

Japanese SLBs: 2025 update

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Since its launch in 2020, Japan's Sustainability-Linked Bond (SLB) and Transition-Linked Bond (TLB) market has developed steadily, and is now entering the important performance verification phase.[1] This year, for the first time, it is possible to conduct a comprehensive assessment of Japanese issuers' performance against their Sustainability Performance Targets (SPTs). This update reviews the bond structures, and associated SPT outcomes, observed between 2023 and 2026. It complements AFII's July 2024 analysis with new issuance data and performance disclosures through 2025.[2]

SLB/TLB issuance from Japanese issuers has moderated from the 2023 peak. Twenty-four new bonds raised JPY362 billion since July 2024, bringing cumulative issuance to about JPY1.85 trillion.[3] Activity remains concentrated in JPY-denominated deals, led by real estate/construction, manufacturing, finance, and utilities.

Key Performance Indicator (KPI) design continues to focus on emissions-reduction targets with growing use of annual milestones. Charitable donations remain the favoured payout type when targets are achieved/missed, though hybrid formats incorporating environmental spending and carbon credit purchases are becoming common. The typical size of these contingent payouts remains small (0.1%, occasionally up to 0.2–0.3 % of principal) and are often paid post-maturity to third parties — offering little in the way of a financial signal to investors.

During this observation cycle (2023–2026), 25 bonds with a combined notional value of JPY472 billion are scheduled for SPT determination. Each bond specifies an observation date — typically the fiscal year-end — when performance against their SPTs is verified, triggering outcomes such as donations, credit purchases, or bond coupon rate adjustments.

Of these, six bonds have already reached determination (four 'Met', two 'Missed'), while the remainder are still in progress. Based on AFII's proportionate-change assessment definition (see Table 4), nine bonds are 'On Track', eight are 'Off Track', and two have 'Insufficient Data'.

Table 1. Summary of SLBs with 2023- Sep 2026 observation dates. Source: AFII, Ministry of Environment Japan ("MOEJ"), issuers' disclosure reports.

Category	Amount Outstanding (JPY bn)	Bond Issue (Number)	No. of Issuers
Met	46	4	4
Missed	30	2	1
On Track	125	9	8
Off Track	211	8	5
Insufficient Data	60	2	1
Total	472	25	19

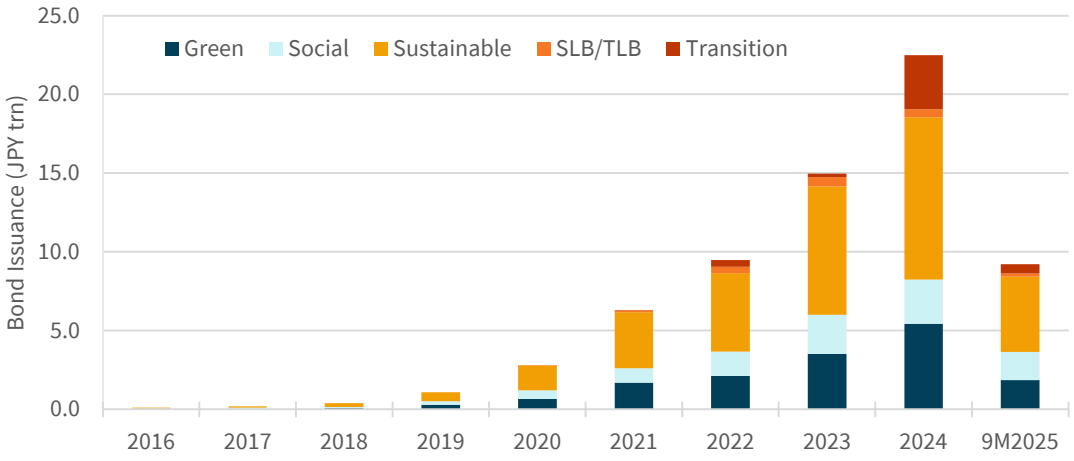
[1] For a longer summary of the global picture see "A watershed year for the SLB market", AFII, 15 Jul 2025.
[2] "Sustainability-Linked Bond Usage in Japan", AFII, 16 Sep 2024.
[3] We sourced our population from "Sustainability Linked Bonds Issuance List (Domestic)", Japanese Ministry of the Environment, and Bloomberg.

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Background

Japan's labelled bond market encompasses green, social, sustainability, and SLB/TLBs.[4] Green and sustainable bonds remain the largest segments with transition bonds gaining traction as seen in Figure 1. But SLB/TLBs still serve a purpose as they allow issuers in specific sectors — such as utilities, real estate, and finance — to link funding to forward-looking transition metrics without strict use-of-proceeds constraints. Government policy, notably the Green Transformation (GX) programme and Financial Services Agency (FSA) disclosure guidance, continues to promote sustainability-linked issuance alongside green and transition bonds.

Figure 1. Japan labelled bond issuance by year of issuance. Source: Bloomberg Finance L.P. accessed 30 Sep 2025.



Investor demand is underpinned by the Sustainability Standards Board of Japan (SSBJ) roadmap and the Ministry of the Environment's Green Finance Portal, both of which encourage KPI transparency and third-party verification. On the supply side, issuers view SLBs as tools to diversify funding and demonstrate alignment with Japan's 2050 net-zero target.

Although no explicit regulation mandates coupon adjustments, recent market developments reflect attempts to incorporate environmental materiality into instrument design. Issuers are exploring mechanisms that link missed KPI or SPT outcomes to measurable environmental actions, reinforcing the sustainability intent even where financial consequences remain limited.

Early Japanese SLBs relied mainly on donation clauses, where a small share of principal (typically 0.1–0.3%) was directed to environmental or social causes if and when SPTs were missed. More recent issues have adopted hybrid formats (see Table 3), combining donations with emission-credit purchases or pre-committed environmental investments. These hybrid blended structures preserve the reputational and thematic linkage of donations while embedding more verifiable environmental outcomes. They therefore represent a move toward environmental integrity, though they lack the market signalling capacity of coupon adjustments.

[4] We include Transition-Linked Bonds (TLBs) in the SLB Universe. The structure of TLBs has features that make them resemble SLBs in many respects. Proceeds are unrestricted, and there is a Sustainability Performance Target (SPT), which if missed will trigger a payout in the form of coupon step-up, donation, and/or purchase of emission credits. For more analysis of TLBs, please see "JERA: An enhanced SLB proposal for ambitious transition", AFII, 29 Feb 2024.

Market update

Issuance trends

Volume: Since July 2024, 24 new SLBs have raised JPY362 billion, including eight first-time issuers and 10 repeat issuers. After a 2023 peak (JPY480 billion), issuance slowed in 2024 (JPY430 billion) and is tracking lower in 2025 year-to-date (JPY200 billion), mirroring the slowdown in the broader labelled-bond market.

Currency: Issuance remains in JPY; there are no Japanese SLBs/TLBs issued in other currencies.

Sector mix: Real estate/construction (23%), Other manufacturing (22%), Finance sector (19%), and Energy & Utilities are the largest issuing sectors, taking up to 78% of total issuance as seen in Figure 3. The continued robust presence of financials in the Japanese SLB market may be partly attributed to the Ministry of Economy, Trade and Industry's (METI) Financial Support Programme for the Promotion of Transition towards Carbon Neutrality, which provides financial support to financial institutions by granting preferential interest rates on transition-labelled products.[5]

KPIs: For the 2025 issuances, KPI design focused on emissions- and transition-linked targets. There is also a trend whereby annual SPTs are set as milestones to track the progress of a given sustainability objective. Ten out of 24 bonds since July 2024 have multi-year milestones. JA Mitsui Leasing (see Table 2) is an example of an issuer with multi-year milestones.

Figure 2. SLB/TLB issuance amount by year of issuance. Source: Bloomberg Finance L.P., accessed 30 Sep 25.

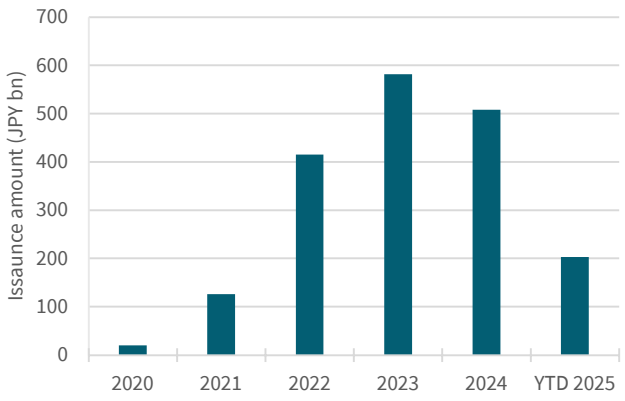


Figure 3. SLBs/TLBs sector breakdown. Source: AFII, MOEJ.

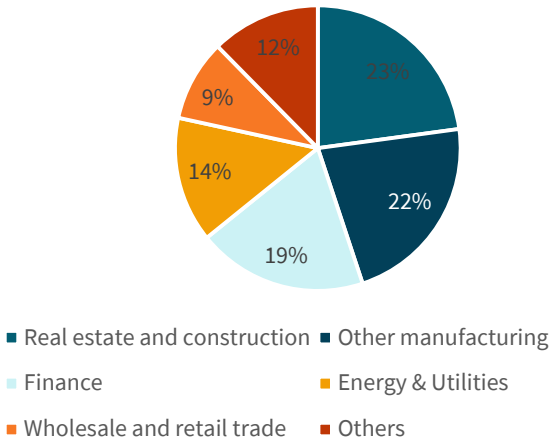
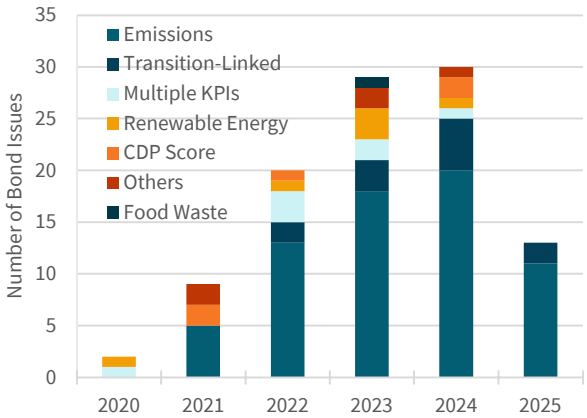


Figure 4. KPIs by type. Source: AFII, MOEJ.



[5] "Japan Sustainable Finance Policy Update June 2021 – September 2021", Institute for Global Environmental Strategies (IGES), Nov 2021.

JA Mitsui Leasing: Multi-year KPIs with hybrid payout structure

JA Mitsui Leasing demonstrates the shift toward multi-year KPI observations with hybrid payouts linking SPT achievement to either emission-credit purchase or donation.[6]

Table 2. JA Mitsui Leasing KPIs and payout structure, multi-year milestones. Source: JA Mitsui Leasing, MOEJ.

Issuer	KPIs	Payout Structure
JA Mitsui Leasing	SPT 1 : Targets for each fiscal year from FY25 onward for the cumulative amount of renewable energy-related investments and loans by the Company and its Group companies to reach JPY500 bn in FY30 (Unit: Bn JPY) (Reference date)31/3 of each year (Judgment date)30/09 of each year FY2025:2,500; FY2026:3,000; FY2027:3,500; FY2028:4,000 FY2029:4,500 SPT 2: Targets for each fiscal year after FY25 for a 50% reduction of greenhouse gas emissions (Scope 1 & 2) by FY30 for the Company and its group companies in Japan(%)(compared to FY21) (Reference date) 31/03 of each year (Judgment date)30/09 of each year FY2025: 40%; FY2026 :42%; FY2027: 44%; FY2028: 46% FY2029: 48%	If SPTs are unmet at the determination date, the issuer will either purchase emission credits or make a donation. Amount: if both SPTs are unmet → 0.1% of issue amount; if one SPT is unmet → 0.05% of issue amount.

This case study illustrates an approach that combines measurable interim targets with payout mechanisms that attempt to align environmental outcomes with practical implementation considerations.

Payout structures

Japanese SLBs continue to favour donation-based payout structures, potentially reflecting a cultural preference for social contribution and reputational accountability over investor

Table 3. Summary of payout structure features. Source: AFII, MOEJ, issuers' disclosure reports.

Payout Structure Type	Description	Features (benefits / drawbacks)
Regular Payouts	Standard fixed-coupon bond with no conditional payment linked to KPI/SPT outcomes.	Simple and low complexity; offers no incentive or alignment mechanism and provides limited accountability.
Step-up/down & Donation/Emission Credits	Hybrid structure where coupon adjusts based on performance, combined with a donation or emission-credit purchase on SPT miss.	Balances investor economics with environmental action; clearer signalling but more complex to verify and administer; typically small in size.
Donation/Emission Credits	No coupon change; issuer donates or purchases emission credits if SPTs are missed.	Links missed targets to environmental action while maintaining stable financing costs; limited financial materiality and variable impact quality.
Emission Credits	On SPT miss, issuer purchases specified volume or value of carbon/environmental credits.	Quantifiable in environmental units but dependent on credit integrity and market volatility; offers no investor return.
Donation	On SPT miss, issuer donates a set amount or proportion to third-party environmental or social causes.	Simple and reputationally positive; small scale (≈0.1–0.3% of principal) with variable impact transparency and no investor benefit.

[6] "JA Mitsui Leasing, Sustainability Linked Loan/Bond Verification Report", Japan Credit Rating Agency, 27 Aug 2025.

compensation. At the same time, issuers are trying to improve environmental linkages within these mechanisms.

Since July 2024, 18 out of 24 new bonds have adopted hybrid designs that tie missed targets to environmental actions such as emission-credit purchases, as seen in Figure 5. Payouts remain small — typically around 0.1% of principal, occasionally up to 0.2–0.3% — and are generally executed post-maturity through third-party channels. This approach preserves the environmental linkage of these structures but provides limited financial signal to investors. While modest in scale, these mechanisms can generate environmental outcomes when credits are retired, or donations fund verifiable projects. Table 3 summarises the key features of various payout structures.

According to the Bank of Japan's Market Functioning Survey, investors in Japan's ESG bond market commonly cite social and environmental contribution as their leading motive, with return-per-risk considerations ranking lower.[7] On the issuer side, the survey indicates motives are anchored more in business strategy and reputation than issuance economics. These patterns could help explain why many Japanese SLB structures prioritise reputational and strategic aims.

Observation period (2023 - September 2026)

Japan's SLB market, launched in 2020, is now entering a key phase of performance verification. We review the performance of SLBs that have already reached their KPI/SPT observation dates and assess progress for those scheduled for observation within the next 12 months. This makes up a total universe of 25 bonds with a notional amount of JPY472 billion.

The following categories in Table 4 are used to classify issuer performance and disclosure status:

Table 4. Summary of SLBs with 2023-September 2026 observation dates. Source: AFII, MOEJ, issuers' disclosure reports.

Category	Definition	Notional Amount (JPY bn)	Bond Issue (Number)	Issuers
Met	KPI/SPT target achieved or exceeded at the observation date, as confirmed by issuer disclosure, post-issuance verification, or assurance statement.	46	4	4
Missed	KPI/SPT target not achieved at the observation date, based on issuer or verifier disclosure. Donation, credit purchase, or other contractual consequence executed or pending.	30	2	1
On Track	Projection of most recent interim disclosures at the prior year-on-year rate of change indicates target will be achieved on observation date.	125	9	8
Off Track	Projection of most recent interim disclosures at the prior year-on-year rate of change indicates target will not be achieved on observation date.	211	8	5
Insufficient Data	Latest issuer disclosure is more than one fiscal year old and lacks adequate quantitative information to assess progress relative to the KPI/SPT trajectory.	60	2	1

Table 5 covers the details of this bond universe. There are six bonds with a combined JPY76 billion in notional that have had their target observations. Of these, four bonds from four different issuers 'Met' their targets. One issuer with two bonds, Orient Corporation, 'Missed' its target.

[7] "Results of the Fourth Market Functioning Survey concerning Climate Change", Bank of Japan, Jul 2025.

For the cohort of bonds with upcoming observations over the next 12 months, nine bonds from eight issuers are ‘On Track’ (JPY125 billion), eight bonds from five issuers are ‘Off Track’ (JPY211 billion), and two bonds from one issuer, AEON Mall, had ‘Insufficient Data’ (JPY60 billion).

Table 5. SLBs with KPI observation dates in 2023-26 and AFII assessment. Source: AFII, MOEJ, issuers’ disclosure reports.

Issuer	ISIN	Pricing Date	Maturity Date	Observation Date	Currency	Amount Outstanding (JPY bn)	Status
ANA Holdings Inc	JP342980AM69	8/6/2021	8/6/2026	31/3/2023	JPY	20	Met
Fuyo General Lease Co Ltd	JP382627ALC5	24/12/2020	24/12/2027	31/7/2024	JPY	10	Met
GLP J-Reit	JP304751AM90	28/9/2021	28/9/2028	31/12/2024	JPY	6	Met
Takamatsu Construction Group Co Ltd	JP345790BM38	19/3/2021	19/3/2026	31/3/2025	JPY	10	Met
Orient Corp	JP319900BP78	13/7/2023	13/7/2026	31/3/2025	JPY	20	Missed
Orient Corp	JP319900AP38	6/3/2023	6/3/2028	31/3/2025	JPY	10	Missed
Asics Corp	JP311800AMC2	2/12/2021	2/12/2026	31/12/2025	JPY	10	On Track
Hulic Co Ltd	JP336080ALA8	15/10/2020	15/10/2030	31/12/2025	JPY	10	On Track
Kitz Corp	JP324070AN91	14/9/2022	14/9/2027	31/12/2025	JPY	10	On Track
TDK Corp	JP353880BMC1	2/12/2021	1/12/2028	31/12/2025	JPY	40	On Track
Arakawa Chemical Industries Ltd	JP312500AMB9	26/11/2021	26/11/2026	31/3/2026	JPY	5	On Track
Mitsubishi Materials Corp	JP390300AQ42	24/4/2024	24/4/2029	31/3/2026	JPY	15	On Track
Mitsubishi Materials Corp	JP390300APB2	29/11/2023	29/11/2028	31/3/2026	JPY	20	On Track
Okamura Corp	JP319240AN62	16/6/2022	16/6/2027	31/3/2026	JPY	5	On Track
Tokyu Fudosan Holdings Corp	JP356920AMA8	11/10/2021	10/10/2031	31/3/2026	JPY	10	On Track
Shiseido Co Ltd	JP335160ANC1	8/12/2022	8/12/2027	1/1/2026	JPY	20	Off Track
Aeon Co Ltd	JP338820AQ75	4/7/2024	4/7/2029	28/2/2026	JPY	36	Off Track
Aeon Co Ltd	JP338820AP84	17/8/2023	17/8/2028	28/2/2026	JPY	35	Off Track
Mitsubishi Estate Co Ltd	JP389960AP53	2/5/2023	2/5/2028	31/3/2026	JPY	30	Off Track
Mitsubishi Estate Co Ltd	JP389960AN71	22/7/2022	22/7/2027	31/3/2026	JPY	20	Off Track
Mizuho Leasing Co Ltd	JP328650CQ95	2/9/2024	2/9/2027	31/3/2026	JPY	25	Off Track
Mizuho Leasing Co Ltd	JP328650APC5	12/12/2023	12/6/2028	31/3/2026	JPY	25	Off Track
Obayashi Corp	JP319000AN47	27/4/2022	27/4/2027	31/3/2026	JPY	20	Off Track
Aeon Mall Co Ltd	JP313143AN48	28/4/2022	28/4/2027	28/2/2026	JPY	40	Insufficien Data
Aeon Mall Co Ltd	JP313143AMB7	26/11/2021	26/11/2026	28/2/2026	JPY	20	Insufficien Data

Completed observations : four issuers 'Met', one issuer 'Missed'

Of the six already-observed bonds, listed in Table 6, four issuers met their SPTs: ANA Holdings (governance-type SPTs achieved; no donation triggered), Fuyo General Lease (renewable-electricity and program SPTs achieved; step-up inapplicable), GLP J-REIT (portfolio certification SPT achieved; 5bps coupon step-down executed), and Takamatsu Construction (cumulative SDGs-linked sales target exceeded; no premium payable). GLP J-REIT is expanded as a case study due to the coupon step-down.

One issuer — Orient Corporation (with two tranches) — missed its SPT tied to electric vehicle (EV) auto-loan volume in Southeast Asia; each triggered a 0.10% of notional donation (executed 29 September 2025). This is covered in a full case study.

Table 6. Summary of bond issues with completed observations. Source: AFII, MOEJ, Issuers' disclosure reports.

Issuer	Pricing Date/ Maturity Date/ Observation Date	Amt (JPY bn)	Status	Sustainability Performance Targets	Outcome/Payout
ANA Holdings Inc (ISIN: JP342980AM69)	8/6/2021; 8/6/2026; 31/3/2023	20	Met	(1) Listing on DJSI World & Asia Pacific, (2) FTSE4Good inclusion, (3) MSCI Japan ESG Select Leaders inclusion, (4) CDP Climate Change "A–" or above. If two or more are not met at end-FY22 (31/3/23), ANA will donate to environmental/social organisations. (Governance-type SPTs; R&I reviewed the framework).	KPI status: Three achieved. As of the end of FY22, the following three SPTs (1) (2) and (4), have been achieved with ANA improving its CDP Climate Change score to A from B. (3) ANA was not included in MSCI Japan ESG Selecting Japan Index. Outcome: No donation as three SPT met. (If 2>= of the four SPTs were unmet as of 31/3/23, ANA would donate 0.1% of the bond's issue amount per year for FY24–FY26 (i.e., up to 0.3% in total).
Fuyo General Lease Co Ltd (ISIN: JP382627ALC5)	24/12/2020; 24/12/2027; 31/7/2024	10	Met	(1) ≥50% renewable-electricity usage for group electricity by July 2024 (2) ≥JPY5 bn cumulative under the 100% Renewable Electricity Declaration Support & Zero Carbon City Support programs by July 2024.	KPI status: Both achieved (renewable usage 84.6% as of 30 June 2024; program cumulative ≥JPY5 bn). Outcome: step-up therefore does not apply. (If either SPT is not achieved, the coupon steps up by +0.10% from 25 December 2024 through maturity (24 December 2027)).
GLP J-Reit (ISIN: JP304751AM90)	28/9/2021; 28/9/2028; 31/12/2024	6	Met	Portfolio environmental certification KPI (≥80% of floor area with high-rank certifications) by 31 December 2024.	KPI status: Portfolio environmental certification KPI was 91.3%, greater than 80% target. Outcome: Coupon steps down by 5bps to 0.234% from 0.284%.
Takamatsu Construction Group Co Ltd (ISIN: JP345790BM38)	19/3/2021; 19/3/2026 ; 31/3/2025	10	Met	Achieved cumulative sales of SDGs contribution of more than JPY391.1 bn yen from the fiscal year ending March 2022 to the fiscal year ending March 2025.	KPI status: Cumulative through FY2025 = JPY416.7 bn, exceeding target of JPY391.1 bn. Outcome: No premium payment as SPT met. (If the SPT is not achieved, the issuer pays a premium of JPY0.5 per JPY100 of principal (0.5%).
Orient Corp (ISIN: JP319900BP78)	13/7/2023; 13/7/2026; 31/3/2025	20	Missed	Target of JPY81.9 bn annual auto-loan volume (new cars limited to EVs) in Southeast Asia by the fiscal year ending March 2025.	KPI status: Annual auto-loan volume (new EVs) was JPY43.7 bn. Outcome: Missed target. JPY20 mn donation (0.10% of total JPY30 bn notional) executed on 29 September 2025.
Orient Corp (ISIN: JP319900AP38)	6/3/2023; 6/3/2028; 31/3/2025	10	Missed	Target of JPY81.9 bn annual auto-loan volume (new cars limited to EVs) in Southeast Asia by the fiscal year ending March 2025	KPI status: Annual auto-loan volume (new EVs) was JPY43.7 bn. Outcome: Missed target. JPY10 mn donation (0.10% of total JPY10 bn notional) executed on 29 September 2025.

Case study: Orient Corporation

Orient Corporation (ticker ORIFIN) issued two SLBs in the relevant period — its 33rd (ISIN JP319900AP38; JPY10 million; issued 6 March 2023, maturity 6 March 2028) and 35th (ISIN JP319900BP78; JPY20 million; issued 13 Jul 2023; maturity 13 July 2026).

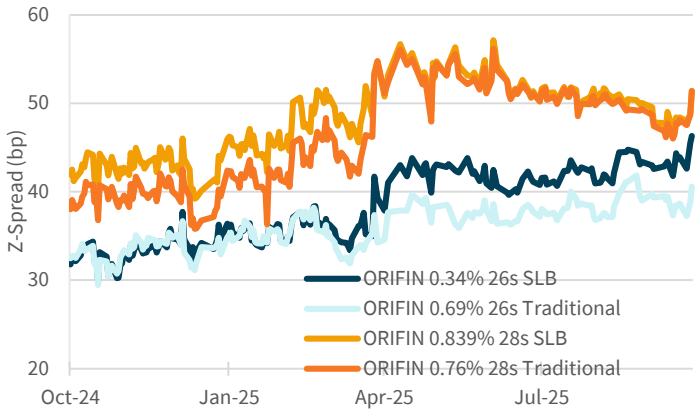
The bonds are tied to a KPI of annual auto-loan transaction volume for new EVs in Southeast Asia. The SPT of JPY81.9 billion was observed in March 2025; actuals were JPY65.5 billion (March 2023), JPY53.7 billion (March 2024), and JPY43.7 billion (March 2025), so the SPT was not achieved.[8] ORIFIN attributed the shortfall to weak credit conditions in Thailand and Indonesia, higher bad-debt costs, and tighter underwriting.

Table 7. Summary of donations to recipient charitable organisations. Source: Orient Corporation.

Recipient Organisation	Notes / Focus Area	Donation Amount (JPY bn)
WorldWideFund for Nature (WWF) Japan	Environmental conservation aligned with Orient Corporation's SLB goals	15.0
Japan Environmental Education Forum (JEEF)	Environmental education and awareness programs in Asia	9.0
Asia Wheelchair Friendship Centre (WAFCA)	Disability inclusion and welfare initiatives in Asia	4.5
Child Fund Japan	Child welfare, education, and support in Asian regions	1.5

The missed target triggered a JPY30 million donation (0.10% of notional), about 21% relative to the annual coupon payments of JPY140 million. The donation was executed on 29 September 2025, allocated to WWF Japan (JPY15.0 million), JEEF (JPY9.0 million), WAFCA (JPY4.5 billion), and Child Fund Japan (JPY1.5 million) in Table 7. While these organisations pursue social and environmental objectives, the donation's direct linkage to the SLB's environmental KPIs and its quantified environmental impact are not specified in the disclosure. Compared with the bonds' fixed coupons of 0.49% (33rd) and 0.44% (35th) — roughly JPY132–147 million in annual interest on JPY30 billion — the one-time JPY30 million donation (~3bps of notional) did not change investor cashflows and was financially modest. This being the case, the secondary bond pricing of the SLBs in Figure 5 appears to have remained in line with the traditional bonds, reflecting the absence of financial adjustments in the bond cashflows upon SPT non-achievement.

Figure 5. ORIFIN bond spreads. Source: ORIFIN, AFII, Bloomberg Finance L.P., accessed 10 Oct 25.



[8] "Notice on SPT Achievement and Donation Implementation Related to the Sustainability-Linked Bond by Orico", Orient Corporation, 30 Sep 2025.

Case study : GLP J-REIT

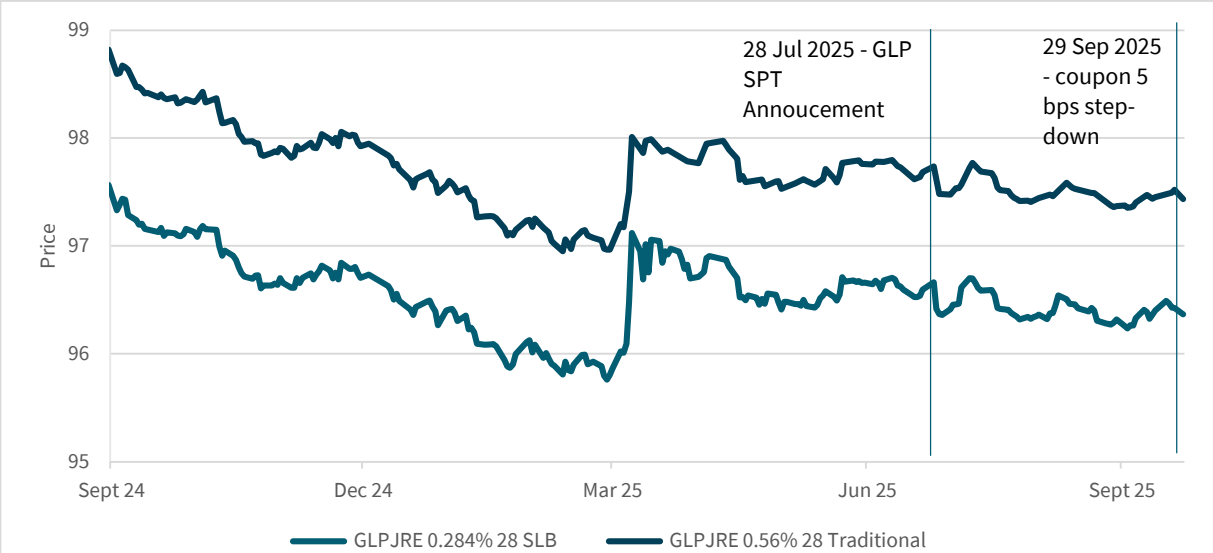
GLP J-REIT's SLB provides one of the few executed examples of a step-down coupon mechanism in Japan, among structures that are mainly donation-based.

Table 8. GLP J-REIT KPI progress. Source: GLP J-REIT.

Date (as disclosed)	High-rank environmental certification (% of portfolio GFA)
28/09/2021 (bond issued)	67.0%
27/12/2021	76.0%
1/8/2022	80.0%
25/12/2023	89.1%
31/5/2024	88.4%
25/12/2025 (KPI observation reference date)	91.3%

GLP J-REIT's 18th Unsecured Investment Corporation Bonds (ISIN JP304751AM90; JPY6 billion; issued 28 September 2021; maturity 28 September 2028) are structured as an SLB with a portfolio-coverage KPI: at least 80% of floor area must hold a high-rank environmental certification (DBJ Green Building ★★★+, CASBEE B+ or higher, BELS ≥3 stars, or LEED Silver+), targeted for end-2024. In this case, the coupon steps down by 5bps on the achievement of the SPTs — a structure similar to the Thai Union Group SLB, which also triggered a coupon step-down following SPT achievement.[9]

Figure 6: GLP J-REIT bond price. Source: AFII, Bloomberg Finance L.P., accessed 21 Oct 2025.



As of the February 2025 fiscal period, GLP J-REIT reported a 91.3% environmental-certification ratio, indicating the SPT was achieved, as seen in Table 8. On 28 July 2025, the issuer announced a 5bps coupon reduction — from 0.284% to 0.234% — explicitly citing "achievement of the SPTs as of 31 December 2024." The lower coupon applies for the 29 September 2025 to 28 September 2026 accrual period, with the adjustment effective from 29 September 2025.

A 5bps coupon reduction translates to a price decrease of approximately 0.147 per 100 face value over the remaining term to September 2028 price, reflecting the lower expected future cashflows. The magnitude of this adjustment is of low materiality and is not clearly discernible in secondary trading, as seen in Figure 6, relative to other factors that influence bond pricing. The coupon reset had not yet been reflected in Bloomberg data as of the time of writing.

[9] "Thai Union meets its first SLB target: like shooting fish in a barrel", AFII, 11 Jun 2024.

Upcoming observations – eight issuers with 'On Track' assessments

Eight issuers with nine bonds outstanding are assessed to be 'On Track' to achieve their SPTs.

These issuers include **Asics Corporation, Hulic Co., Ltd., Kitz Corporation, TDK Corporation, Arakawa Chemical Industries Ltd., Mitsubishi Materials Corporation (two bonds), Okamura Corporation, and Tokyu Fudosan Holdings Corporation**. Each has demonstrated measurable progress consistent with its stated KPI trajectory, supported by periodic disclosures and credible implementation plans. Most have already met interim milestones or shown year-on-year improvements that, if sustained, are sufficient to meet their SPTs at determination. Their progress reflects structured transition strategies — such as renewable-energy adoption, operational efficiency gains, and portfolio decarbonisation — combined with enhanced disclosure quality and external verification. While final assessments remain pending, available data suggests a high likelihood of full achievement within the scheduled observation periods. Details on each are included in the Appendix in Table 9.

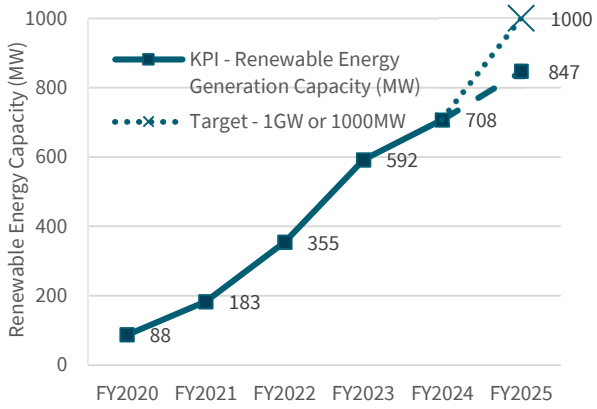
In contrast, several issuers remain 'Off Track', with interim performance falling short of the required trajectory, or have 'Insufficient Data' to substantiate progress toward their SPTs. The following section reviews these cases in detail.

Upcoming observations – five issuers with 'Off Track' assessments

We classify eight SLBs from five issuers as 'Off Track' based on their current trajectory. **Mizuho Leasing, Mitsubishi Estate, Shiseido, AEON Co., and Obayashi**. Each issuer has articulated plans to close the gap, but based on disclosed interim data, the projections do not yet meet the stated SPT thresholds within the relevant time windows.

Mizuho Leasing

Figure 7. Mizuho Leasing historical KPI and SPT. Source: Mizuho Leasing.



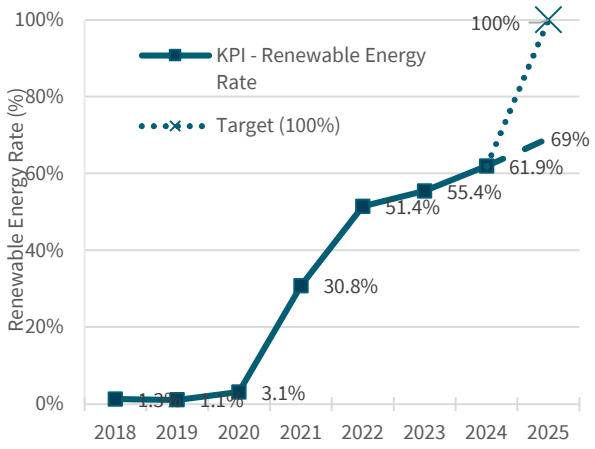
The company has two SLBs, ISIN JP328650APC5, JPY25 million, issued 12 December 2023, maturity 12 June 2028 and ISIN JP328650CQ95; JPY25 million; issued 2 September 2024; maturity 2 September 2027. They share the same SPT: secure 1 GW of renewable capacity by FY2025. The first SPT observation date is on 31 March 2026. Since the bonds' issuance, progress has advanced from 587 MW (FY2023) to 704 MW (FY2024)[10]. Under the proportionate-change method, this implies achievement of less than 1 GW in FY2025 (see Figure 7), so both bonds are classified 'Off Track'. The issuer cites a secured pipeline, including ~200 MW of carry-over projects, which — if commissioned by FY2025 — could close the gap in time. If the SPT is not achieved, the company has to purchase emission credits or donate 0.1% of the issue amount to eligible environmental organisations.

[10] "Investor Presentation for FY2024," Mizuho Leasing, 13 May 2025.

Mitsubishi Estate Co.

This company has two SLBs: ISIN JP389960AN71; JPY20 million; issued 22 July 2022; maturity 22 July 2027, and ISIN JP389960AP53; JPY30 million; issued 2 May 2023; maturity 2 May 2028. They also share the same SPT: RE100 (100% renewable-electricity rate) by FY2025. The first SPT observation date is on 31 March 2026. The renewable-electricity rate has improved from 55.4% (FY2023) to 61.9% (FY2024).[11] Under the proportionate-change method, this projects to less than 100% in FY2025 (see Figure 8)Figure 8, so both bonds are classified 'Off Track'. The issuer's plan centres on converting electricity supply across owned buildings and retail facilities in the Tokyo metropolitan area to renewables, which — if executed at pace — would materially raise the rate. If the SPT is not achieved, the company has to make a donation and/or purchase voluntary credits recognised under Japanese or international systems by the redemption date.

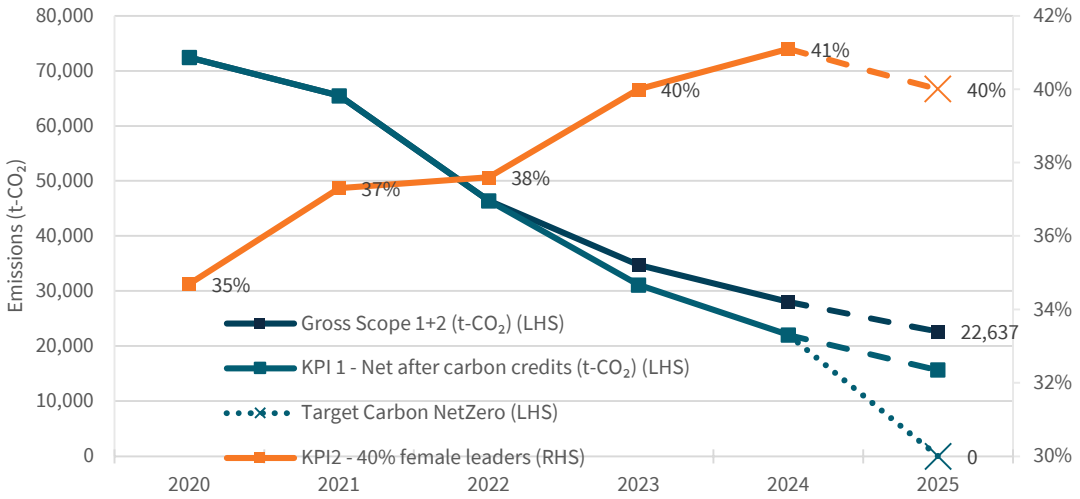
Figure 8. Mitsubishi Estate Historic KPI and SPT. Source: Mitsubishi Estate.



Shiseido Company

This company has one SLB: ISIN JP335160ANC1; JPY20 million; issued 8 December 2022; maturity 8 December 2027. This has two SPTs: Scope 1 + 2 carbon neutrality by 2026 (credits allowed) and ≥40% women leaders in Japan by January 1, 2026. The first SPT observation date is on 1 January 2026. In 2023, Scope 1 + 2 emissions stood at 31,141 t, and fell to 22,046 t in 2024.[12] Based on the current trajectory, emissions are likely to be greater than zero in 2026 (see Figure 9), so SPT1 is classified 'Off Track'. However, the company explicitly states that it uses carbon credits and can deploy additional credits at determination, which could still deliver the SPT even if absolute

Figure 9. Shiseido Historic KPIs and SPTs. Source: Shiseido.



[11] "E: Environmental data", Mitsubishi Estate Co., Ltd, accessed 15 Oct 2025.
[12] "Shiseido Sustainability Report 2024", Shiseido Company, Limited, accessed 15 Oct 2025.

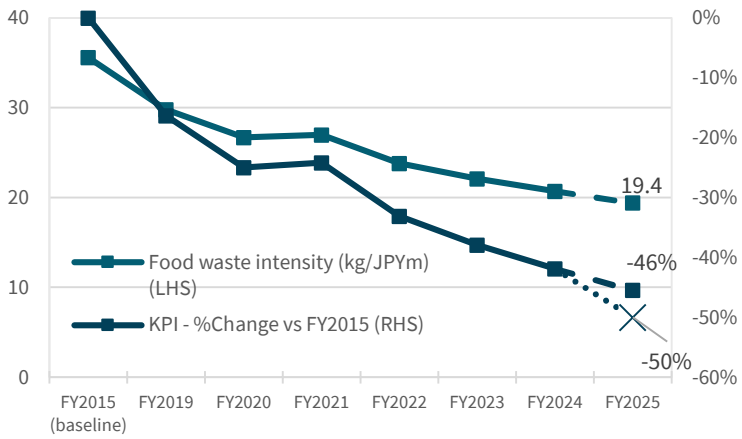
emissions do not reach zero. In the past, Shiseido has used carbon credits, in 2023 and 2024, to offset its carbon emissions.

SPT2 is classified 'On Track', as the issuer reports 40% women leaders for FY2024, and 41.1% as of January 1, 2025. If one SPT is missed, the company makes a donation of 0.05% of the issue amount and 0.10% if both SPTs are missed.

AEON Co.

This company has two SLBs relevant to our analysis. One bond issued on 17 August 2023 (ISIN JP338820AP84: JPY35 million; issued 17 August 2023; maturity 17 August 2028) has a single SPT tied to food-waste intensity. The issuer has to reduce this 50% by FY2025 vs FY2015 (target ≤ 17.8 kg/JPYm). A second bond issued on 4 July 2024 (ISIN JP338820AQ75; JPY36 million; issued 4 July 2024; maturity 4 July 2029) has two SPTs — the same food-waste SPT plus maintaining a CDP Climate Change score of 'A'.

Figure 10. AEON Corporation historical KPI and SPT. Source: Aeon Corporation.



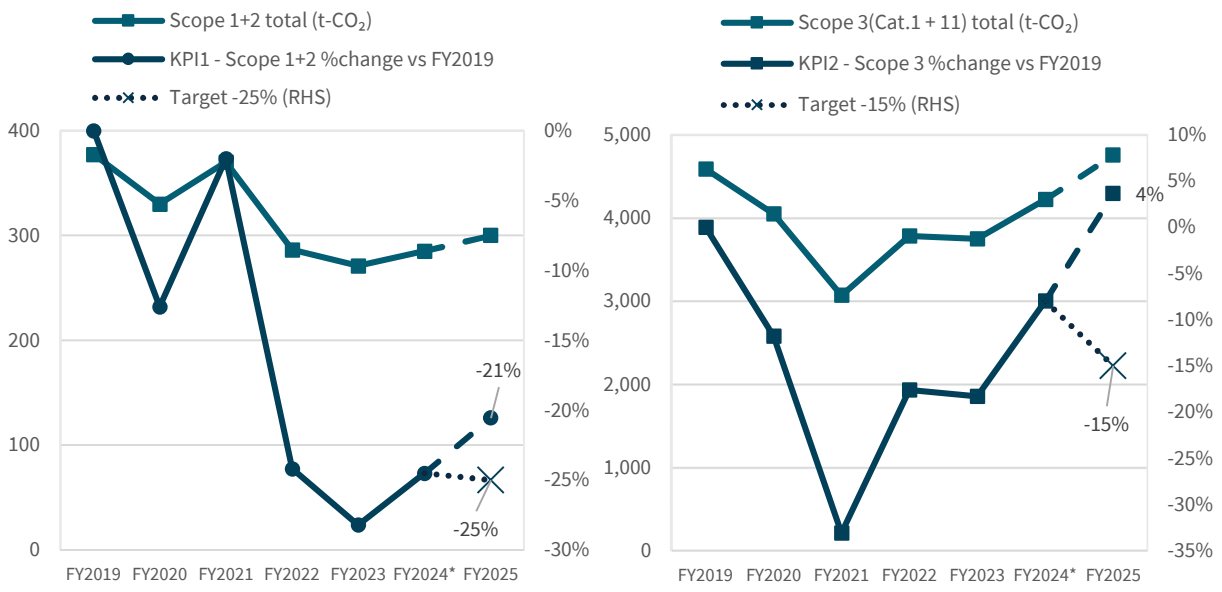
The first SPT observation date for both bonds is 28 February 2026 (determination by end-March 2028). Disclosures show food-waste intensity of 22.1 kg/JPYm in FY2023 and 20.7 kg/JPYm in FY2024.[13] Applying the proportionate-change method projects the level in FY2025 to be 19.4 kg/JPYm, which is above the 17.8 kg/JPYm target, so the food-waste SPT is classified 'Off Track' for both bonds, if only slightly (see Figure 10). AEON is continuing reduction programs across procurement and operations, but an acceleration would be required to meet the FY2025 level. For the bond issued on 17 August 2023, if the food-waste SPT is unmet, the company has to make a 0.2% donation of the issue amount. For the bond issued on 4 July 2024, the company has to make a donation amount equivalent to 0.1% of the issue amount per missed SPT. The CDP 'A' SPT is classified as 'On Track' based on recent 'A' outcomes.

[13] "AEON Sustainability Data 2024", AEON Co., Ltd, accessed 15 Oct 2025.

Obayashi Corporation

This company has one outstanding SLB: ISIN JP319000AN47; JPY20 million; issued 27 April 2022; maturity 27 April 2027. The first SPT observation date is on 31 March 2026. The target in question relates to Scope 1, 2 and 3 emissions. Scope 1 + 2 emissions have to fall 25.2% vs FY2019, and Scope 3 (those related to GHG Protocol categories one and eleven) 15.0%. In Figure 11, FY2024 data (pre-assurance) shows Scope 1 + 2 vs FY2019 at –24% with a 5.2% year-on-year rise in absolute emissions, and Scope 3 vs FY2019 at -8% with a 12.6% year-on-year increase in absolute emissions.[14] If this upward trend continues, both targets will be missed, so the bonds are classified 'Off Track'. If the SPTs go unmet, a 0.1% donation of notional becomes applicable (0.07% to SPT1; 0.03% to SPT2). While Obayashi's broader decarbonisation program continues, there has been no disclosure specifying an effort to reverse the latest year-on-year movements before determination. However, the SPTs were met in FY2023, highlighting the high volatility of Obayashi's emissions indicators and the sensitivity of progress to project mix and activity levels. Obayashi's main challenge in reducing emissions lies in technological and operational constraints within the construction sector. While Scope 2 emissions (from owned facilities) have declined steadily, progress in Scope 1 reduction remains limited as alternative fuels and electric construction equipment are not yet practical for widespread use. In addition, the company faces structural limitations in influencing Scope 3 emissions, since much of its environmental impact depends on customers' projects and operational choices — factors beyond Obayashi's direct control.[15]

*Figure 11. Obayashi Corporation historical KPIs and SPTs. Source: Obayashi. (*FY2024 figures are pre-assurance).*

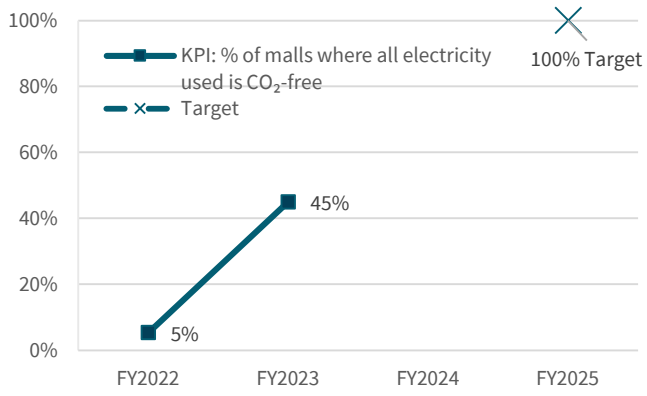


[14] "ESG Databook", ESG Databook, Obayashi Corporation, accessed 15 Oct 2025.
[15] "ESG in the Obayashi Group", Obayashi Corporation, 17 Feb 2025.

AEON Mall – 'Insufficient Data' with latest disclosure in FY2023

This company issued two SLB: ISIN JP313143AMB7; JPY20 million; issued 26 November 2021, and ISIN JP313143AN48; JPY40 million; issued 28 April 2022; maturity 28 April 2027. Each is tied to a single SPT: CO_2-free electricity at all 131 AEON Malls in Japan by FY2025. The first SPT observation date is on 28 February 2026. In Figure 12, the latest issuer disclosure (as of FY2023, dated 28 February 2024) reports 59 malls (45.04%) operating on CO_2-free electricity.[16] Under AFII's framework, this is classified as 'Insufficient Data', as we do not have enough information to determine the KPI's trajectory. If the SPT is not achieved, a donation equal to 0.2% of bond notional is stipulated, payable to designated public-interest organisations (e.g., the AEON Environmental Foundation) by October 2026.

Figure 12. AEON Mall historical KPI and SPT progress. Source: AEON Mall.



Conclusions

Japanese SLB structures continue to evolve toward greater environmental integrity, with hybrid mechanisms now complementing traditional donation clauses.

For bonds that have already passed target observation, market impact has been limited, reflecting the characteristics of their payout structures. Orient Corporation, which missed its target, applied a donation mechanism that did not affect bond cashflows. GLP J-REIT met its SPT and triggered a low materiality 5bps coupon step-down. Among bonds yet to reach determination, most 'On Track' issues continue to show steady progress toward their SPTs, supported by clear interim disclosures and credible implementation plans.

Looking ahead, for 'Off Track' bonds the SLB payout mechanisms — primarily donations or carbon credit purchases — are exogenous to bond cashflows, so bond pricing effects are expected to remain limited. These cases also underscore that, despite improving environmental linkage, payout structure designs often remain of limited financial materiality for investors.

Early Japanese SLB structures appear to have been shaped by domestic market preferences that emphasised strategic and reputational outcomes over financial incentives, which helps explain why many penalties were designed with limited direct cashflow impacts. As the market matures, further refinement can balance environmental intent with stronger financial signals. A gradual shift toward more transparent or proportionate rate adjustments could enhance engagement and accountability, deepening both investor relevance and transition impact over time.

[16] "AEON Mall Bond Verification Report", R&I, 24 Aug 2024.

Appendix

Table 9 shows the details of the issuers with 'On Track' observations with their respective KPI status and payout structure.

Table 9. Summary of bond issues with 'On Track' observations. Source: AFII, MOEJ, issuers' disclosure reports.

Issuer	Pricing Date/ Maturity Date/ Observation Date	Amt (JPY bn)	Status	Sustainability Performance Targets	KPI Status/Payout Structure
Mitsubishi Materials Corp (ISIN JP390300AQ42)	24/04/2024; 24/04/2029; 31/03/2026	15	On Track	SPT is to reach a 30% renewable-electricity utilisation rate by FY2025 (judgement at end-August 2026).	KPI Status: FY2024 figures at 36%. Proportionate rate of change indicate further increase. Payout Structure: Step-up if unmet; step-down if achieved; or, if unmet, issuer must donate or purchase credits/certificates equivalent to the percentage set in the statutory document.
Mitsubishi Materials Corp (ISIN JP390300APB2)	29/11/2023; 29/11/2028; 31/03/2026	20	On Track	SPT is to reach a 30% renewable-electricity utilisation rate by FY2025 (judgement at end-August 2026).	KPI Status: FY2024 figures at 36%. Proportionate rate of change indicate further increase. Payout Structure: Step-up if unmet; step-down if achieved; or, if unmet, issuer must donate or purchase credits/certificates equivalent to the percentage set in the statutory document.
Kitz Corp (ISIN JP324070AN91)	14/09/2022; 14/09/2027; 31/12/2025	10	On Track	Reduce Scope 1 + 2 CO_2 emissions in FY2025 by 81.7% (compared to FY 2013) Reference period: January 2025 - December 2025 Determination date: The end of July 2026.	KPI Status: FY2024 figures at 89%. Proportionate rate of change indicate further decline. Payout Structure: Bond characteristics vary depending on the SPT achievement status, with (1) purchase or (2) donation of emission credits obligatory.
Okamura Corp (ISIN JP319240AN62)	16/06/2022; 16/06/2027; 31/03/2026	5	On Track	Reduce greenhouse gas emissions by 25% in FY2025 compared to FY2020.	KPI Status: FY2024 figures at 30.78% decline. Proportionate rate of change indicate further decline. Payout Structure: If the SPT is not achieved as of the judgment date, donation equivalent to 0.15% of the bond issue amount to public interest incorporated associations, public interest foundations, international organisations, local government-approved NPOs, local governments, etc. that aim at environmental conservation activities by the redemption date.
Asics Corp (ISIN JP311800AMC2)	02/12/2021; 02/12/2026; 31/12/2025	10	On Track	Maintain leadership level in CDP climate change in 2025 (maintain A- or above).	KPI Status: 2024 CDP score of A. Payout Structure: If the SPT is not achieved, emission credits (credits/certificates of CO_2 reduction value) equivalent to 0.1% of the bond issue amount will be purchased.
TDK Corp (ISIN JP353880BMC1)	02/12/2021; 01/12/2028; 31/12/2025	40	On Track	(1) Improve CO_2 emissions per unit of sales by 30% in FY2025 compared to FY2014 (2) Maintain A/A- in the final CDP climate change score by 2025 (3) Achieve a 50% adoption rate of renewable energy by FY2025	KPI Status: KPI1 met early (FY2021 ≈ −32%); KPI2 - FY2024 CDP Score at A; KPI3 already >50%. Payout Structure: If any two or more of the three SPTs are not achieved, a cumulative amount equivalent to 0.3% of the bond issue amount will be donated to public interest incorporated associations, etc., whose purpose is environmental conservation activities by the time the bonds are redeemed.

Issuer	Pricing Date/ Maturity Date/ Observation Date	Amt (JPY bn)	Status	Sustainability Performance Targets	KPI Status/Payout Structure
Arakawa Chemical Industries Ltd (ISIN JP312500AMB9)	26/11/2021; 26/11/2026; 31/03/2026	5	On Track	SPT1: Reduce CO2 emissions by 30% in FY2025 compared to FY2015 SPT2: Increase the consolidated sales index of sustainable products by 25% or more in fiscal 2025 compared to fiscal 2019	KPI Status: KPI1 2024 figures at 55% decline. KPI2 2024 figures at 23%. Payout Structure: If SPTs have not been achieved as of the end of FY2025 (March 31, 2026), donations will be made to corporations and organizations that plant pine trees and seedlings, which are effective in absorbing CO2 (donation recipient 1), and donations will be made to corporations and organizations that provide education to students and children who will be leading the future in order to improve product development capabilities (donation recipient 2) for each fiscal year from FY2026 to FY2030. If only SPT1 is not achieved, donation equivalent to 0.30% of the bond issue amount will be made to recipient 1. If only SPT2 is not achieved, donation equivalent to 0.30% of the amount of bonds issued will be made to donation recipient 2. If both SPT1 and SPT2 are not achieved, donations equivalent to 0.15% of the amount of bonds issued will be made to recipients 1 and 2, respectively (total amount equivalent to 0.30% of the amount of bonds issued)
Tokyu Fudosan Holdings Corp (ISIN JP356920AMA8)	11/10/2021; 10/10/2031; 31/03/2026	10	On Track	SPT1: Reduce greenhouse gas emissions by 46.2% by FY2030 SPT2: Achieve carbon-negative status by FY2025 (The amount of reduction contribution from renewable energy generation, etc. exceeds the company's own CO2 emissions)	KPI Status: KPI1 2024 figures at 77.6%. KPI2 carbon negative. Payout Structure: If the SPTs are not met at the time of determination, the following amounts will be paid on the redemption date to the donors related to the "Green Linkage Project" and other similar environmental organizations SPT1: 0.25% of the issue amount SPT2: 0.25% of the issue amount
Hulic Co Ltd (ISIN JP336080ALA8)	15/10/2020; 15/10/2030; 31/12/2025	10	On Track	The following 2 items are set as SPT (1) Achieve RE100 by 2025 (2) By 2025, the construction of Japan's first fireproof, 12-story wooden commercial facility in the Ginza 8-chome development plan will be completed.	KPI Status: SPT1: Achieved May-2023; sustained 100% in FY2024 → on track for FY2025. SPT2: Building completed 12 Nov 2021 → met early. Payout Structure: 0.44% per year from the day after October 15, 2020, to October 15, 2026, and the day after October 15, 2026, a coupon step-up of 0.10% will occur if any of the SPTs linked to the terms of issue are not met on August 31, 2026

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