steels, electrical steel sheets, high-strength steel sheets, highly corrosion-resistant steel sheets and large and heavy plate steel.

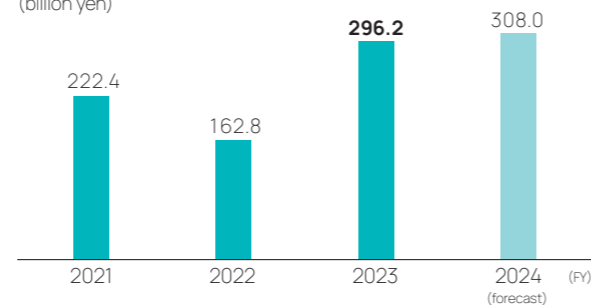
Moreover, to ensure stable supply—a basic principle of manufacturing—and to improve our production capabilities, we implemented a cyber-physical system (CPS)\* that incorporates new data science technologies, and it has been steadily delivering results.

Despite the challenging business environment, these initiatives have resulted in the securing of stable earnings. In fiscal 2024, earnings were negatively affected by a temporary decline in demand in the first half, and we no longer expect to reach the ¥230

billion target for segment profit (Excluding inventory valuation differences) in the steel business as outlined in the medium-term business plan. However, we expect to achieve our target for a profit of ¥10,000 per ton of steel. The engineering business and the trading business are able to reliably generate segment profit totaling around ¥70 billion, supporting Group earnings. For fiscal 2024, management targets consolidated business profit (Excluding inventory valuation differences in the steel business) of ¥308 billion.

\* CPS is a system that creates value by aggregating voluminous sensor data (big data) from physical spaces (actual equipment and products) into a cyber environment, analyzing it using various methodologies, and feeding the results back to the physical space in real time.

Group consolidated business profit (Excluding inventory valuation differences in the steel business) (billion yen)



VISION

Vision of the JFE Group

04

Having established a management foundation resilient to external influences, we believe that we are now ready to leap to a new stage. Our vision for the JFE Group is to build a solid foundation to navigate the coming era of carbon neutrality, and achieve sustained growth in this era and beyond.

Our first objective is to double the business profit of the Group and establish a financial foundation that facilitates investments in future growth. In the steel business, we estimate that the capital investment required to transition to carbon-neutral production processes will be as much as ¥1 trillion through 2030. Our current levels of earnings are far from sufficient to fund the massive investments needed to achieve carbon-neutral production. By aiming to double business profit, we aspire to achieve world-class profitability that surpasses our rivals in steel manufacturing. Moving forward, we will identify growth fields and regions for each

operating company, allocate management resources accordingly, and work diligently to enhance corporate value through aggressive investments.

Second, to achieve carbon neutrality, we aim to complete the development of ultra-innovative technologies, such as carbon recycling blast furnaces and hydrogen direct-reduction steelmaking, by the mid-2030s. While these technological challenges are highly ambitious, I expect our employees to approach them with the enthusiasm and determination needed to make this dream a reality. We must succeed in this domain. Success will open up opportunities and give us first-mover advantages. Becoming a top runner in technology development for carbon neutrality is a meaningful objective that we must achieve for future growth and the health of the global environment.

OUTLOOK

Outlook by Business Segment

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In the steel business, we will further advance the shift from quantity to quality, increasing the ratio of high-value-added products. While we have traditionally focused business development on markets in China and the ASEAN region, we will now concentrate on regions where steel demand is likely to strengthen in the future and the JFE Group's high-value-added products can be leveraged. Specifically, we plan to reinforce our business presence in India, Indonesia, North America, and Australia. Additionally, we have our eyes on the Middle East region, where renewable energy, such as solar power, and carbon capture, utilization, and storage (CCUS) should grow as alternatives to petroleum. (● Steel Business on page 53)

In the engineering business, we will focus on projects related to the circular economy. As we move toward the era of carbon neutrality, the circular economy will be a critical factor in the growth of the JFE Group. A circular economy encompasses the three key elements of recycling, reuse, and reduce. In the engineering business, businesses related to recycling and reuse include waste-to-energy power generation projects that

effectively utilize trash and other waste as a resource, the business of supplying electricity generated from renewable energy, and the business of recycling collected PET bottles. We expect demand to continue growing in these businesses, and aim to increase earnings by expanding overseas. (● Engineering Business on page 56)

In the steel business, we will help society reduce waste by supplying high-performance steel products, such as including fatigue-resistant steel that contributes to the longevity of infrastructure and ultra-high-strength steel that lightens automobiles. As a group working together, we will endeavor to make a circular economy.

In the trading business, we will leverage our far-reaching network to obtain and utilize diverse information throughout our varied business activities, aiming to expand the supply chain and increase business profit. We are also working to expand transactions outside the Group, and intend to develop new markets by acquiring local construction material processing companies in the United States and Australia.

Moving forward, we will accelerate commercialization in key investment regions and aim to increase business profit by continuing to explore various business opportunities, including M&A. (●Trading Business on page 59)

In the shipbuilding business, Japan Marine United Corporation (an equity-method affiliate) excels in high-value-added products, such as Jack-Up Vessels\* for offshore wind power generation, various naval vessels, and icebreakers vessels. The shipbuilding business has benefited from external factors such as the weak yen and a recovery in ship demand, resulting in a return to profitability in fiscal 2023, with plans to remain profitable in fiscal 2024. We will examine ways to create a business foundation that is resilient to external factors while leveraging the Company's strengths. Furthermore, we will advance the development of floating offshore wind power plants as a contributor to national energy policy. (●Shipbuilding Business on page 61)

In addition to strengthening earnings capabilities in the steel, engineering, and trading businesses, we view the utilization of land in the Keihin district as a

fourth source of earnings after the completion of structural reforms. We have commenced demolition work in the Minami-watarida and Ohgimachi areas, marking the start of a large-scale land conversion project covering approximately 400 hectares. The Minami-watarida area will be developed into a research and development hub in collaboration with business partners. The Ohgishima area will become a hydrogen supply base as part of a national pilot project to construct a large-scale hydrogen supply chain. Additionally, we will evaluate business use cases, such as renewable energy power generation and storage, CCUS, and data centers in collaboration with local companies.

To ensure our growth into the future, we will invest in green transformation (GX), digital transformation (DX), and human resources to steadily implement these business strategies.

\* Jack-Up Vessels are work vessels used in the construction of wind turbines for wind power plants anchored to the seabed.

GX STRATEGY

Taking on the Challenge of Green Transformation (GX)

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Reducing CO<sub>2</sub> emissions to prevent global warming is a challenge faced by the entire world. I believe that tackling this issue aligns perfectly with the JFE Group's quest to remain essential to society.

In the steel business, while we advance the development of ultra-innovative technologies to achieve carbon neutrality by 2050, it is also crucial to increase the supply of green steel during the transition period until these developments are completed. Particularly, greening high-value-added products is a key strategy for enhancing the international competitiveness of Japanese industry. For instance, if we can establish a mass production system for carbon-neutral automotive steel sheets, our steel business would become more globally competitive. We can make significant progress by introducing electric arc furnaces in the Kurashiki district and creating a supply structure for high-value-added green steel.

However, we must acknowledge that the true environmental value of green steel is not yet fully understood in Japan. Looking ahead, it will be vital for the public and private sectors to work together to raise awareness of the value of going green, and to share

the associated costs across society as a whole in order to build a carbon-neutral society. This approach will enable Japanese products to lead the world in both quality and environmental friendliness, contributing to the development of Japan's economy.

In the engineering business, we are engaging in offshore wind power generation projects, waste-to-energy power generation projects, and CCUS projects in support of Japan's energy policy. In the offshore wind power generation business, we operate the Kasaoka Monopile Factory as Japan's largest monopile supplier, operate and maintain (O&M) offshore wind power farms, and advance research and development in floating offshore wind power plants. In the waste-to-energy power generation business, we currently operate 11 plants in Japan and two overseas. We will continue to focus on utilizing overseas engineering bases, diversifying and internationalizing parts procurement, and enhancing O&M with digital technologies, with the aim of developing a globally competitive business.

DX STRATEGY

Our Next Stage by Digital Transformation (DX)

07

We have no doubt that securing talent will become increasingly difficult, and that the manufacturing industry must improve labor productivity with DX. (●Promotion of DX Strategy on page 43)

We are driving DX by transforming existing operations through the deployment of new technologies, such as robotics, remote and automated systems, and AI/IoT, while also creating innovative new business models that leverage these development technologies.

In the steel business, we aim to be a pioneer by migrating all of our core systems from mainframes to the cloud by fiscal 2025. The extensive range of technologies and know-how that we have developed at each steelworks and business site is a valuable asset that we are proud to have. By building a platform in the cloud that contains all our skills, technologies, and data, we can take a leap forward on the utilization of

complex data and undertake various operational reforms. This platform will also open up new possibilities, such as offering our technologies and expertise in a solutions business to other manufacturers.

Additionally, we have begun providing useful software and robots in solutions for a broad range of companies, leveraging our expertise in equipment maintenance and workload reduction that we developed in steelmaking. In the engineering business, we are developing and testing systems aimed at energy-efficient operations and fully automated plant operations using AI. In collaboration with the trading business, the engineering business is also working on remote integrated management systems for the offshore wind power field. Moving forward, we will continue to promote new DX initiatives while leveraging the strengths of the JFE Group.

HUMAN CAPITAL

Human Resources for the Group's Future

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Human resources have become an increasingly important factor in advancing the strategies I have outlined so far. In this era of transformation, human resources will be a driving force behind corporate growth. I earnestly hope that the JFE Group will be steadfast as a company that values people and leverages individual strengths. To achieve this, we will focus on acquiring and training

talent, enhancing engagement, and expanding investments in the management of human capital.

As we push forward with our transformation, including entering new domains and doubling profits, diversity and inclusion, i.e., the interweaving of diverse values and ways of thinking, will play a vital role in fostering new ideas and solutions. We must adopt an approach to training that values each employee's individuality and interests, and manage employees in a way that builds effective operations. For example, in our steel and engineering businesses, we have introduced an internal job posting system. When a business unit needs people with specific talents, they can openly recruit within the Company, facilitating job matching and transfers. This open approach obliges business units to carefully consider the kind of talent they are lacking and need to achieve their high goals.

We ask our employees to follow the JFE Group's corporate vision of "contributing to society with the world's most innovative technology" and adhere to our corporate values, "Challenging Spirit. Flexibility. Sincerity." We aim to create an environment where employees can



## Message from the CEO

continue to take on challenges with courage, while aligning with the Group's aims for medium- to long-term sustainable growth and enhancement of corporate value. Just as I experienced the thrill of achieving lofty goals in the past, we intend to foster a corporate culture where each employee can pursue their dreams and take on challenges, preparing them to lead the JFE Group to the next stage. Another important mission of

mine is to promote the JFE name as a prime example of a company where employees work with motivation and new people find it easy to join. (● Human Resources on page 63)

### CONCLUSION

## To Our Stakeholders

Steel is an indispensable material for a society of abundance in the future. The movement toward carbon neutrality means that we must provide steel materials to society while protecting the global environment. We view this movement as an opportunity, not a crisis. I am confident that we can continue to grow while contributing to the future of our planet through our business activities.

The JFE Group's approach to management puts more emphasis on quality than quantity, and we are

accelerating the development of technologies that can contribute to the realization of a carbon-neutral society. We are determined to evolve as a company that is essential to society's sustainable development and to create safe, comfortable lives for people everywhere, as the reason for the JFE Group's existence. To our stakeholders, I hope that this report will further your understanding of our business and get you excited in what JFE Holdings, Inc. has to offer for the future.

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Representative Director, President and CEO

**Yoshihisa Kitano**