Sustainability-Linked Bond Framework
サステナビリティ・リンク・ボンドフレームワーク
2022
Introduction

1. KITZ Group's Sustainability Management

Since our founding in 1951, the KITZ Group has championed regional development and environmental conservation activities to fulfill our corporate social responsibility (CSR).

We are now in the midst of a great swell, with changes to the global environment never experienced in the past, and phenomenal advances in technology. To continue being a sustainable company under these conditions, we must sustainably grow and enhance corporate value, while at the same time solving social issues and creating social value. Managing these two essential dimensions in tandem are what is expected of us as a company. We believe that this creation of shared value (CSV) is linked with the trust of society. This is what we see as sustainability management.

In the Long-term Management Vision unveiled in February 2022, we placed sustainability management at the core of our management strategy. To coincide with the Long-term Management Vision, we have formulated key sustainability management themes, and in December 2021, a Group Sustainability Promotion Committee was established following a resolution by the Board of Directors. The committee will share priority themes and key performance indicators (KPIs) on a groupwide basis and manage progress toward the achievement of targets.

In our bid to become a 100-year company that achieves growth and development a decade from now, three decades on and beyond we will continue to actively challenge new things rather than remaining tied to what is old and normal. We will further evolve the fluid control technologies we have cultivated with valves, surpass even the lofty heights to which we aspire with a sense of speed and a willingness to take on challenges and build a "new flow." As a member of the global community, we will continue to be a company that strides boldly toward 2030 to help shape a society that can be left in the hands of future generations.
**KITZ Statement of Corporate Mission**

We strive to build a robust global environment and sustainable future by supporting societal infrastructure through our advancements in fluid control technologies and materials.

**Long-term Management Vision**

- Beyond New Heights 2030
- Change the Flow

**Action Guide**

Do it KITZ Way

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**Our aspirations for 2030**

- Technology/Solutions
- Core Business/Growth Business
- Environmental Conservation through business
- Diverse Human Resources

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**Basic Policy on Sustainability**

Keystone of medium-to-long-term sustainability (ESG related targets, planning and operation)

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**Key Themes for Sustainability Management**

- **Environment**
  - Carbon neutrality
  - Resource recycling
  - Innovation

- **Social**
  - Sustained improvement in employee engagement
  - Building a sustainable supply chain

- **Governance**
  - Corporate governance
  - Risk management
  - Compliance
2. Sustainability promotion structure

As mentioned above, the KITZ Group established the Group Sustainability Promotion Committee as an organization to assist the Board of Directors in promoting integrated sustainability management groupwide. The committee is outlined below, and it will promote sustainability management powerfully throughout the entire group.

<Group Sustainability Promotion Committee>

| Goals | ① Promoting integrated sustainability management groupwide  
|       | ② Ensuring sustainability management takes root in individual companies and sections  
|       | ③ Sharing priority themes and measures for sustainability management, formulating KPIs for individual companies and sections, and revising plans |
| Activities | ① Reporting and sharing the Basic Policy on Sustainability with individual companies and sections  
|            | ② Reporting and sharing priority themes of sustainability management with individual companies and sections  
|            | ③ Reporting and sharing Group KPIs and formulating and reporting individual companies' and sections' KPIs  
|            | ④ Reporting on the progress of Group plans and reporting and sharing Group basic policies and revised plans, and formulating and reporting individual companies' and sections' revised plans  
|            | ⑤ Sharing and deliberating on issues related to sustainability management at individual companies and sections |
| Chairperson | General Manager, Corporate Planning Division  
| Membership | Executive Officers, presidents of KITZ Group companies |

Note: Plans call for the establishment of subcommittees to promote coordination with Group companies around the world as organizations under the umbrella of the Group Sustainability Promotion Committee.

In July 2019, the KITZ Group established the Sustainability Promotion Office under the direct supervision of the executive team as the section in charge of planning and promotion of activities related to the environment, society, and
governance (ESG) and the Sustainable Development Goals (SDGs), as well as reforming employees' awareness and the organizational culture, to realize continued, sustainable growth. Beginning in January 2021, the Sustainability Promotion Office has been placed under the supervision of the Management Planning Division, resulting in a structure under which it is able both to promote initiatives swiftly from a position closer to management and to cooperate and share information closely with individual sections and Group companies.

3. Key Themes for Sustainability Management

In order to realize KITZ's "Long-Term Management Vision," we have identified priority ESG issues to be addressed as key themes for sustainability management.

Since the 2000s, the KITZ Group has made environmental initiatives an important management theme, using activities that reduce the impact on the environment as well as developing and providing products and services that are
gentle on the environment, to work towards being a corporate group that is trusted for providing safe products to society. In order to achieve this, the group has established an environmental management system, actively invested in management resources to use resources effectively, reduce waste, and promote recycling. Comparing KITZ’s achievement of its environmental targets between 2013 and 2021, KITZ and its domestic consolidated companies have reduced CO₂ emissions, a substance that causes global warming, by approximately 26%.

In order to provide customers with high-quality products, mainly valves, in a prompt and continuous manner, KITZ has used an integrated production system starting from materials, since its establishment. In particular, casting is an important process that requires advanced production technology and large-scale facilities, while also involving various risks relating to energy, waste, and employee safety. It is for this reason that manufacturing that takes safety and the environment into account is essential, and the reason why we are working towards our long-term environmental vision of “triple zero.”

An especially important issue is the CO₂ Zero initiative. In response to the Paris Agreement, Japan has pledged to reduce its emissions from 46% from the base year of 2013 to 2030, and to reduce them to virtually zero by 2050. By having all domestic group companies use renewable energy for their electricity by the end of FY2024, KITZ will work towards achieving the mid-term environmental goal of an 90% or more reduction by 2030, and the long-term environmental goal of becoming carbon neutral by 2050. The second important
issue is Zero Environmental Impact. To this effect, we are tackling three themes: effective use of water resources, a resource closely related to valves; reduction of waste generated by plants and offices, and promotion of manufacturing without organic solvents to minimize not only air and soil pollution but also the impact on the health of employees. The third important issue is Zero Risk. We are working to maintain safe and secure manufacturing and stable operations through activities to prevent occupational accidents, environmental pollution, and fires.

**Sustainability Linked Bond Framework**

The purpose of the formulation of this framework is promoting KITZ Group’s sustainability management from the perspective of finance in order to implement our corporate philosophy of KITZ’ Statement of Corporate Mission, that is, to strive to build a robust global environment and sustainable future by supporting societal infrastructure through our advancements in fluid control technologies and materials.

This framework is a strong commitment to CO2 Zero, one of the especially important targets in the Triple Zero initiatives in the Long-term environmental vision, through financing.

This Sustainability Linked Bond Framework is formulated based on the International Capital Market Association (ICMA)’s Sustainability-Linked Bond Principles 2020 and the Ministry of the Environment (MOE)’s Green Bond and Sustainability Linked Bond Guidelines 2022, and defines the following five elements.

1. Selection of KPIs
2. Calibration of SPTs
3. Bond Characteristics
4. Reporting
5. Verification

KITZ will obtain a Second Opinion from an independent third party, regarding the alignment of the Framework with the ICMA’s Sustainability-Linked Bond Principles 2020 and the MOE’s Green Bond and Sustainability Linked Bond Guidelines 2022, and the obtained opinion will be disclosed on our website.
1. Selection of KPIs

This Sustainability Linked Bonds issued based on this Framework will use the following key performance indicators (KPIs).

<table>
<thead>
<tr>
<th>Item</th>
<th>KPI Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI</td>
<td>The domestic group's Scope 1 and 2 CO2 reduction rate</td>
</tr>
</tbody>
</table>

※ The domestic group refers to KITZ and its consolidated subsidiaries in Japan.

### KPI Targets

<table>
<thead>
<tr>
<th>Scope 1-2</th>
<th>2013</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO2 emissions (t) Scopes 1 &amp; 2</td>
<td>65,933</td>
<td>13,187</td>
<td>12,066</td>
<td>11,011</td>
<td>9,890</td>
<td>6,593</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO2 reduction rate (%) Compared to FY2013</td>
<td>-</td>
<td>80%</td>
<td>81.7%</td>
<td>83.3%</td>
<td>85.0%</td>
<td>90%</td>
</tr>
</tbody>
</table>

2. Calibration of SPTs

This Sustainability Linked Bonds issued based on this Framework will use the following Sustainability Performance Targets (SPTs).

<table>
<thead>
<tr>
<th>Item</th>
<th>SPTs Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPT</td>
<td>The domestic group's Scope 1 and 2 CO2 reduction rate in each fiscal year compared to the base year of FY2013</td>
</tr>
</tbody>
</table>

KITZ intends to achieve the SPTs through measures such as reducing energy consumption using the latest and most advanced energy-saving technologies and expanding the introduction of renewable energy.

The applicable values and date of determination of SPTs, together with the definitions of KPI and SPTs, will be specified and disclosed in the statutory disclosure documents such as the amended and restated shelf registration.
statement and the shelf registration supplements relating to the issuance of the Sustainability Linked Bonds under this Framework.

3. Bond Characteristics

The characteristics of the Sustainability Linked Bonds issued under the Framework will vary depending on SPTs achievement. Details are specified in statutory disclosure documents such as amended shelf registration statements and shelf registration supplements relating to the issuance of the Sustainability Linked Bonds, and include one or both of ① purchase of emission credits and ② donation.

① Purchase of emission credits

If the SPTs have not been achieved as of the date of determination, KITZ will purchase the amount of emission credits (credits/certificates of CO2 reduction value) equivalent to a certain percentage of the issue amount of sustainability linked bonds, as defined in the above statutory disclosure documents, before the bonds are redeemed.

② Donation

If the SPTs have not been achieved as of the date of determination, KITZ will donate a certain percentage of the issue amount of sustainability linked bonds, as defined in the above statutory disclosure documents, to public interest incorporated associations, public interest foundations, international organizations, local government-authorized NPOs, local governments and similar organizations engaged in activities for a transition to a decarbonized society, before the bonds are redeemed.
4. Reporting

KITZ will disclose the following information on KPI performance and SPTs achievement on its website annually, until the sustainability linked bonds issued under the Framework are redeemed:

<table>
<thead>
<tr>
<th>Item</th>
<th>Information to Be Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI performance</td>
<td>KPI performance as of the end of each fiscal year</td>
</tr>
<tr>
<td>Material updates, etc.</td>
<td>Information that may affect SPTs achievement (e.g., formulation and update of sustainability strategies)</td>
</tr>
<tr>
<td>Details of purchase of emission credits or donation</td>
<td>If emission credits are purchased based on the bond characteristics: the name of emission credits, the date of transfer and the amount of purchase. If a donation is made based on the bond characteristics: the name of the eligible recipient, the reason for selection, the amount of donation and the schedule of donation.</td>
</tr>
</tbody>
</table>

If events (e.g., mergers and acquisitions, regulatory changes in relevant countries) that cannot be foreseen at the time of the issuance of sustainability linked bonds occur and make it necessary to change KPI definitions and SPT settings, KITZ will disclose such changes, including the reason for changes and the method of recalculation, in a timely manner.

5. Verification

KITZ will have its KPI performance verified by an independent third party and disclose an assurance report on its website.

It will also obtain a report on SPTs achievement by notifying R&I of whether the KPI performance meets the SPTs as of the date of determination. The report will be disclosed on its website.