

Iochpe-Maxion

Sustainability-Linked Financing

Framework

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Contents:

1. Introduction
2. Approach to Sustainability
3. Rationale for Issuance
4. Alignment with the Sustainability-Linked Bond Principles
 - 4.1 Selection of the KPI
 - 4.2 Calibration of the Sustainability Performance Target (SPT)
 - 4.3 Sustainability-Linked Bonds Characteristics
 - 4.4 Reporting
 - 4.5 Verification

1. Introduction

Iochpe-Maxion (“Iochpe”) is a global company, the world leader in the production of automotive wheels and a leading producer of automotive structural components in the Americas. We have 31 manufacturing plants located in 14 countries and approximately 15,000 employees, which enables us to serve our customers around the world according to their delivery terms, quality standards and competitiveness requirements.

We operate our core business through two divisions: Maxion Wheels and Maxion Structural Components. At Maxion Wheels, we produce and sell a wide range of steel wheels for light and commercial vehicles and agricultural machinery and aluminum wheels for light vehicles. At Maxion Structural Components, we produce side rails, cross members and full frames for commercial vehicles and structural components for light vehicles. In addition, through AmstedMaxion (joint venture), we produce railway wheels and castings, industrial castings and freight cars.

At Iochpe we consider sustainability to be in our nature. For us, taking care of our environment is of the utmost importance. The CO₂ emissions from transportation activities afflict our environment in many ways – we are fully aware of that. Therefore, it’s one of our core values to conduct ourselves ethically, to utilize our resources efficiently and to act responsible towards both the community and the environment, developing products that contribute both to the environment and the planet.

We developed, for example, the industry’s lightest mass-produced commercial vehicle wheel, weighing only 34 kg. We recently designed an aerodynamic concept wheel that drastically cuts drag and boosts fuel efficiency. We are certified with ISO 14001/TS 16949 for meeting the highest quality and environmental standards. And we’ll continue to put all our knowledge and ingenuity in the development of wheels that leave practically no skid marks on our planet.

We believe in action, not only words. All around the globe, we take our Corporate Social Responsibility very seriously. Each year, we organize and take part in events that are beneficial to our environment and its people. As a result, we have what we call the “green mission”, which is a mission to invest in research and development of products that are efficient and as a result contribute to reduce the environmental impacts of our operations in the world.

Our Sustainability Journey

Over the years, we have been consolidating our position as one of the main companies in the automotive structural components in the Americas, being recognized by our outstanding performance and ability to create strategic relationships with all our stakeholders. We believe that as a major player in our segment, we must continue to evolve our corporate governance, management practices and policies concerning environmental, social and governance (ESG) aspects since this will help us to maintain our leadership position and positively contribute to the environment and our community.

Since 2018, we decided to transform sustainability into a core value in the company and incorporated it into our long-term business strategy and strategic vision. By doing that, we reinforced the importance of corporate governance and socioenvironmental management in our business model and brought new concepts into our daily operations.

We believe that as a major player in our segment, we must continue to evolve our corporate governance, management practices and policies concerning environmental, social and governance (ESG) aspects since this will help us to maintain our leadership position and positively contribute to the environment and our community.

We believe the private sector has a leading role to the transition to a low carbon economy, using the transformational power that businesses can generate in society and the planet, to recover the impacts generated by the productions systems. As a direct result of this strategic vision, we incorporated many of the Paris Agreement standards into our strategy, with the purpose to integrate the global efforts to stabilize the concentration of greenhouse gas (GHG) emissions into the atmosphere, limiting the temperature rise to 1.5 ° C above pre-industrial levels, recognizing that this is the only way to reduce the exposure to risks and impacts of climate change.

As a result, we have implemented several initiatives and projects aimed at making intelligent use of our resources, including controlling water and energy consumption, solid waste generation and greenhouse gas emissions. As a starting point we implemented measurement tools to make it possible to track our energy by line or machine level and to make it possible to track the energy consumption on a part number basis by the end of 2021. Besides the energy reduction projects that are globally implemented every year in our Safety and Sustainability plan we are aiming for a higher usage of renewable energy sources for purchased and self-produced energy (e.g. solar roof projects). In 2020 we started to include the Sustainability targets not only in the targets of our Production sites but as well into the personal targets of our Management staff.

Our commitment to sustainability requires efforts to drive continuous improvement in our processes by integrating (i) the intelligent management of resources, (ii) innovation and (iii) discipline in execution. For us, maintaining excellent safety results and striving for zero incident rate are two intermingled goals that permeate our operations. Below we will explore and go into further details about our sustainability strategy.

2. Approach to Sustainability

As a company we are always trying to balance purpose and profit. We are engaged to demonstrate our commitment to environmental and social responsibility to our stakeholders, without compromising our commitment to increasing shareholder value. For that, we strengthen our culture of trust, openness, and diversity, striving for continued excellence in safety and sustainability.

We believe that we have all the necessary tools to create a safe and sustainable working environment while adding value to the business and our stakeholders. We try to ensure that our activities are aligned with the interests of the communities in which we operate. This enables us to operate within a collaborative economy model and help drive the development of the cities in which we are present, both in terms of culture and improvement in people's quality of life.

From an environmental perspective, we are fully aware that we operate in a sector in which the greenhouse gas emission (“GHG”) is relevant. As a result, we manage our business through global standards and systems that enable us to track our emission footprint and work towards reducing it. We control our GHG emissions inventory based on the GHG Protocol methodology, covering both direct emissions (Scope 1), substantially from the direct consumption of fuels; and indirect ones (Scope 2), related to the acquisition of energy, mainly to the company’s facilities and administrative centers. Currently, our scope 1 and 2 emissions represent 24% of our total emissions.

Although we have made a significant effort in recent years to track and reduce our emissions, we understand that there is still room for improvement. In fact, we set a long-term goal to reduce CO₂ emissions by 60% until 2040 and understand what it would take to be a carbon neutral company until 2050. We are certain that this movement will drive a promising future in our core businesses and inspire other high-emission companies to move towards the same direction.

We know that the most efficient way to achieve significant reductions in the short term should be based on transforming our energy matrix into a renewable matrix, ensuring that all our facilities will be supplied (to the extent possible) with renewable energy or more efficient energy sources (like LED). However, we are also implementing other projects that will contribute to raise awareness in our employees and collaborators and help us to reduce our environmental impact. Examples of those actions are (i) the use of sensors to monitor the efficient of our operations and electricity consumption, (ii) the measurement of energy consumption per part number and (iii) the shutdown machines when not in use.

Our sustainability strategy is based on three main areas: mitigation (actions focused on reducing GHG emissions), compensation (actions to offset the emissions that could not be avoided in operational processes) and development (actions to contribute to the development of new products and technologies that will make not only our processes more efficient but also those of our clients). In addition to that, our strategy also aims to incorporate environmental awareness throughout our ecosystem and in all of our business departments, from the production lines, to our supply chain, support processes and products.

In the **production lines**, we have implemented energy efficiency projects for facilities and equipment. We have also continued to change utility sources to companies with renewable energy creation and continuously invest in the direct production of energy through solar, or other renewable power sources.

In the **supply chain**, we include CO₂ emissions as part of supplier selection criteria and assisted our suppliers to develop ESG policies aiming to reduce CO₂ emissions. In fact, our **support processes** already consider CO₂ emissions when selecting logistics companies. We are aware that by supporting certified CO₂ elimination projects we can help to offset business travel emissions. In addition to that, we can also contribute to decrease CO₂ emissions from fleet vehicles by converting fleet to plug-in hybrids, electric or hydrogen cars. In 2020 we joined the the CDP Supplier module to ensure that we receive the Sustainability data from our suppliers as well.

In terms of **products**, we are working towards reducing the weight of our parts, making cars more efficient. We are also balancing our processes vs. CO₂ (e.g., LVA Flow Forming 2.0) and positioning our steel wheels as a less energy intensive product. We have also used recycled steel and aluminum into our parts, contributing to the reduction of GHG emissions.

Our CDP scores in climate change improved from F in 2017 to B- in 2020 which shows that the implementation of our global Sustainability Management system is leading in the right direction.

3. Rationale for the Issuance

To enhance the power of our company to address environmental issues, we intend to issue Sustainability-Linked Instruments (“SLIs”), which may include, but are not limited to Sustainability-Linked Bonds (“SLBs”).

We hope our issuance of SLIs will inspire other similar companies to do the same. For that, we will commit to specific environmental outcomes, setting ambitious timelines for achieving sustainability performance targets that are relevant, core and material to our business. Our framework provides a high-level approach to our SLIs and capital providers should refer to the relevant documentation for any specific new issuance.

4. Alignment with the Sustainability-Linked Bond Principles

The Sustainability-Linked Bond Principles (“SLBP”), as administered by the International Capital Market Association (“ICMA”), are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond market by clarifying the approach for issuance of a SLB.

Our Sustainability-Linked Financing Framework is in alignment with the five core components of the SLBP:

- (1) Selection of Key Performance Indicators (KPIs);
- (2) Calibration of Sustainability Performance Targets (SPT);
- (3) Sustainability-Linked Instruments Characteristics;
- (4) Reporting and
- (5) Verification.

Sustainability-Linked instruments are any type of funding instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ ESG objectives. In that sense, issuers are thereby committing explicitly to future improvements in sustainability performance targets that are relevant, core and material to their overall business, within a pre-determined timeline.

As a result, SLBs are a forward-looking performance-based instrument. The proceeds of SLBs are intended to be used for general purposes; hence, the use of proceeds is not a determinant in our categorization.

Iochope is committed to the Sustainable Development Goals (SDGs) as it understands that private sector engagement is essential to accelerate the fulfillment of the 2030 Agenda. In that sense, the KPIs we selected are material and relevant, contributing to the sustainable development goals determined by the UN.

4.1 Selection of the KPI

The KPI selected is material and relevant for us because it has a direct impact in the success of our business strategy. In fact, the proposed KPI and associated targets will be above our customer’s requirements and as such will provide us with a competitive edge.

The nature of our business made us conclude that the best option for this first SLB operation would be to define an economic intensity target, that would enable us to track our company's organic growth and commit to reduce emissions from our operations.

To provide transparency to this process, we hired Deloitte to audit our inventory for 2018 and 2019 and plan to report, annually, our performance in regard to our goals, publishing the results in an annual report.

KPI	Description of the KPI
<p>KPI: tCO₂e/kg produced (scopes 1 & 2 emissions)</p> <p>1.5</p> <p>Long-term goal: Reduce GHG emissions intensity (tCO₂e/kg produced) by 70% (scopes 1 & 2 emissions) by year end 2030, with reaching a milestone in intensity reduction equal or more than 30 % by 2025.</p> <p>In 2019, the emissions intensity was 0.000512078 tCO₂/kg produced.</p>	<p>Reducing GHG emissions intensity is a key strategy for lochpe to contribute to the achievement of its sustainable development goals. As a result, the company has been calculating its GHG in according to the GHG Protocol.</p> <p>In the search for the efficiency of our processes, we have already managed to considerably reduce the emissions associated with our production. However, we know that we can do more. Thus, we remain focused on developing solutions that lead us to better results.</p> <p>Our Sustainability Performance Target was defined considering our direct emissions (Scope 1), as well as our indirect emissions, related to the use of energy (Scope 2), with the purpose of aligning the company's organic growth with emissions reductions.</p> <p>2019 was selected as the baseline year because it was the first year when we had this inventory audited by an independent party (Deloitte).</p>

4.2 Calibration of the Sustainability Performance Target (SPT)

Key Performance Indicator

Sustainability Performance Target: Reduce GHG Emissions Intensity. As a result, we have a 2030 strategic target (as described below) that goes beyond the business as usual and an intermediate target in 2025, that is set at 0.000358455 tCO₂e/kg produced or less, to track the company's progress towards its long-term goal. This 2025 target is equivalent to an estimated reduction of 30% from the 2019 baseline.

Sustainability Performance Target Trigger: is calculated as follows: the GHG emissions intensity for the year ended 2025.

Sustainability Performance Target Observation Date: December 31, 2025

2019 Baseline Intensity: 0.000512078 tCO₂e/kg produced*

*The 2019 baseline includes scopes 1 & 2 emissions.

Strategic 2030 Goal and selection of methodology for calculating the SPT: This SPT aligns with our 2030 Goal of reducing GHG emissions intensity by 70% to 0.000153623 tCO₂e/kg produced or less (Scope 1 & 2 emissions) by 2030.

The rationale behind setting this specific target is because looking into the customer requirements, benchmarking with other international companies and the Situation in the different countries we do business in we saw that we could improve even further. In fact, our goal goes beyond business as usual and what is required from us by our customers. We defined specific projects that will allow us to achieve this challenge in the next 10 years. Our investments and efforts will be focusing on:

- Use and production of renewable electricity
- Infrastructure updates to the use of green gas in our facilities
- Energy reduction projects
- Elimination of production steps

It's worth mentioning that this KPI (tCO₂e/kg produced) allows us to keep implementing improvements to our strategy.

Factors that support the achievement of the target: (i) Involvement of company leadership; (ii) Global standardization; (iii) Customer and investor requirements and (iv) Society development.

Risks to the target: (a) Decrease in production and extreme events, such as pandemics; (b) Change in customer requirements; (c) Change in society view on Sustainability.

4.3 Sustainability-Linked Bonds Characteristics

Our Sustainability-Linked Bonds have a sustainability-linked feature that will result in a coupon adjustment, that can be represented by, but is not limited to, a one-time coupon step-up of 25bps if we don't meet our Sustainability Performance Target in the agreed timeline.

Our calculation of the relevant KPI or SPT, may exclude the effects of certain material acquisitions and/or material changes in laws or regulations applicable or relating to our production activities, in each case to be set forth, if applicable, in further detail in the terms and conditions of the Sustainability-Linked Bonds. Please note that in any case, the calculation of the relevant KPI or SPT will always be provided, and Iochpe will make its best efforts to share it with capital providers as soon as it is available (avoiding any fallback mechanism in that regard).

4.4 Reporting

Annually, and in any case for any date/period relevant for assessing the trigger of the SPT performance leading to a potential coupon adjustment, we will publish and keep readily available and easily accessible on our website a Sustainability-Linked Instruments update including:

- i. Up-to-date information on the performance of the selected KPI, including the baseline used;
- ii. a verification assurance report relative to the SPT outlining the (i) performance against the SPT, (ii) the related impact, (iii) timing of such impact, and (iv) impact on the security's characteristics (if any); and
- iii. any relevant information enabling investors to monitor the progress of the SPT.

Information may also include when feasible and possible:

- iv. Qualitative or quantitative explanation of the contribution of the main factors, for the evolution of the performance/KPI on an annual basis;
- v. Illustration of the positive sustainability impacts of the performance improvement; and/or
- vi. Any re-assessments of the KPI and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope.

4.5 Verification

Annually, and in any case for any date/period relevant for assessing the SPT performance leading to a potential coupon adjustment, we will seek independent and external verification of our performance level against the SPT for the stated KPI by a qualified external reviewer with relevant expertise. The verification of the performance against the SPT will be made publicly available on our website.

We will also obtain and make publicly available a Second Party Opinion (SPO) and/or other external review from consultants with recognized environmental and social expertise to provide an opinion on the sustainability benefit of this Sustainability-Linked Financing Framework as well as the alignment to the SLBP. The SPO will be available on the ICMA website.

Definitions

External Verifier: qualified provider of third-party assurance or attestation services appointed by the Issuer to review the Issuer's statements for GHG emissions intensity

GHG Emissions Intensity: GHG emissions intensity means Scope 1 (emissions from direct operations) and Scope 2 (electricity purchased) will be considered as a numerator of the indicator, net revenue as the denominator (tCO₂e/million EUR MM).

Sustainable Performance Target Trigger: is calculated as follows: the GHG emissions intensity for the year ended 2025.

Sustainability Performance Target Observation Date: the as of date that will determine if the sustainability performance target has been achieved

GHG Emissions Intensity Reduction Percentage means the proportion of GHG emissions intensity that is reduced (expressed as a percentage) and estimated according to the 2019 baseline

CO₂e: carbon dioxide equivalent, is a way of expressing all the different greenhouse gases as a single number

Scope 1 emissions: emissions from direct operations

Scope 2 emissions: electricity purchased

Disclaimer

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This Framework does not create any legally enforceable obligations against Iochpe; any such legally enforceable obligations relating to any Sustainability-Linked Instruments are limited to those expressly set forth in the legal documentation governing each such series of Sustainability-Linked Instruments. Therefore, unless expressly set forth in such legal documentation, Iochpe's failure to adhere or comply with any terms of this Framework, including, without limitation, failure to achieve any sustainability targets or goals set forth herein, will not constitute an event of default or breach of contractual obligations under the terms and conditions of any such Sustainability-Linked Instruments. Factors that may affect Iochpe's ability to achieve any sustainability goals or targets set forth herein include (but are not limited to) market, political and economic conditions, changes in government policy (whether with a continuity of the government or on a change in the composition of the government), changes in laws, rules or regulations, and other challenges.