

# Third-party Comments



## Yoshinao Kozuma

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### 1. Long-term Vision and Targets

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Your most creative and astonishing achievement this year is the disclosure of a long-term target for reducing CO<sub>2</sub> emissions. Your goals to work toward being carbon neutral within the JFE Group as soon as possible after 2050 and reduce CO<sub>2</sub> emissions in fiscal 2030 by 20% or more compared to fiscal 2013 in the steel business is an innovative commitment akin to one of the most advanced long-term targets in the global steel industry set up by ArcelorMittal. These are by far the most ambitious targets, unrivaled by any other Asian steel companies. Moreover, the targets were referred to in the Group's long-term vision: to demonstrate two qualities of sustainability-economic sustainability and environmental and social sustainability-and become a resilient enterprise capable of consistently delivering value over the long term. This is the first time the JFE Group has made any definitive statements on its long-term vision, demonstrating its management style of earnestly adapting to a sustainable society by clearly defining its long-term vision and targets.

### 2. Measures Regarding Gender Inequality

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With regard to measures for addressing gender inequality, I should particularly mention JFE Holdings' achievement in appointing a female director in 2020, following the appointment of a female Audit & Supervisory Board member in 2019. As for the number of female managers, the group of employees expected to shore up the number of female executives in the future, JFE has updated its target to achieve a fivefold increase by 2025 compared to August 2014, since the previous goal of tripling the figure by 2020 had already been achieved in April 2019. It is said there is a significant correlation between appointment of female executives, a long-term concern for Japanese companies, and improvement in business performance. I feel that the JFE Group's steadfast efforts are gradually coming to fruition, and I have great expectations for future developments.

### 3. Quantifying KPIs

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The Group has made solid progress in addressing the issue of quantifying KPIs as it reviewed some of the KPIs this fiscal year. In order to prepare for evaluating the achievement of initiatives, the Group also quantified evaluation standards, further improving the transparency of its information disclosure. For a major corporation made up of different groups of companies, I imagine it required significant courage to undertake this internal alignment to establish and publicly declare quantitative evaluation standards applicable to the activities of the organization. I believe the JFE Group's actions to take on this formidable task demonstrates its strong commitment to becoming a sustainably growing corporate enterprise.

### 4. Future Challenges

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Disclosure of this report on your website will allow the accumulation of a vast amount of information in cyber space while also giving rise to the need for time and technique to search for necessary data. I advise you to make your website more user-friendly by creating links between different reports and reorganizing the structure of the site. Furthermore, the Group will need to create an effective internal system to adapt to the rising expectations across the world for compliance with human rights and environmental due diligence.



## Mariko Kawaguchi

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This is my fourth year to offer comments on the JFE Group's report. These reports have given me the opportunity to observe the deepening of the Group's environmental strategy over time. In the context of all four reports, the creation of a TCFD scenario, presented in last year's edition, was an example of an advanced initiative by a Japanese corporation. While this year public concern has been focused on COVID-19, the Group has made a leap forward in its climate change initiative by establishing long-term targets, including reducing its CO<sub>2</sub> emissions by 20% by 2030 and being carbon neutral by 2050. Since blast furnaces use coal as a raw material and not for fuel, the complete phase-out of coal is virtually impossible without assuming a revolutionary innovation in the production process and a bold business conversion strategy. I respect this dramatic managerial decision. I also believe that management could not have come to this determination if the TCFD scenario established last year had not laid out a road map for managing decarbonization.

The seven key factors under 2°C and 4°C scenarios (decarbonization of iron and steelmaking process, increased needs for effective utilization of steel scrap, change in demand for automotive steel, etc., increase in demand for solutions to promote decarbonization, unstable raw materials procurement due to increased occurrence of climatic hazards, damage to production bases and offices caused by climatic hazards, and national resilience) identified in "JFE Group's Response to the TCFD" in this year's report indicate management's recognition of the Group's medium- to long-term risks and opportunities. These risks confront the global environment, industries, and society in a time of climate crisis and will serve as useful information to other entities. How will management be able to steer business operations, presuming that all these risks are indeed a matter of concern for many stakeholders? Furthermore, a road map for reducing CO<sub>2</sub> emissions and being carbon neutral provides convincing evidence for the bold decarbonization strategy mentioned above. The reports for coming years could become even more persuasive by emphasizing that the long-term strategy was based on the TCFD scenario.

While society calls for a green recovery as the COVID-19 crisis moves to the center of public concern, the climate crisis has certainly been exacerbated worldwide. The impact of natural disasters associated with hurricanes and typhoons of a massive scale, bushfires, and other events has intensified at an accelerating pace. I would hope the next report will upgrade your scenarios from 2°C and 4°C to 1.5°C. In this case, I feel you will need to shift toward strengthening resilience and actions for adapting to extraordinary weather events in addition to reinforcing your mitigation initiatives to be carbon neutral. Also, more specific actions are required for risks that are described in relatively abstract terms under the current 4°C scenario.

On the other hand, constructing resilient buildings and developing urban infrastructure can also be seen as an opportunity for the steel business. This year's report introduces various technologies and products applied to the Group's eco-friendly processes and products. However, it creates the impression of being a technology catalogue. Organizing this information by strategy to emphasize its relationship to corporate value could be more effective.

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This year's report discloses at the outset social issues, risks, and opportunities within the value chain of the JFE Group as a whole and by business division. This is useful for understanding the Group's entire business. Especially for climate-related risks, the report clearly conveys the pressing worksite situation calling for urgent action in terms of both mitigation and adaptation. In contrast, the themes of social challenges, human rights, and workstyle felt like a list of keywords and lacked intensity. The importance of human rights issues is increasing across the supply chain, including the mining sites for iron ore and coal and marine transportation for these resources. In a recent marine accident, the crew is said to have steered a Japanese cargo ship off course to pick up a Wi-Fi signal, resulting in the ship running aground off Mauritius. I view this incident as demonstrating the importance of respecting human rights during long voyages. And I believe that respecting the human rights of workers at mines, the crew members of vessels, and harbor workers will emerge as an issue requiring increased attention from management.

Speaking of these issues as they relate to workers, I know you are doing what you can for female advancement in the Group, notwithstanding the fact that women represent only a small proportion of its employees. Unfortunately, I must say that you are still far behind the rest of the world in this matter. Promoting the gender diversity of the board is not for the sake of supporting women; it increases corporate value by broadening the understanding of management risks and opportunities. I expect to see further efforts regarding this matter. To some extent, the fact that the ratio of female employees remains low due to the characteristics of the industry is a challenge. It may be more practical to increase the ratio of female employees at the stage of hiring while also establishing a target to maintain that ratio through their career development from junior management to senior management and ultimately to executive officer. As a global entity, I also expect greater diversity in the nationality of Board of Directors members.

Finally, I would like to point out that the report explains the value of steel, industry trends, and eco-friendly technologies and can serve as a textbook for environmental action by the steel industry. One area for improvement would be to make it easier for readers to distinguish whether the activity is attributable to the industry as a whole or the company. One way to deal with this would be to separately present information regarding industry trends and steel as a subordinate design element.

Now that the report has clearly indicated your value chain, as a next step I would expect to see a Group-wide strategy for the engineering business, electric furnaces, and other factors that contribute to a circular economy. Steel is a predominant yet finite resource. Mines pose various environmental and social issues. I hope that the company's commitment to creating a circular economy is included in the next report in addition to decarbonization, which was mentioned in this year's report. I look forward to your business taking the lead in decarbonization, resilience, and the circular economy worldwide as well as in Japan.