Third-Party Comments

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1. Sustainable Corporate Growth Model



This report explains the status of progress on the Company's JFE Vision 2035 and Eighth Medium-term Business Plan, which makes it all too clear that the essence of environmental challenges, such as achieving carbon neutrality by 2050, transitioning to a circular economy, and conserving biodiversity and restoring nature, involves more than physically decarbonizing business activities, promoting resource circulation, and coexisting with natural capital. It lies in transitioning to a sustainable corporate growth model suited to such a society. In climate change countermeasures alone, the Company makes it abundantly clear that it is addressing environmental challenges as an integral part of its business strategy. This can be seen in its multi-track approach of promoting innovative electric arc furnaces, hydrogen-based direct reduction technology, and carbon-recycling blast furnaces while following a clearly defined policy of balancing environmental and economic value in their implementation, introducing internal carbon pricing as a tool for evaluating the economic rationality of its GX investments, and advancing policy engagement to expand and develop the GX steel market. This creates a strong impression that all these activities are closely linked to the JFE Group's growth strategy within a sustainable economy and represents a major environmental achievement for FY2025.

2. Raising the Targets for Building a Talent Portfolio

On the social front, the Company has addressed its goal of establishing a talent portfolio for achieving management strategies, as proposed in its Eighth Medium-term Business Plan, by significantly raising the FY2026 targets for developing talent capable of supporting key strategies, such as overseas operations and promotion of DX. The FY2026 target for the percentage of male employees taking paternity leave has also been raised to promote DEI. The changes made to these targets indicate a strengthening of KPI management related to talent portfolio development and are commendable aspects of the Company's initiatives in FY2025.

3. Changes in Corporate Governance Structure and Governance Reforms

In terms of governance, significant changes have been made to the corporate governance structure. JFE Holdings has transitioned to a company with an Audit & Supervisory Committee, with the aim of strengthening, in an integrated manner, human capital, technological development, and governance, which constitute the infrastructure for addressing environmental challenges. Furthermore, in response to this transition and to expedite management decision-making, the Company also revised the criteria for submitting matters to the Board of Directors along with the board's operational procedures. Additionally, chief compliance officers were appointed at the holding company and operating companies, and chief financial officers and chief technology officers were appointed at the operating companies, significantly strengthening the governance system. This was another achievement for FY2025.

4. Future Challenges

Unlike the Company's environmental data, for which the scope of aggregation is being expanded and adjusted, much of its social data is still aggregated on a non-consolidated basis, which remains an issue to be rectified. The Company must align the reporting boundaries for financial and non-financial data at an early stage to clarify how sustainability risks and opportunities are linked to the financial statements and ensure proper disclosure of the actual process of long-term value creation. Moreover, with regard to workplace accidents, which are also a human rights issue, the lost-time injury frequency rate (KPI) has consistently failed to meet some of the targets over the years; more effective countermeasures should therefore be considered.

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This is the tenth year I have been invited to provide a third-party opinion. Much can change in ten years, and this period has coincided with a transformative decade in which sustainability issues have been integrated into the global economy and business management. The JFE Group has played a leading role throughout this period. Starting with its pioneering TCFD disclosures, the Group laid out its Environmental Vision 2050 as an ultra-long-term goal for achieving carbon neutrality, followed by JFE Vision 2035, which outlines the strategy of becoming the top runner in carbon neutrality technology development, and the medium-term business plans that serve as the tactical framework for integrating the Group's initiatives into daily operations.

By effectively leveraging this three-tiered structure of goals, strategies, and tactics, the JFE Group has steadfastly advanced decarbonization and the transition to a circular economy in its steel business as well as in various social infrastructures. Initially, I was not entirely convinced of the feasibility of these "moonshot" targets. However, the Company has been investing steadily to advance the development of highly challenging technologies such as innovative electric arc furnaces, hydrogen-based ironmaking, and carbon-recycling blast furnaces, and it has built a track record of reducing GHG emissions at a pace that exceeds the targets set in its medium-term business plans toward achieving JFE Vision 2035. It is also reassuring to see that, as in its decarbonization efforts, the Company's performance in resource recovery and recycling is generally progressing smoothly.

Furthermore, in this year's Message from the CEO, President Kitano clearly stated that meeting social challenges is at the heart of the JFE Group's mission, and that addressing environmental challenges, such as decarbonization, the transition to a circular economy, and biodiversity conservation and nature-positive initiatives, is the very foundation of the JFE Group's future business and a key management strategy for sustainable growth and enhancing corporate value. If so, developing businesses that directly contribute to corporate value will become crucial. I believe this is underscored by the inclusion of initiatives for three key areas in the new medium-term business plan, and the appointment of chief technology officers at the operating companies to strengthen technological development.

This report provides detailed information for each operating company on specific risks and opportunities related to climate change and biodiversity along the value chain based on the TCFD and TNFD frameworks, which helps readers grasp both the big picture and specific initiatives. Furthermore, the disclosure of the use of short- and long-term internal carbon pricing suggests that environmental constraints are actually being integrated into the Company's business management. For investors, this provides insight into business risks and opportunities, while for employees it serves as a guide that shows them how their daily work is linked to environmental management, which at times can seem quite abstract, and I hope it will boost motivation.

With regard to initiatives on biodiversity, the Company has recognized water-related risks as a key issue and has clarified its commitment to addressing the urgent need to prepare for increasingly severe natural disasters and to develop nature-positive technologies. The fact that each business site is steadily implementing diverse activities for biodiversity conservation tailored to the characteristics of its region and operations is further evidence that biodiversity is being internalized as a personal concern at each worksite.

Compared to a year ago, we are seeing a significant increase in the severity of climate-related disasters such as the massive flooding in Nepal this summer caused by melting glaciers and frequent torrential rains causing disasters across Japan, as well as resource constraints arising from geopolitical risks such as the closure of the Strait of Hormuz. From the perspective of national energy and resource security, there are growing expectations for societal decarbonization and resource-recycling businesses, and the Company's efforts to realize its long-term vision have become aligned with the pressing needs of society. And while disaster prevention, as a means of adapting to climate change, is expected to become even more urgent than mitigation, the Earth itself demands an absolute reduction in carbon emissions rather than enhancements in carbon productivity.

Therefore, my hope is that the JFE Group will accelerate its decarbonization initiatives and further integrate its efforts on climate change, resource recycling, and biodiversity. I envisage the development of a comprehensive green infrastructure system that integrates GX steel, recycled resources such as plastics, and natural capital including forests and wetlands. This would establish a resilient infrastructure that draws on the wisdom of indigenous peoples and our ancestors to combine the strengths of iron, a mineral resource, with biological resources such as wood and plants.

Even the assessments of environmental risks and opportunities rated as medium or low in this report may change as environmental conditions continue to deteriorate, with particular concern that risks may increase. This will require a flexible approach, including a review of the carbon pricing disclosed by the Company.

The stakeholder engagement section of this report outlines the initiatives undertaken for each stakeholder group. For the supply chain, it describes initiatives involving direct business partners. In addition, the Company conducts human rights training for suppliers and has begun collaborating with external organizations on mechanisms for human rights remediation. Given this situation, why not incorporate the workers, local residents, and Indigenous peoples upstream in the supply chain into the list of supply chain stakeholders and comprehensively address their concerns?

In the human capital disclosures, the Company is implementing improvement measures based on an analysis of the results of its employee engagement survey. A variety of measures have been proposed, ranging from those that can be addressed through revisions to personnel systems to long-term initiatives focused on changing the employee mindset and corporate culture. I hope the Company will take a long-term perspective and proceed steadily with these initiatives.

Last year I wrote, "I hope that many employees will emerge who understand both sustainability considerations and corporate value enhancement and can translate that understanding into their work." This year, the examples of technology and biodiversity projects presented in this report offer a vivid picture of on-site staff working with enthusiasm and ingenuity. I look forward to seeing everyone from top management to on-site staff continue to work toward building a safe, secure, and sustainable social infrastructure that is in harmony with the Earth, treating this as their own mission.